Annual Report

2023

hGears | the **heart** of your performance

KEY FIGURES

in EUR million	2023	2022
Revenue	112.5	135.3
Gross profit	56.0	69.8
Gross margin in %	49.8	51.6
Adjusted EBITDA	5.6	15.3
Adjusted EBITDA margin in %	5.0	11.3
EBIT	−10.8	0.7
Net result	−13.8	−0.8
Net return on revenues in %	−12.3	−0.6
Free cash flow	−3.1	−8.3
Net financial position	−3.4	2.7
Net debt / adj. EBITDA	0.6×	−0.2×

CONTENT

WHO WE ARE

LEADING SUPPLIER OF HIGH-PRECISION GEARS AND COMPONENTS

hGears develops and manufactures high-precision gears and components with a strong focus on e-mobility and e-drive applications. The legacy of the company dates back to 1958, which means that the group combines more than 65 years of experience and unique expertise in machined metal processing and state-of-the-art sinter process production. With its three production sites in Schramberg (Germany), Padova (Italy) and Suzhou (China), hGears is one of few companies able to offer both metal processing technologies worldwide.

FOCUS ON FASTGROWING E-MOBILITY

The group is a globally leading manufacturer of best-in-class precision gears and components for e-mobility applications, especially e-bikes. hGears is constantly increasing its weight in this fast-growing global business by providing agile and distinctive co-development engineering services. This enables new customers to introduce their products faster into the market while at the same time allowing existing customers to expand their product offering. This drives hGears' profitable organic growth.

SUSTAINABLE LEADERSHIP DRIVEN BY STRONG RESEARCH & DEVELOPMENT

The backbone of the group's growth are the strong research and development (R&D) capabilities paired with unique co-development expertise. Meanwhile, hGears benefits of the extensive production technology know-how that has grown over decades, enabling the group to meet even the highest requirements in terms of noise, weight and torque.

As a result, hGears is a quality leader in all business areas it operates in and continues to be a first mover in e-mobility where it seeks to expand its important role as a prime supplier. Thereby, hGears was able to establish itself as a supplier of mission critical components for high-end products.

WORKING IN TANDEM WITH THE CUSTOMERS

Due to the high specification of the products, hGears always works closely with its customers in a co-developer role to adapt the product design to the requirements and optimize the manufacturing process in terms of quality and cost. hGears continues enhancing and expanding its co-development capability as this is one key differentiator for winning new projects, above all in the fast-growing e-mobility industry. Furthermore, the process also deepens the long-lasting relationships with existing customers.

THE FISCAL YEAR 2023 AT A GLANCE

EUR 112.5 M

Revenue
FY 2023

EUR 5.6 M

Adj. EBITDA
FY 2023

EUR 3.4 M

Net debt
FY 2023

Conventional 38 %
e-Mobility 38 %
e-Tools 24 %

Sales
FY 2023

53.9 %

Equity ratio

#1

European market share
e-bike precision components

×3

Production sites
in Germany, Italy, China

724

Employees

To our Shareholders

the **heart** of your performance

LETTER FROM THE MANAGEMENT BOARD

From left to right: Sven Arend (CEO), Daniel Basok (CFO)

Dear shareholders, ladies and gentlemen,

The past year was once again characterised by considerable economic challenges. Contrary to expectations, the geopolitical situation deteriorated even further. Moreover, our customers faced overstocking, sharply rising interest rates and weak consumer demand. These factors had a negative impact on the demand for our products and required organisational adjustment. A large number of the resulting changes have demanded a great deal of flexibility and sacrifices from our employees. We would therefore like to take this opportunity to thank our employees in particular for their loyalty and support. Only together can we overcome these challenges and secure the commitment and determination of our employees to maintain our leading position in these challenging times.

One of the milestones in 2023 was the succession of Sven Arend as the new CEO, who took over from Pierluca Sartorello on 1 February 2023. Sven adds more than 30 years of experience in B2B and B2C for on- and off-highway vehicles as well as proven strategic and operational expertise. He has an excellent track record thanks to his work in international com-panies, particularly in Asia and Italy. Sven brings with him a wealth of relevant experience, and under his leadership the company is being reorganised and made more efficient, which has already led to a streamlined and leaner management structure. An NPI (New Product Introduction) process was introduced in order to render both the product development process and industrialisation faster and more effective while continuously controlling costs. The measures implemented strengthen hGears' position as a preferred partner. From the first quarter of 2024, the e-Bike, e-Tools and [e]-Mobility business areas will meet the various customer requirements even better and at the same time increase transparency in our reporting.

Following the boom during the coronavirus pandemic years, there is a certain saturation in the bicycle market, while subdued consumer confidence was also not conducive to fuelling market demand. The industry's too slow reaction to this change led to very high stock levels and resulted in a significant drop in demand for the e-Mobility business area. The situation was similar for the e-Tools business area, which also experienced a boom during the pandemic years and then had to contend with high stock levels, while demand from the construction industry, which was held back by high interest rates, stagnated. The Conventional business area continued to benefit from its focus on premium and luxury vehicles. In addition, catch-up effects in connection with the overcoming of supply chain bottlenecks in the automotive industry had a positive impact on the first six months, although this impact weakened significantly in the second half of the year. However, the positive development of Conventional was not sufficient to offset the decline in the other two business areas. Group revenues decreased by 16.9 % to EUR 112.5 million in 2023 after the prior-year figure of EUR 135.3 million. The lack of volume in our e-Drive activities (e-Tools and e-Mobility) had a strong negative impact on the company's profitability. Adjusted EBITDA totalled EUR 5.6 million compared to EUR 15.3 million in the previous year. The decline in the adjusted EBITDA margin from 11.3 % in the previous year to 5.0 % in the reporting period is the result of the lack of operating leverage, start-stop inefficiencies and ongoing inflationary pressures in connection with costs that the company was unable to pass on, particularly in the first six months of the year. Nevertheless, our balance sheet remains very solid; the equity ratio at the end of the year was 53.9 % (year-end 2022: 56.1 %), while cash and cash equivalents of EUR 26.6 million continue to provide full financial headroom if required (year-end 2022: EUR 36.3 million). Despite the adverse market environment, the ratio of net working capital to sales remained almost unchanged at 8.2 % (year-end 2022: 7.8 %).

We are convinced that the difficult market conditions for our e-Mobility business area are only temporary. Just like the industry experts, we continue to see great growth potential for e-bikes, cargo e-bikes and electric and hybrid vehicles. Consumers attach great importance to environmentally friendly means of transport. The global megatrend towards urbanisation continues and micromobility solutions mark a turning point in urban logistics by offering efficient and sustainable alternatives to conventional transport methods, both for passenger transport and for goods transport on what is generally referred to as the "last mile". Global logistics companies have recognised the opportunity to improve their CO_2 footprint through micromobility solutions and are therefore stepping up their investment in this area. The sustainability trend has also arrived in politics, and governments support clean and sustainable transport options. We are also confident about the potential of the e-Tools business area. Environmental concerns and sustainability are becoming increasingly important, which is reflected in legal regulations and is driving the demand for electrically powered craftsmen equipment and gardening tools, which are replacing conventional appliances with internal combustion engines to an ever greater extent. The Conventional business area demonstrates the advantage of our diversified product range and cushions off the temporary weakness of the other two business areas. In addition, our technical expertise and manufacturing know-how, which has grown over decades, is in demand when it comes to the current trend in the automotive industry, i. e. to replace hydraulic systems with high-voltage electrical systems, which are more powerful and impressive on account of their high level of precision. These can be used in both electric and conventional vehicles with internal combustion engines. Overall, we believe that we are strategically very well positioned in view of the positive trends in all business areas.

Our hopes for peace – especially for the people directly affected by Russia's invasion of Ukraine and the conflicts in the Middle East – have not materialised, and so we continue to hope that all acts of war and global political tensions will soon come to an end. We would like to thank our employees, shareholders, customers, suppliers and all the people that support our company for their trust in hGears. We look forward to continuing to keep you up to date with information on our business performance and progress.

Schramberg, 27 March 2024

Management Board,

Sven Arend, CEO	**Daniel Basok, CFO**
Chairman of the Management Board	Member of the Management Board

SUPERVISORY BOARD

Prof. Volker Michael Stauch
Chairman of the Board

Christophe Hemmerle
Vice-Chairman

Dr. Gabriele Fontane

Christoph Mathias Seidler

Daniel Michael Kartje

REPORT OF THE SUPERVISORY BOARD

In its function as a supervisory body and guided by the principles of responsible and good corporate governance, the Supervisory Board has perceived the duties imposed upon it by law, the Articles of Association and the Rules of Procedure unrestrictedly in the financial year 2023. It regularly and carefully supervised the management of the Management Board and advised it on all matters of importance for the Company. The Management Board informed the Supervisory Board regularly, comprehensively and in a timely manner by means of written and oral reports on essentially all events that were of fundamental importance for the Company, including decisions that do not require the approval of the Supervisory Board. In particular, the Management Board informed the Supervisory Board about important key business figures. Above all, questions of planning, business development, strategic development, personnel and succession planning, the risk situation, risk management and compliance are relevant corporate matters about which the Management Board regularly or on request informed the Supervisory Board. Where the course of business performance deviated from the planning, the Management Board explained these deviations in detail and always involved the Supervisory Board in the coordination of the strategy and the status of the implementation of the strategy within the Company.

As far as the approval of the Supervisory Board was required by law for individual measures of the Management Board and approval has been obtained, the Supervisory Board passed a resolution about this.

The Chairman of the Supervisory Board was also in regular intense personal and telephone contact with the Chairman of the Management Board outside of the Supervisory Board meetings and informed himself about the development of the business situation, significant business transactions and upcoming decisions as well as long-term perspectives and considerations on emerging developments.

In the financial year 2023, no conflicts of interest of Supervisory Board members arose which must be disclosed to the Supervisory Board without delay and about which the General Meeting must be informed.

The Supervisory Board held ten meetings in the 2023 financial year, five of which were held in person, three by telephone and two by video conference. In addition, eleven resolutions were passed by circulation procedure. In connection with the fulfilment of their duties, the members of the Supervisory Board had sufficient opportunity in plenary sessions to critically and comprehensively deal with the reports and resolution proposals submitted by the Management Board. They were able to contribute their own suggestions to discussions at any time.

FOCUS OF THE SUPERVISORY BOARD'S DELIBERATIONS

The range of topics addressed by the Supervisory Board included in particular the respective current business situation and earnings performance, as well as the annual and consolidated financial statements as of 31 December 2022. The Supervisory Board met regularly, sometimes without the Management Board. Items on the agenda concerned either the Executive Board itself or internal Supervisory Board matters.

Subject of the Supervisory Board meeting on 29 March 2023, was in particular the presentation of the annual and consolidated financial statements for 2022 and the presentation and discussion of the business development, also on the basis of key figures in the financial year 2022 and in the period up to the end of February 2023. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, the auditors elected by the Annual General Meeting on 22 June 2022, audited the financial statements for the fiscal year 2022 prepared by the Management Board in accordance with the German Commercial Code. The auditor issued an unqualified audit opinion. The consolidated financial statements of hGears AG for the financial year 2022 were prepared in accordance with Section 315e of the German Commercial Code (HGB) on the basis of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The consolidated financial statements also received an unqualified audit opinion from PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The Supervisory Board also resolved to propose to the 2023 Annual General Meeting that PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, be appointed as auditors for the 2023 annual financial statements of hGears AG and the 2023 consolidated financial statements for the hGears Group.

The financial statement documents and the audit reports for the financial year 2022 were discussed in detail at the Supervisory Board meeting on 29 March 2023. The auditor reported on the key results of its audit. The Chairman of the Audit Committee reported in detail about the audit of the annual and consolidated financial statements at the plenum session of the Supervisory Board meeting. The Supervisory Board has examined the annual and consolidated financial statements and the management report in detail, including the report of the Supervisory Board, the corporate governance statement and the non-financial statement. The Supervisory Board unanimously approved the annual and consolidated financial statements. The financial statements were thus adopted. Furthermore, the Supervisory Board unanimously resolved the STI performance achievement for the financial year 2022 and the STI performance targets for the financial year 2023 for the members of the Management Board as part of the variable Management Board compensation. Furthermore, the Supervisory Board unanimously approved the renumeration report for the financial year 2021 and agreed to the proposal to submit it to the Annual General Meeting.

At the meeting of the Supervisory Board on 6 April 2023, which took place in the form of a video conference and was attended by all members of the Supervisory Board, it was decided to terminate Pierluca Sartorello's appointment as a member of the Management Board by mutual agreement and to terminate his employment contract with effect from the end of 7 April 2023.

On 27 April 2023, the Supervisory Board adopted the agenda for the Company's Annual General Meeting for the financial year 2022 on 13 June 2023 during a telephone conference call and approved the Management Board's decision to hold the Annual General Meeting as a virtual Annual General Meeting. Furthermore, the Supervisory Board unanimously approved the amended Management Board remuneration system. The changes relate in particular to the weighting of the individual performance targets with the short-term incentive as well as the removal of a special bonus for special merit and performance of the members of the Management Board members (discretionary bonus) as a variable remuneration component.

At the Supervisory Board meeting on 12 June 2023, which was attended by all members of the Company's Supervisory Board, the Management Board presented the business results for the current financial year up to May 2023. The Management Board also informed the Supervisory Board about various Group initiatives, particularly in the areas of Customer & Markets, Supply Chain and Operations.

At the Supervisory Board meeting on 21 July 2023, which was attended by all members of the Company's Supervisory Board, the current status of investments in the fixed assets of the hGears Group was presented by the Management Board and discussed with the Supervisory Board. The Management Board also presented the current business performance and the key financial figures up to June 2023 and informed the Supervisory Board about the current forecast for the ongoing financial year 2023. The Management Board also reported on the various Group initiatives.

The Supervisory Board unanimously passed a resolution on 31 July 2023, by means of a telephone on the establishment of the Stock Option Programme 2023 (SOP 2023) for the members of the Management Board.

On 3 August 2023, the Supervisory Board unanimously passed a resolution by means of a telephone on the issue of stock option rights to the members of the Company's Management Board as part of the Stock Option Programme 2023 and on the approval of the Management Board resolutions on the establishment of the Stock Option Programme 2023 for the managers and on the issue of stock option rights to managers as part of the Stock Option Programme 2023.

At the meeting of the Supervisory Board on 10 October 2023, which was held in the form of a telephone/video conference and in which all members of the Supervisory Board took part, Management Board member Daniel Basok was appointed as a member of the Management Board for a further term of office from 8 April 2024 to 31 December 2026 and granted his consent to the conclusion of an adjusted Management Board service agreement with Mr. Basok.

At the Supervisory Board meeting on 24 October 2023, which was attended by all members of the Company's Supervisory Board and took place at the hGears site in Padova, Italy, the Supervisory Board approved a new business allocation plan for the Management Board. The Management Board also presented the business results to date up to September 2023 and discussed the background to the current revenue and earnings situation of the hGears Group in detail with the Supervisory Board.

On 13 December 2023, the of the Supervisory Board passed a resolution by way of circulation on the approval of the 2023 Declaration of Conformity in accordance with Section 161 AktG.

At the meeting on 13 December 2023, the Management Board presented the 2024 budget and the 2025 – 2028 business plan to the Supervisory Board. The Supervisory Board then passed a unanimous resolution to approve the budget for the financial year 2024. The Management Board also discussed the current business developments and key financial figures for the current financial year with the Supervisory Board.

PARTICIPATION IN SUPERVISORY BOARD MEETINGS

The attendance at meetings of the members of the Supervisory Board in office in the financial year 2023 is disclosed below on an individualised basis.

Member of the Supervisory Board	Number of meetings	Participation in %
Prof. Volker Michael Stauch	10/10	100 %
Christophe Hemmerle	10/10	100 %
Christoph Matthias Seidler	10/10	100 %
Dr Gabriele Fontane	10/10	100 %
Daniel Michael Kartje	10/10	100 %

COMMITTEES

Audit Committee

In order to perform its duties efficiently, the Supervisory Board formed the Audit Committee by resolution on 7 December 2021, which commenced its work on 1 January 2022. Since its formation, the Audit Committee has been composed as follows:

Christophe Hemmerle (Chair)
Daniel Kartje

The Supervisory Board has not formed any other committees.

Audit Committee Meetings

The Audit Committee held four meetings in the reporting period.

At the meeting of the Audit Committee on 29 March 2023, the financial statement documents and the audit reports for fiscal year 2022 were discussed in detail. The auditor reported on the key findings of its audit.

At the meeting on 21 July 2023, the Management Board informed the members of the Audit Committee about the current risk situation with regard to the compliance systems and ESG activities.

At the meeting on 24 October 2023, the members of the Audit Committee discussed the internal control and risk management system and the governance system with the Management Board. The meeting also discussed the schedule for the selection of the auditor.

In a virtual meeting of the Audit Committee, held on 19 July 2022, the Management Board reported on the latest activities and developments relating to risk management.

On 25 October 2022, a meeting of the Audit Committee was held, the subjects of which were to discuss current business developments, prepare the audit process and provide information on the further development of the internal control and risk management system.

The Audit Committee held a meeting on 14 December 2022, to prepare the audit process, provide information on analyses of the internal control and risk management system, and discuss the process for selecting the auditor.

Participation in Audit Committee Meetings

The attendance of the Supervisory Board members in office in the financial year 2023 at meetings of the Audit Committee is disclosed below on an individualised basis.

Member of the Supervisory Board	Number of meetings	Participation in %
Christophe Hemmerle	4/4	100 %
Daniel Michael Kartje	4/4	100 %

CORPORATE GOVERNANCE

In 2023, the Supervisory Board continuously observed the further development of corporate governance standards in the Company on an ongoing basis. In accordance with Principle 23 of the German Corporate Governance Code, the Management Board and Supervisory Board report on the Company's corporate governance in the Declaration on Corporate Governance, which is published together with the declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act. The Management Board and Supervisory Board of hGears AG issued a declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act ("AktG") on 13 December 2023.

CHANGES IN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

There were no changes in the composition of the Supervisory Board during the reporting period. The current members of the Supervisory Board, Prof. Volker Michael Stauch (Chairman of the Supervisory Board), Mr. Christophe Hemmerle (Deputy Chairman of the Supervisory Board), Mr. Christoph Matthias Seidler, Dr. Gabriele Fontane and Mr. Daniel Michael Kartje were appointed on 8 April 2021.

There were changes to the composition of the Management Board during the reporting period. On 28 December 2022, the Supervisory Board appointed Mr. Sven Arend as a member of the Management Board and Chief Executive Officer (CEO) of hGears AG with effect from 1 February 2023.

In April 2023, the Supervisory Board and the Management Board member Pierluca Sartorello mutually agreed on the termination of Pierluca Sartorello's appointment to the Management Board as of 7 April 2023.

In this respect, the Company's Management Board consists of Sven Arend (CEO) and Daniel Basok (CFO).

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the annual financial statements of hGears AG and the consolidated financial statements as at 31 December 2023, as well as the management report and the Group management report, and issued an unqualified audit opinion.

The external auditor commissioned by the Supervisory Board to review the content of the separate non-financial statement also issued an unqualified audit opinion. The aforementioned financial statement documents, the auditor's report and the separate non-financial statement were submitted to all members of the Supervisory Board in good time. They were discussed in the meetings of the Audit Committee on 29 March 2024, and in the meeting of the Supervisory Board on 29 March 2024. At all meetings, the auditor reported on the main results of the audit and was available to answer questions and provide additional information.

Following its own examination and discussion of the annual and consolidated financial statements, the management report and the Group management report as well as the separate non-financial statement, the Supervisory Board determined that it had no objections and approved the result of the audit by the auditor and the external auditor. The Supervisory Board approved the annual financial statements and the consolidated financial statements for the financial year 2023 prepared by the Management Board. The annual financial statements are thus adopted.

The Supervisory Board would like to thank the Management Board and all employees for their constant commitment and constructive cooperation in the financial year 2023.

Schramberg, 26 March 2024

Prof. Volker Michael Stauch
Chairman

HGEARS AND CAPITAL MARKETS

Key data hGears stock 2023

Number of shares as of 31 December 2023	10,400,000 shares
Share capital as of 31 December 2023	EUR 10,400,000.00
Share price as of 31 December 2023	EUR 3.55
Market capitalization as of 31 December 2023	EUR 36.9 million
Share price high 2023	EUR 8.18
Share price low 2023	EUR 2.13

Share reference data

ISIN	DE000A3CMGN3
German Securities Identification Number	A3CMGN
Bloomberg Ticker Symbol	HGEA GR
Reuters Ticker Symbol	HGEA.DE
Stock Market Segment	Prime Standard

Contrary to all expectations and hopes, geopolitical tensions have increased once again in 2023. In addition to the uncertainties resulting from Russia's war against Ukraine, which has now been going on for more than two years, there are concerns that the war in the Gaza Strip could escalate into a conflagration in the Middle East, following the Hamas attack on Israeli civilians on 7 October 2023. On the other hand, fears of recession have diminished, partly because a trend reversal in inflation had become apparent; inflation rates fell steadily after peaking at 10.6 % in the eurozone in October 2022 and 9.1 % in the USA in June 2022. In January 2023, inflation stood at 8.6 % in the eurozone and 6.4 % in the USA, but then fell steadily to 2.9 % in the eurozone and 3.4 % in the USA by the end of the year.

The central banks responded to the inflation trend in 2023 with further interest rate hikes, although these were less significant overall than in the previous year; the US Federal Reserve (Fed) raised the key interest rate from a target range of 4.25 – 4.5% in January 2023 to 5.25 – 5.50 % in July 2023 and indicated that two further rate hikes could follow over the course of the year, although these did not materialize due to the positive inflation trend. Meanwhile, the European Central Bank (ECB) continuously increased the main refinancing rate for banks from 2.5 % in January 2023 to 4.5 % in September 2023 and then left the interest rate at this level beyond the end of the year.

Despite geopolitical tensions and inflation-driven interest rate trends, global stock markets recorded surprisingly positive price trends in 2023 – albeit with occasional significant fluctuations. The outflow of liquidity from the equity market into fixed-interest investments due to the attractive interest rates mainly affected shares in small and medium-sized companies. Overall, however, this did not detract from the positive trend on the international equity markets. Over the course of the year, the leading German index DAX Large Caps improved by 20.3 %, while the more broadly based European Euro Stoxx 50 rose by 19.2 %. In the same period, the SDAX index, which comprises German medium-sized companies, rose by 17.1% and the DAX Auto Parts & Equipment sub-index grew by an impressive 25 %.

As of 27 March 2024

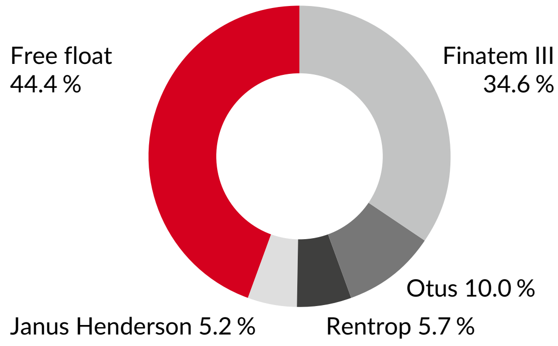
Bank	Target price EUR	Recommendation
ABN Amro – Oddo BHF	2.80	Neutral
Hauck & Aufhäuser	2.90	Hold
M. M. Warburg	3.70	Buy

In 2023 as a whole, hGears shares reached a high of EUR 8.18 on 4 January 2023, a low of EUR 2.13 on 1 December 2023, and a closing price of EUR 3.55 on 29 December 2023, which corresponds to a decrease of 51 % since the beginning of the year. An average of 8,458 shares were traded daily in the twelve months of 2023 (full year 2022: 4,452 shares).

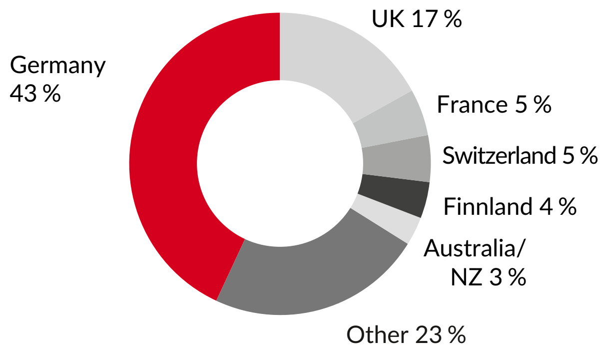
Annual General Meeting 2023

At the Annual General Meeting on 13 June 2023 at Frankfurt/Main, the shareholders of hGears AG approved all items on the agenda. The event was held in a virtual format but offered shareholders the opportunity to ask questions live. This ensured that all investors were able to fully exercise their shareholder rights. 75.6 % of the share capital was represented at the Annual General Meeting. The proposed resolutions put to the vote were approved by a large majority of shareholders. The Annual General Meeting also approved the actions of the Management Board and the Supervisory Board with 99.99 % and 95.18 % of the votes respectively, and approved the remuneration report with 79.96 % of the votes. Please refer to the link "Annual General Meeting" in the "Investor Relations" section of our website (www.hgears.com) for a detailed summary of the individual voting results and the presentation by CEO Sven Arend.

Shareholder structure 31 December 2023



Shareholders by region 31 December 2023



Corporate Responsibility Report

hGears | the **heart** of your performance

NON-FINANCIAL GROUP REPORT IN ACCORDANCE WITH SECTION 315B HGB

Reporting

This presentation of sustainability performance covers hGears AG, its subsidiaries hGears Schramberg GmbH (formerly: Herzog GmbH) and hGears Padova S.p.A. (formerly: mG miniGears S.p.A.), as well as its second-tier subsidiary hGears (Suzhou) Co., Ltd. (formerly: mG miniGears (Suzhou) Co., Ltd.). The presentation was prepared on the basis of the systematic Global Reporting Initiative (GRI) approach and also fully complies with the requirements for a non-financial statement as set out in sections 315b and c in conjunction with Sections 289b to e of the German Commercial Code (HGB) and Regulation (EU) 2020/852 of the European Parliament.

The presentation includes the information required under the CSR Directive Implementation Act on material environmental, employee and social issues, respect for human rights and the fight against corruption and bribery.

hGears manages its operating business mainly on the basis of financial ratios and performance indicators; besides Employee Turnover and Health Rates there are no additional non-financial performance indicators that are material to the business (section 289c (3) no. 5 HGB). Financial indicators are primarily used to manage the operational business, and there is no direct connection between the amounts reported in the consolidated financial statements pursuant to Section 289c (3) no. 6 HGB and the five non-financial aspects pursuant to Section 289c (2) nos. 1 to 5 HGB.

The non-financial group statement was reviewed by the Supervisory Board for lawfulness, correctness and expediency in accordance with section 171 (1) sentence 4 of the German Stock Corporation Act ("AktG"). In accordance with section 317 (2) sentence 4 of the German Commercial Code (HGB), it was submitted to the auditor, but was not subjected to a substantive audit. hGears is committed to transparency towards its stakeholders and reports on all sustainability-relevant aspects of the business and the corporate environment.

SUSTAINABILITY MANAGEMENT

hGears, founded in 1958 and headquartered in Germany, is a global manufacturer of high-precision transmission parts and components with a focus on products for e-drive technology sales markets. The company is convinced that such end markets, especially in the field of e-mobility, offer extremely attractive growth prospects. hGears operates worldwide with production facilities in the key regional markets of Europe and China. hGears develops, manufactures and supplies precision parts as well as subsystems and complete system solutions. Products include gearbox parts, gears, drive shafts, structural components, complete gearboxes and other components.

Decades of experience in the manufacturing of high-precision quality parts

	Predecessor companies		
Year	**Herzog**	**miniGears**	
1958	Founded in Lauterbach (Baden-Württemberg/Germany)		
1976		Founded in Padua (Veneto/Italy)	
1986	Construction of a company building in Schramberg-Sulgen and start of the development and production of gear components	Introduction of sintering in powder metal production technology	
1994		ISO 9002 certification of the Padua site	
1998	Start of production of complete gearboxes		
2002	Opening of the training centre	ISO 9001 certification of the Padua site	
2003		ISO 9002 certification of the Padua site ISO/TS16949 certification of the Padua site Opening of the plant in China	
2004	ISO 9001 certification of the Schramberg site	ISO 14001 certification of the Suzhou site (China)	
2007		Takeover by the Italian gearbox manufacturer Carraro	
2008		ISO 9001 certification of the Suzhou site (China)	
2009		ISO/TS-16949 certification of the Suzhou site (China)	
2011	Acquisition of shares by Finatem		
2014		Acquisition of shares by Finatem	
2015	**Founding of hGears AG**		
2017	Start of production of components for e-mobility		
2018	IATF-16949 certification* of the Padua and Suzhou sites Opening of the new Chinese plant		
2019	IATF-16949 certification* of the Schramberg site 24 % of turnover generated by components for e-mobility		
2023	**Change of name of the three locations for a uniform market presence**		
	hGears Schramberg GmbH (Germany)	hGears Padova S.p.A. (Italy)	hGears Suzhou Co., Ltd. (China)

* The "IATF 16949" (**I**nternational **A**utomotive **T**ask **F**orce) standard combines existing general requirements for quality management systems in the automotive industry. They were jointly developed by IATF members and published based on EN ISO 9001.

Corporate framework

The company boasts great strengths and capacities in research and development combined with extensive experience in joint development work with customers, thus driving the company's growth. At the same time, hGears benefits from the considerable manufacturing expertise that has grown over decades, which also enables the company to meet the most demanding requirements for products - such as in terms of noise development, weight or torque. hGears is a quality leader in all business areas and is taking a pioneering role in the field of e-mobility, while at the same time expanding its role as an important premium supplier. In addition, hGears has established itself as a manufacturer of mission-critical components for high-end products.

Due to the high degree of specialisation of its products, hGears always works closely with their customers in development to adapt product design to requirements and optimise the manufacturing process in terms of quality and cost. This approach usually results in a higher quality level of products compared to the market. hGears is constantly improving its co-development capabilities, as this is one of the key differentiators for winning new orders, especially in the fast-growing e-mobility industry. Moreover, the co-developer role does not only strengthen longstanding relationships with customers but also leads to significantly higher customer satisfaction.

Key sustainability issues

The principle of materiality serves as a guideline for the non-financial statement in the selection and weighting of topics. In order to determine the material topics, hGears regularly analyses the results of stakeholder exchanges, the experience and expertise of the employees in their daily business, as well as current market developments, especially in the relevant industrial sectors. This is rounded out by the results from the analysis of competitors and other comparable companies.

Three perspectives ("dimensions") are relevant for the assessment of topics with regard to their importance for hGears.

- ***Impact:*** How strongly does the (business) activity of hGears impact the environment with regard to the respective sustainability aspect ("inside-out view" or "impact")?

- ***Business relevance:*** How significant is the effect of the respective sustainability aspect from the market and/or stakeholders' viewpoint on the business development of hGears ("outside-in view" or "financial")?

- ***Relevance for stakeholders:*** Relevance for stakeholders: How significant is the behaviour of hGears with regard to the respective sustainability aspects for stakeholders forming expectations and making decisions regarding hGears?

The answers to these questions provide information on the significance and thus materiality of the individual aspects and topics related to the business activities and actions of hGears from a sustainability perspective.

Non-financial aspect	German Commercial Code (HGB)	Key action areas	Page
Environmental matters	Section 289c (2) no. 1	• Performance-enhancing, energy-saving components • Innovation and development • Improving the circular economy	26 24 27 f.
Employee-related matters	Section 289c (2) no. 2	• Culture of cooperation • Diversity	24 24/31
Social matters	Section 289c (2) no. 3	• Product quality & safety • Customer satisfaction	26 22
Respect for human rights	Section 289c (2) no. 4	• Supply chain monitoring • Respect for labour law and human rights	31 f. 31 f.
Combating corruption and bribery	Section 289c (2) no. 5	• Corporate governance • Compliance • Code of Conduct	33 33 33 f.

Sustainability organisation

In November 2023, hGears established a high-level ESG Committee (**E**nvironmental, **S**ocial, **G**overnance), which coordinates and decides on all major sustainability activities and measures within the company. The committee currently consists of six members who advise and support the chairperson (CEO) in the implementation of all activities related to the achievement of sustainability goals, environmental protection, good corporate governance and social responsibility. The Committee's work pays particular attention to the six fundamental corporate values (please refer to page 6 f.).

Members of the ESG Committee (March 2023):

- ***Sven Arend,*** Chief Executive Officer (CEO), Chairman
- ***Daniel Basok,*** Chief Financial Officer (CFO), Deputy Chairman
- ***Christian Weiz,*** Head of Investor Relations & ESG
- ***Isabell Hipp,*** Group Human Resources Director
- ***Frank Elsebrok,*** Group Risk & Compliance Manager
- ***Alice de Conti,*** EHS-Manager Environment

The CEO and CFO are responsible for the successful implementation of the hGears sustainability strategy. The Supervisory Board assesses the company's sustainability topics and monitors the roll-out of the corresponding measures. The Supervisory Board has also reviewed the information in this report.

hGears ESG Committee

The committee initiates, controls, monitors and regulates the implementation and execution of all (key) sustainability projects and sustainability measures at hGears.

- Supporting the Supervisory Board and the Management Board in the preparation of decision-making processes and resolutions.
- Defining sustainability goals, developing the corresponding strategy, and monitoring its implementation.
- Developing, revising and approving all codes and guidelines on sustainability topics.
- Analysis of important data and key figures:
  - Energy use, energy consumption (efficiency) and (greenhouse gas) emissions (intensity);
  - Contribution to the circular economy;
  - Conditions in the supply chain;
  - Occupational safety and diseases;
  - Compliance with environmental protection.

Market expectations

Sustainability is becoming a key business differentiator. Crucial stakeholders such as employees, customers, investors, regulators, partners and municipalities no longer judge companies solely on the basis of their creditworthiness and profitable growth; social and environmental aspects are equally important.

Based on its corporate values, hGears responds to the changing expectations of market players and other stakeholders by changing products and processes and setting new business goals, also taking sustainability requirements into account.

hGears expects sustainability to develop into an even stronger differentiator in the marketplace over the coming years. Sustainable innovations will be an essential factor to be successful in the market in the medium to long term. hGears is striving to institutionalise sustainable action even more.

"One hGears"

CORPORATE VALUES

Everything we do at hGears is aligned with six guiding values. These are the benchmarks for decisions and measures in setting goals and strategies, in day-to-day business and in sustainability management.

Under the motto **"One hGears"**, the company creates a sustainable culture that fosters identity, promotes creativity and a climate of cooperation that goes far beyond what is understood by "teamwork". In this environment, the employees across all departments and sites should be able to work together towards goals, leverage new synergies and work free of any silo mentality: Anything is possible when we work together.

The basic prerequisite for any company's success is **Integrity**, i. e. authenticity, respectability, incorruptibility. hGears wishes to align actions with the ideals and values stated as far as possible. These values include, among others, responsibility, appreciation of others (politeness and respect) or flexibility to respond to change whenever unexpected obstacles arise.

Diversity means creating a truly inclusive environment that is characterised by acceptance and is about much more than just the acceptance of different views. For hGears, diversity is also the need for new assessments, new approaches and new ideas that stimulate and inspire. These developments usually stem from different back-grounds, training, lifestyles and origins. Standing out from the crowd is important for both personal and company growth.

At hGears, the passion for **Growth** does not only encompass sales and profit growth, but rather growth in quality-related factors, such as experience, skills, reputation, awareness and attractiveness. This passion is fuelled, for example, by constant curiosity or the readiness to engage in lifelong learning, which is supported by the company to the best of its ability.

Innovation is of central importance to hGears and is determined not least by the level of passion for growth. Innovation enables hGears to assert themselves in a highly competitive marketplace. Innovation can be related to the improvement of products and processes or any other way to improve the company's performance.

At hGears, **Sustainability** is a prerequisite for every decision about entrepreneurial action. Every action does not only impact the present but also the future. In this way, even if only to a marginal extent, hGears impacts the shaping of the environment, which should be at least as liveable for future generations as it is for today's generation.

One hGears

Anything is possible
when we work together!

Integrity

Integrity matters:
We are honest and transparent!

Diversity

We are diverse:
We empower everyone!

Growth

Passion for growth:
Development is in our DNA!

Innovation

Driven by innovation:
Our curiosity creates opportunities!

Sustainability

Dedicated to sustainability:
Whatever we do, we do for tomorrow!

In 2023, hGears officially joined the **UN Global Compact**, whereby companies worldwide make a voluntary commitment to comply with social and environmental standards in their business practices. This confirms and formalises hGears' commitment to sustainability, which has been an integral part of its corporate policy and culture for many years.

SUSTAINABILITY GOALS AND STRATEGY

Environment

The energy requirements of hGears can only be reduced gradually, step by step – especially with the purchase of new machines, which is why the main climate effect results initially from the reduction in greenhouse gas emissions.

Goal 1: hGears aims to increase the proportion of electricity procured from renewable sources for its plants in the European Union (EU) to 100 % of the total amount of electricity procured by 2025. To this end, the company either purchases certified green electricity or generates green electricity itself using its own systems.

Goal 2: hGears aims to achieve climate neutrality in all business areas by 2050 (Scope 1 to Scope 3). The majority of the reduction in greenhouse gas emissions is to be achieved through savings, the minority through offset projects.

Goal 3: hGears aims to introduce efficient environmental and energy management systems at all sites by the end of 2025. The business organisation and control systems will then be supplemented with ISO 14001 (environment) and ISO 50001 (energy) certifications.

Goal 4: By 2040, hGears aims to either permanently reuse at least 98 % of the materials generated as waste itself or have them processed/recycled by external partners. Almost exclusively recyclable materials are sourced for this purpose. Manufacturing processes are being reorganised so that all materials that are not used in the end product can be collected separately.

Society/Social affairs

A key factor for the success of hGears' (sustainable) business activities is the hGears staff, who are responsible for increasing awareness of sustainability, driving innovative ideas, making suggestions for change and taking responsibility for ESG tasks. Going forward, hGears will increasingly focus in the coming years on training and further education for their own employees in order to be able to fill positions that require special skills or management positions internally, and not be dependent on the market availability of suitable candidates.

Goal 5: hGears intends to train all staff members every year on work-related and personal development topics and to offer at least 24 hours of training per employee for this purpose in the medium term. This includes general qualifications and further training programmes as well as individual talent management. Uniform, company-wide quality standards help to tailor the respective programmes to the individual needs of the employees. A key component of this approach is also the targeted promotion of young talent and junior managers.

Goal 6: hGears aims to optimise occupational health and safety measures throughout the Group, thereby reducing loss of working hours due to illness and reducing the number of days lost due to accidents at work. All employees receive safety training once a year. hGears has a dedicated (Occupational) Safety Commission, whose main task is to develop, update and implement safety standards and preventive measures for the purposes of avoiding occupational accidents.

Occupational safety perspective

Target parameter	2024	2025	2026	2027	2028
LTIR*	3.5	3.3	3.1	2.8	2.5
LWDR**	50	45	40	35	30

* LTIR (Lost Time Injury Rate): Lost time accident rate (number of accidents at work with lost time of at least one working day) in relation to 1,000,000 working hours.

** LWDR (Lost Workday Rate): Days lost due to occupational accidents in relation to 1,000,000 working hours.

Goal 7: hGears aims to improve the sickness absence rate in the coming years. Among other things, the objective is to improve employee motivation and create greater social ties to the company.

Health protection perspective

Target parameter	2024	2025	2026
TOT*	5.0 %	4.5 %	4.0 %

* TOT (Total Absenteeism Hours for Illness): hours of absence due to illness in relation to the hours available for work).

Goal 8: hGears aims to have the Suzhou and Schramberg sites certified in accordance with ISO 45.001 (occupational health and safety management) by the end of 2025, following Padua.

Goal 9: hGears intends to reduce employee turnover significantly. Among other things, comprehensive and timely information for the staff on current company developments and a better and more attractive public perception of the company at the sites should contribute to achieving this goal.

Employee satisfaction perspective

Target parameter	2024	2025	2026
Employee turnover*	5.0 %	4.5 %	4.0 %

* Employee turnover rate: Number of employees who leave the company voluntarily (excluding temporary employees) in relation to the annual average of full-time equivalents (excluding temporary employees).

PRODUCTS AND BUSINESS AREAS

hGears divides its business into three areas. The **e-Mobility** business area predominantly produces transmission systems for e-bikes and drive trains for electric and hybrid vehicles. This includes the development or co-development and production of components for e-drives, such as drive shafts, crankshafts and gears.

The **e-Tools** business area focuses on components used in the drive mechanism of electric power-tools and gardening tools. This includes the production of high-precision components that are used in the part of the gearbox that connects the electric motor to the actual tool (e. g., cutting and trimming tools).

The focus of the **Conventional** business area is on gearboxes for various applications such as premium and luxury vehicles, ventilation and air conditioning, motorcycles, recreational vehicles, and parts for rolling shutters and heating systems. This includes the production of various precision components for conventional automotive applications (e. g., drives, steering and braking systems, and vehicle bodies), as well as for other industrial applications.

Five factors determine the performance profile of these components. The first factor is strength to ensure that the component can absorb a high level of torque without being damaged, which applies in particular to drives with electric motors. The second factor is the noise generated by the components during operation, which is particularly important if the components are not noise-insulated and could expose users to noise. The third factor is the weight of components. The more lightweight the vehicles, the lower the energy required to move them; in the case of e-bikes, this also translates into ease of handling.

The fourth factor is durability; components produced by hGears must offer maximum service life within a product. After all, if a gear in a gearbox were to fail, the gearbox would not be disassembled and a gear replaced, but the entire gearbox would be replaced for reasons of economic efficiency. Finally, material composition – in-grade purity vs. composite material – is key for the recyclability and circularity of a product.

In addition to quality, the sustainability of each individual product is very important to hGears. hGears uses only steel and steel alloys for its products, especially with regard to the last of the aforementioned five factors. hGears does not use plastics. In fact, plastic parts are even replaced by steel parts in customer applications – with almost the same weight and significantly higher strength and durability. Although steel is not a renewable raw material, it can be recycled without any problems and is therefore an ideal raw material for the circular economy. In addition, hGears is working on optimising the design and accessibility of individual components to ensure ease of replacement and thus also to improve recyclability, unless this is determined exclusively by the customer.

ENVIRONMENT

hGears also continuously improves every link in the value chain from a sustainability viewpoint. This includes product design, material purchasing, production, logistics processes and application, right through to the analysis of the entire product life cycle. hGears' activities focus on the production of safe and efficient products and solutions. Our objective is to understand our customers' needs in order to provide them with the right bespoke solutions. An optimised value chain is the logical consequence of this objective.

Production process

hGears sources different steel grades from manufacturers in Europe. At the Suzhou (China) site, steel is sourced mainly from Chinese producers. Deliveries to hGears are made by truck. hGears has no knowledge of upstream logistics chains. The steel delivered to hGears is processed with electrically driven machines. Some of the products are hardened in special furnaces that generate heat with electricity or gas. Other operating materials in the production process are water and oil, which are collected, separated and recycled.

Although the amount of residual materials produced by hGears is significant, almost all of it is recycled. This results in only a very small amount of waste with only limited recyclability, typical of private households. All of the metal chips produced during processing operations are collected. Any adherent oils that are used for cooling or improving processing in production are separated, collected separately and recycled. Metal chips are sold for recycling after having been melted down.

In 2023, hGears generated additional revenue of around EUR 800,000 from the sale of metal chips. The oils are also delivered to specialised service companies for processing and recycling. Most of the materials supplied to hGears arrive on wooden pallets, which in turn are used for shipping the finished products. Wooden pallets are also subject to a process of ageing or wear. Pallets that are too badly damaged are usually taken out of service and shredded. hGears does, however, deliver damaged pallets to appropriate service providers for reconditioning in order to be able to keep these transport aids in use for as long as possible. This saved the purchase of substantial amounts of fresh wood in 2023. Other packaging materials are only consumed in very small quantities.

Energy consumption

hGears uses only a few types of energy. These include electricity and natural gas for heating and production. Diesel fuel is purchased for the vehicle fleet. Sustainability management is working successfully to reduce energy consumption continuously. The amount of energy purchased decreased by an average of around 12.6% in both 2022 and 2023.

Energy consumption Quantities in gigajoules (GJ)	**2020**	**2021**	**2022**	**2023**
Sourcing of primary energy	**51,195**	**54,888**	**47,615**	**42,071**
of which diesel	2,520	2,757	3,320	3,113
of which natural gas	48,675	52,131	44,295	38,958
Sourcing of secondary energy (electric power)	**117,126**	**123,518**	**115,617**	**94,018**
Total energy sourced	**168,321**	**178,406**	**163,232**	**136,089**

At the Schramberg site, 100% of the electric power has been obtained from renewable sources since January 2023. At the Suzhou site (China), a photovoltaic system was com-missioned in September 2022: Solar panels were installed on an area of 4,500 m² on the roof of the Chinese production facility. The new solar installation has a peak output of up to 990 kilowatts. The solar modules enable the Suzhou factory to generate up to 25% of its own annual energy requirements.

Greenhouse gas emissions

hGears strives to continuously reduce emissions of carbon dioxide (CO_2) and other greenhouse gases (GHG) both in relation to the production volume but more importantly also in absolute terms. This has been successfully achieved so far for scope 1 emissions. With regard to scope 2 emissions, the German utility supplied mainly fossil fuel-generated electricity to hGears during the energy crisis in 2022. As already mentioned, hGears has switched to sourcing all-green electricity from 2023 onwards, which mainly explains the sharp drop in greenhouse gas emissions. Greenhouse gas emissions also fell due to the general decrease in production.

Greenhouse gas emissions (GHG) in metric tonnes	2020	2021	2022	2023
Scope 1	2,911	3,111	2,718	2,331
Scope 2	8,336	6,794	13,952	2,718
Scope 3*	9,198**	9,743	9,579	6,778
GHG total (scope 1 + 2 + 3.1)	**20,445**	**19,648**	**26,249**	**11,827**

* Emissions in connection with the purchasing of goods and services (scope 3.1), here: steel, sintered metal and lubricants (excluding Suzhou site).
** excluding steel at the Italian site in 2020.

Water use

hGears draws the water required for production exclusively from the public mains. The amount of water used is being continuously reduced, either through more efficient processes in production or through multiple use of the water drawn.

Water use in cubic metres (m^3)	2020	2021	2022	2023
Drawn from the public mains	**51,501**	**49,556**	**42,456**	**36,438**

The Schramberg and Suzhou sites are located in water protection areas. This results in more stringent legal requirements with regard to the storage facilities for substances that are hazardous to water but may be used; the inspection times and intervals of these facilities and the necessary collection quantities (double-walled facilities) for substances hazardous to water. The more stringent legal requirements are fully taken into account by hGears when storing substances that are hazardous to water.

Wastewater

hGears discharges used water exclusively into the public sewage system. There is no significant pollution of the wastewater. The amount of wastewater discharged has seen a downward trend in recent years. The difference between the water drawn and the water discharged is due to the evaporation of water used for cooling in the production process in Padua and Suzhou.

Wastewater in cubic metres (m^3)	2020	2021	2022	2023
Discharge into the public sewage system	36,683	46,019	35,333	29,826
Liquid waste	1,294	742	718	642

Waste

In recent years, hGears has succeeded in reducing the amount of waste and residual materials in relation to production. The main residual material is metals, which are fully recycled. The recycling rate for lubricants and packaging materials is similarly high. As a result, the recycling rate of residual materials at hGears was 79 % in 2023. Most of the remaining waste volume was incinerated. The decrease in waste volumes in 2023 is largely due to the decline in production at Schramberg. Large quantities of (recyclable) metal chips are produced during manufacturing, which the company sells as recyclable raw material.

Volume of waste in metric tonnes	2020	2021	2022	2023
Total waste volume	**5,526**	**5,966**	**5,488**	**3,694**
Non-hazardous waste	4,372	4,613	4,357	2,681
Hazardous waste	1,154	1,353	1,131	1,013
Amount of waste recycled	**4,642**	**4,944**	**4,597**	**2,921**
Non-hazardous waste	4,357	5,488	4,326	2,642
Hazardous waste	256	393	271	279
Amount of waste disposed of	**884**	**1,022**	**891**	**773**

EMPLOYEES

Successful human resources work is the result of many individual disciplines. hGears attaches great importance to the training and further education of employees and the development of talent, whose potential and qualifications are very important for the company.

Personnel development

The skills of the employees and their personal development are of central importance for the HR management at hGears. This is also designed to support motivation in the workforce since motivated employees are a key driver for a company's business success. To ensure this, hGears offers an attractive working environment, fair remuneration, additional benefits and a large number of measures for personal and professional development.

Personnel development is an important task for the HR department at hGears. This includes general qualification and further training programmes as well as individual talent management. Uniform company-wide quality standards help to tailor the respective programmes to the individual needs of the employees.

Personnel development measures are generally open to the entire workforce. Targeted individual promotions, which take into account all company and employee-related aspects, also give employees the opportunity to fill any suitable position at hGears. A key component of this approach is also the targeted promotion of young experts and junior managers.

In the coming years, hGears will increasingly focus on the professional education and training of its own employees in order to be able to fill positions that require special skills or management positions internally and not be dependent on the availability of adequately suited candidates in the market.

Employee structure

As at 31 December 2022, hGears had 835 employees at all three locations (full-time equivalents excluding the members of the Management Board). During 2023, a net total of 111 employees left the company, meaning that a total of 724 permanent employees (excluding members of the Management Board) were employed at all locations on 31 December 2023.

Employees at the end of each year	2020	2021	2022	2023
Total headcount	**871**	**919**	**847**	**741**
by full-time equivalents (FTE)	861	912	835	724
Full-time employees	735	693	700	663
Part-time employees	36	32	33	31
Temporary employees	100	194	114	47
Women	**200**	**204**	**192**	**162**
	23 %	22 %	23 %	22 %
Men	**671**	**715**	**655**	**579**
	77 %	78 %	77 %	78 %
Employee turnover rate	**6.2 %**	**10.8 %**	**10.0 %**	**7.6 %**

Age structure of workforce Distribution of employees by age group	2020	2021	2022	2023
< 30 years	119	155	121	82
30 – 39 years	178	237	197	156
40 – 49 years	223	270	255	234
50 – 59 years	221	208	223	221
≥ 60 years	130	49	51	48

Professional education and training

In 2023, 795 employees participated in further education programmes for a total of 13,076 hours; this corresponded to an average of 16.4 hours of further education per employee. Further education and training programmes covered areas such as accounting, information technology (IT), quality management, communication and presentation techniques or languages.

In the reporting year, hGears again conducted a large number of compulsory training courses for all employees, provided the respective contents were relevant for their activities: occupational safety in offices, General Equal Treatment Act, IT security, data protection, prevention of corruption, handling of gifts, invitations, benefits, sponsoring. Overall, training hours declined in 2023, partly due to short-time working in Schramberg.

Further training	2020	2021	2022	2023
Number of employees trained	797	823	885	795
Training hours	13,181	20,797	18,982	13,076
Training hours per employee	16.5	25.3	21.4	16.4

Market and performance-oriented remuneration

All hGears employees receive competitive, market-rate remuneration that is in line with national industry standards and always ensures a living wage. Remuneration is based on position, responsibility and tasks, not on personal characteristics such as gender or origin. In addition to the fixed basic salary, variable performance-related salary components are designed to create incentives. The level of remuneration is reviewed regularly and adjusted, if necessary, within the framework of personnel development discussions. In order to ensure fair remuneration at all times, hGears continuously compares remuneration to representative reference values in the industry and the market.

High level of occupational health and safety

The health and safety of employees is a top priority for hGears. A safe, healthy, adequately protected and productive working environment, including a strong safety culture, is a matter of course. All employees are required to perform their duties safely and to immediately report any circumstances that pose a risk to health, safety or the environment. The Padua site is certified according to ISO 45001 (occupational health and safety management systems). The Schramberg and Suzhou sites will also receive this certificate by 2025 at the latest. All sites have already been certified according to ISO 9001 (quality management).

hGears has a dedicated (Occupational) Safety Commission, whose main task is to develop, update and implement safety standards and preventive measures for the purposes of avoiding occupational accidents. The Safety Commission supports and coordinates regular risk assessments, training, safety briefings and on-site inspections at the company's various sites. It also serves as an active forum for questions or concerns related to occupational safety. The Commission members regularly analyse the current status quo of hGears' health and safety activities and report to the CEO on progress in this area. After very low rates of occupational accidents in the past two years, hGears recorded an increase in 2023 but remained below the 2020 figures.

Positive employee response

hGears conducts regular performance reviews with employees. In addition to discussing individual goals and expectations, employees express their satisfaction with their work at hGears. In 2023, very positive feedback was again given with regard to motivation, willingness to stay or recommending hGears as an employer.

In addition, these interviews provide important information on how the commitment and motivation of employees can be strengthened further. It has also proven successful to collect ideas, suggestions and proposals from all employees in order to develop corporate culture in an even more target-oriented and thus more effective way, to initiate change and to support sustainable growth for hGears.

Occupational safety	2020	2021	2022	2023
Number of accidents at work *	19	10	6	11
Number of hours worked	1,508,789	1,729,901	1,679,638	1,363,699
LTIR **	12.6	5.8	3.6	8.1
LWDR ***	144	36	45	115
Work-related diseases	0	0	0	0
Work-related fatalities	0	0	0	0

* Accidents with lost time of more than one day.
** LTIR = lost time accident rate (number of accidents at work with lost time of at least one working day) in relation to 1,000,000 working hours.
*** LWDR = days lost due to accidents at work in relation to 1,000,000 working hours.

Seniority Number of employees per period of time	**2020**	**2021**	**2022**	**2023**
< 5 years	297	413	356	265
5–9 years	168	119	104	106
10–19 years	197	180	181	162
20–29 years	163	158	155	158
30–39 years	42	45	47	48
≥ 40 years	4	4	4	2

Diversity as a strength

For hGears, diversity does not only mean equal opportunities and tolerance, not only equal and fair treatment of all employees regardless of individual characteristics. For hGears, diversity also means an appreciation of other ways of thinking, assessing and evaluating. Open, respectful, intercultural communication promotes mutual understanding and helps to avoid diversity-specific barriers in professional development. A streamlining of the organisational structures led to redundancies in the first two management levels, while female employees were promoted at the same time. This explains the increase in the proportion of women at the top two management levels.

Diversity	**2020**	**2021**	**2022**	**2023**
Number of employee nationalities	36	35	36	34
Percentage of women in the top two management levels	13.0%	14.0%	16.1%	28.3%

COMPLIANCE WITH LABOUR LAW AND HUMAN RIGHTS

Compliance with internationally agreed labour law and human rights is a matter of course for hGears. The basis is the “Universal Declaration of Human Rights” (United Nations Guiding Principles on Business and Human Rights), which have been codified by the signatory states in the “International Covenant on Civil and Political Rights” (CCPR) and the “International Covenant on Economic, Social and Cultural Rights” (CESCR).

Equally self-evident for hGears is the observance of human rights within the framework of the requirements of the German Supply Chain Due Diligence Act (LkSG). hGears also explicitly aligns the group’s labour policy with the fundamental principles of the International Labour Organisation (ILO) and its corresponding conventions and requires their suppliers to do the same.

hGears explicitly commits to respecting, complying with and enforcing the United Nations Universal Declaration of Human Rights with its 30 articles and the eight fundamental principles (conventions, core labour standards) of the ILO. This commitment relates both to employees in the company’s own business areas – irrespective of the nature of their employment contract – and to employees in the value chain.

hGears therefore recognises all employment standards based on the core labour standards developed by the International Labour Organisation (ILO). These standards guarantee workers freedom of association and the right to collective bargaining, prohibit forced and compulsory labour and child labour, and prohibit discrimination in employment and occupation.

Supply chain monitoring

When selecting suppliers, hGears also pays attention to compliance with environmental and social standards as well as labour law and human rights. A significant share of the raw materials required for the production of e-mobility components comes from developing and emerging countries. Sustainability throughout the supply chain is crucial in particular with regard to “critical materials”. The hGears supply chain is mainly made up of companies that supply cut metal and powder metal. To ensure compliance with labour law and human rights, hGears requires satisfactory information and the corresponding binding declarations.

Conventions of the International Labour Organization (ILO)

Freedom of Association and Protection of the Right to Organise (1948 Convention No. 87)

Right to Organise and Collective Bargaining (1949 Convention No. 98)

- hGears protects the freedom of workers indiscriminately to form and join organisations/unions of their own choosing without prior authorisation, subject only to the condition that they comply with their statutes.

- hGears respects the right of workers to form associations, i. e. their right to organise (trade unions) and to carry out their activities freely and without restriction or interference. There is protection against any measures to counter this activity.

- hGears is always open to collective bargaining, i. e. negotiations with one or more trade unions on wages and working conditions (collective agreement).

Abolition of Forced Labour (1957 Convention No. 105)

- hGears condemns all forms of forced labour, i. e. forced labour ***(a)*** as a means of political coercion or political education, or as a punishment against persons who hold or express certain political views or who express ideological opposition to the existing political, social or economic order; ***(b)*** as a method of recruiting and using labour for economic development purposes; ***(c)*** as a measure of labour discipline; ***(d)*** as a punishment for participation in strikes; or ***(e)*** as a measure of racial, social, national or religious discrimination.

Discrimination (Employment and Occupation) (1958 Convention No. 111)

- hGears outlaws any distinction, exclusion or preference based on race, colour, gender, age, creed, political opinion, national origin or social origin which has the effect of eliminating or impairing equal opportunities or treatment in employment or occupation.

- hGears has adopted its own anti-discrimination policy against this background.

Worst Forms of Child Labour (1999 Convention No. 182)

- hGears is committed to eliminating any form of child labour in its supply chain that endangers the physical, moral or psychological well-being of children. This includes any work that makes children physically ill or exposes them to sexual abuse, such as working with dangerous machinery or tools and for long hours.

- hGears supports initiatives that remove children from any of the aforementioned types of work and seek their rehabilitation and social inclusion while addressing the needs of their families; this includes providing free basic education to children.

SOCIAL ACTIVITIES

Corporate responsibility, responsible corporate action in social communities, and sustainable action are elementary and integral parts of hGears' philosophy and corporate strategy. Consequently, hGears not only respects its accountability vis-à-vis all stakeholders and the sustainability of its own business activities, but also offers products and innovations that make a valuable contribution to ESG issues.

At hGears, sustainability is a natural and integral part of the business – encompassing financial, environmental, social and governance responsibility initiatives. The national companies' sustainability efforts are based on the United Nations (UN) Sustainable Development Goals, stakeholder expectations and internal policies. Sustainable developments and innovations form the basis of the corporate models. This basis is a prerequisite for pursuing and reaching the relevant UN Sustainable Development Goals.

In this context, hGears is keen to increase the percentage of women in the company. hGears regularly organises a "Girls Day" aimed at awakening girls' interest in technical professions and highlighting prospects in the metalworking industry. In addition, there are employee programmes at a local level, such as the "Family Day", which is designed to promote exchange among employees outside work.

At all three locations, hGears works together with local institutions both to ensure acceptance of the environment with regard to the production and operating facilities and to provide appropriate support to the local economy in social or cultural matters in the spirit of corporate responsibility. Against this background, it is also important for hGears to strive to source as much locally as possible in order to also make a positive contribution to the development of the regions in which the sites are located.

Support for youth sports

In 2023, hGears supported the FV Kickers 09 Lauterbach football club in particular because of the great importance of sports in the development of children. hGears has strong roots in the region – around 90 percent of employees live within a ten-kilometre radius of the plant – and wishes to make a regional contribution to helping children develop skills that will better prepare them for life: teamwork, resilience, problem-solving and the ability to cope with success and disappointment.

CORPORATE GOVERNANCE

For hGears, corporate growth and sustainability are not mutually exclusive. Thanks to a uniform corporate culture across all locations, diversity in the workforce, innovative strength, integrity and responsible business practices, hGears reconciles profitable growth with the requirements of sustainable action.

Compliance and transparency

hGears has established an efficient system with governance structures, risk management and compliance organisation (GRC) in order to achieve their declared corporate and sustainability goals and to deal with risks and uncertainties in the markets as well as in business operations in a professional manner. The system ensures the efficient use of resources in this respect and guarantees the comprehensive exchange of information within the company. In order to further strengthen risk management and control systems, hGears established the additional function of Group Risk & Compliance Manager in the 2023 reporting year. The new area, which comprises risk management, internal control systems and compliance management, reports directly to the Chief Financial Officer (CFO) of hGears.

Compliance is of central importance to hGears. Compliance includes adherence to legal requirements, voluntary commitments and internal company guidelines. This also covers, in particular, combating corruption and bribery, both of which are outlawed by the vast majority of national and international legal regulations. hGears expressly condemns all acts of this kind, including so-called facilitation payments, both in relation to public officials and in dealings with business partners and customers.

hGears' central set of compliance rules for all employees are the Code of Ethics and the Anti-Corruption Policy. This code formulates a binding group-wide framework to act lawfully and with integrity, both within the company and in relation to business partners and customers. The code applies not only to regulations on antitrust law and corruption prevention, but also to data protection, conflicts of interest, the protection of intellectual property and insider trading. The Code of Ethics is regularly adapted and further developed in line with changing legal conditions.

hGears encourages all employees and also third parties such as business partners or customers to openly address compliance concerns and to report possible misconduct immediately. To this end, a reporting office has been established. Here, suspected violations of the hGears Code of Ethics or other legal regulations can be reported confidentially by e-mail. In 2023 – as in previous years – hGears did not become aware of any events or incidents of compliance violations.

Integrity through awareness and control
hGears respects the integrity of marketplaces and fair competition and prohibits anti-competitive behaviour as a matter of principle. In the 2023 reporting period, as in previous years, no allegations were made known according to which hGears had violated any regulations under competition or antitrust law.

Sustainability as a component of risk management

Physical, non-physical and transitory sustainability risks are part of hGears' risk management system. This allows risks to be recognised at an early stage and countermeasures to be taken. The risk management system is explained in detail in the opportunities and risk report section of the annual report. In the group, the Management Board members and the operative managers reporting to them are responsible for the risk management system. Risk management is supported by the internal control system (IKS).

The risk analysis has identified climate change as a relevant risk for hGears. Climate change can lead to abrupt changes in market conditions, disruptions in supply chains due to extreme weather events, rising energy and supply costs, or disruptions in production conditions due to more significant temperature and weather changes in the vicinity of production facilities.

At the same time, climate change also presents hGears with new opportunities. hGears is a market leader in the area of precision gearbox parts and axles in the future-oriented and rapidly growing field of e-mobility applications, which is strongly promoted due to climate change. hGears' customers in this area include the market-leading manufacturers of e-bike motors. Cooperation is characterised by long-standing, stable and sustainable relationships. Several key customers have been supplied by hGears for over 15 years. Frequently, a joint development process brings a wide variety of components to market maturity with the technologically optimal solution.

Stakeholder dialogue

hGears maintains a close exchange with important stakeholder groups such as employees, customers, suppliers, and investors. The exchange with other stakeholder groups is being intensified successively. Assessments, moods and the needs of employees are collected in day-to-day business thanks to flat and open hierarchical structures. Investor Relations exchanges information with the shareholders of hGears AG in various formats (Annual General Meeting, investor events, roadshows in a virtual or in-person format, direct personal contacts) and records their suggestions and wishes. The individual companies of hGears are in active contact and exchange comprehensive information on the respective business items with customers and other business partners.

EU TAXONOMY

The EU Taxonomy is a classification system developed by the European Union (EU) that uses certain predetermined criteria to define economic activities as environmentally sustainable. The objective of the EU Taxonomy is to promote investment in companies that engage in environmentally sustainable activities. Thus, the EU Taxonomy is intended to assist in the implementation of the European Green Deal, in particular to achieve climate neutrality on EU territory by 2050.

In accordance with Article 8 of Regulation (EU) 2020/852 of 18 June 2020 establishing a framework to facilitate sustainable investment and amending Regulation EU 2019/2088, hGears provides information on how and to what extent their economic activities are considered environmentally sustainable pursuant to Articles 3 and 9 of this Regulation.

After a thorough review of the economic activities based on the Delegated Regulation (EU) 2021/2139, hGears has identified the following activities that are covered by the EU Taxonomy in order to achieve the two objectives of climate change mitigation and climate change adaptation:

3.3. Production of low-CO_2 transport technologies (including low-CO_2 vehicles)

3.6. Production of other low-CO_2 technologies

For fiscal 2023, the percentage of economic activities that are both taxonomy-eligible and taxonomy-compliant must be reported. Economic activities are expressed in terms of turnover as well as capital and operating expenditures. In addition, qualitative information on safety with regard to a possible negative effect of economic activities on other goals and areas worthy of protection must be provided.

Economic activities of hGears within the meaning of the EU Taxonomy Regulation: Turnover

Year	Turnover		Substantial contribution to EU environmental objectives*	Negative impact on other EU environmental objectives***	Minimum safeguards****
Business area	Total	Taxonomy-eligible percentage	Taxonomy-compliant percentage**		
2021	**EUR 134.9 m**	**EUR 42.9 m**	**–**		
e-Mobility		32.2 %	–		
e-Tools		0.0 %	–		
Conventional		0.0 %	–		
∑		32.2 %	–		
2022	**EUR 135.3 m**	**EUR 92.9 m**	**EUR 76.1 m**	The audit of economic activities did not reveal any violation of EU objectives.	Compliance with minimum safeguards is ensured for all economic activities.
e-Mobility		38.4 %	38.4 %		
e-Tools		30.9 %	18.4 %		
Conventional		0.0 %	0.0 %		
∑		69.3 %	56.8 %		
2023	**EUR 111.7 m**	**EUR 68.5 m**	**EUR 55.8 m**		
e-Mobility		37.6 %	37.6 %		
e-Tools		23.8 %	12.4 %		
Conventional		0.0 %	0.0 %		
∑		61.4 %	50.0 %		

* Climate protection, adaptation to climate change. ** Not part of mandatory reporting in 2021. *** Sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. **** Ensuring minimum safeguards with regard to occupational safety and labour law and human rights.

Economic activities of hGears within the meaning of the EU Taxonomy Regulation: Investments

Year	Capital expenditure ("CapEx")		Substantial contribution to EU environmental objectives*	Negative impact on other EU environmental objectives***	Minimum safeguards****
Business area	Total	Taxonomy-eligible percentage	Taxonomy-compliant percentage**		
2021	**EUR 14.7 m**	**EUR 5.2 m**	**–**		
e-Mobility		35.4 %	–		
e-Tools		0.0 %	–		
Conventional		0.0 %	–		
∑		35.4 %	–		
2022	**EUR 16.6 m**	**EUR 12.1 m**	**EUR 10.6 m**	The audit of economic activities did not reveal any violation of EU objectives.	Compliance with minimum safeguards is ensured for all economic activities.
e-Mobility		62.7 %	62.7 %		
e-Tools		9.9 %	1.0 %		
Conventional		0.0 %	0.0 %		
∑		72.6 %	63.7 %		
2023	**EUR 9.1 m**	**EUR 6.8 m**	**EUR 6.3 m**		
e-Mobility		68.0 %	68.0 %		
e-Tools		6.3 %	1.1 %		
Conventional		0.0 %	0.0 %		
∑		74.3 %	69.1 %		

* Climate protection, adaptation to climate change. ** Not part of mandatory reporting in 2021. *** Sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. **** Ensuring minimum safeguards with regard to occupational safety and labour law and human rights.

Economic activities of hGears within the meaning of the EU Taxonomy Regulation: Operations

Year	Operating expenses ("OpEx")		Substantial contribution to EU environmental objectives*	Negative impact on other EU environmental objectives***	Minimum safeguards****
Business area	Total	Taxonomy-eligible percentage	Taxonomy-compliant percentage**		
2021	**EUR 8.0 m**	**EUR 1.6 m**	**–**		
e-Mobility		19.5 %	–		
e-Tools		0.0 %	–		
Conventional		0.0 %	–		
∑		19.5 %	–		
2022	**EUR 7.0 m**	**EUR 5.2 m**	**EUR 4.5 m**	The audit of economic activities did not reveal any violation of EU objectives.	Compliance with minimum safeguards is ensured for all economic activities.
e-Mobility		53.8 %	53.8 %		
e-Tools		19.7 %	9.9 %		
Conventional		0.0 %	0.0 %		
∑		73.5 %	63.7 %		
2023	**EUR 6.0 m**	**EUR 3.3 m**	**EUR 3.3 m**		
e-Mobility		55.1 %	55.1 %		
e-Tools		16.7 %	7.6 %		
Conventional		0.0 %	0.0 %		
∑		71.8 %	62.7 %		

* Climate protection, adaptation to climate change. ** Not part of mandatory reporting in 2021. *** Sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. **** Ensuring minimum safeguards with regard to occupational safety and labour law and human rights.

axonomy-compliant economic activities

An economic activity can be classified as (environmentally) sustainable or taxonomy-compliant if it meets both the requirements laid down in the formal description and all technical assessment criteria. These evaluation criteria consist of the criteria for a substantial contribution and the DNSH criteria ("do no significant harm"). In addition, the minimum safeguards set out in the EU Taxonomy Regulation must be complied with.

In this context, hGears has identified the environmental objective (1) "Climate change mitigation"; environmental objective (4) "Transition to a circular economy" was added in the reporting year, with regard to which activities over the course of 2024 can be analysed and quantified. During the reporting year, hGears was not able to make an identifiable contribution to the environmental objectives (2) "Climate change adaptation", (3) "Sustainable use and protection of water and marine resources", (5) "Pollution prevention" and (6) "Protection and restoration of biodiversity and ecosystems".The further analyses presented in the following have therefore been limited to Annex I of the EU Taxonomy Regulation.

Substantial contribution

hGears' products, in particular gears, axles and similar components, make a substantial contribution to both supporting a higher degree of electric mobility ("3.3: Production of low-carbon technologies for transport") and replacing internal combustion engines with electric motors ("3.6: Production of other low-carbon technologies"). hGears makes a contribution to the latter, for example, by way of manufacturing key components for small vehicles and tools for outdoor applications.

Compliance with minimum safeguards

Compliance with the minimum safeguards (Article 18 of the Taxonomy Regulation) is another prerequisite for an economic activity to be taxonomy-compliant. In this context, companies have to implement appropriate processes and procedures to avoid a negative impact on four topics in particular: human rights (including labour law and consumer rights), taxation, corruption and bribery, and undistorted competition. The group-level audit did not reveal any indications of non-compliance or infringement.

hGears has implemented mechanisms within the group to ensure compliance with the relevant requirements through adequate risk assessment and specific countermeasures. In addition to internal policies and systems as well as a corresponding supplier selection process, this also includes the commitment of suppliers and relevant partners to recognised standards and periodic checks.

Determination of taxonomy key ratios

The determination of taxonomy key ratios and the reporting of taxonomy-eligible and taxonomy-compliant economic activities of hGears is performed in accordance with the delegated legal act on disclosure requirements. Key ratios include the proportions of taxonomy-eligible and taxonomy-compliant turnover, capital expenditure and operating expenses.

Turnover The proportion of turnover referred to in Article 8(2)(a) of Regulation (EU) 2020/852 shall be calculated as the part of net turnover in goods or services, including intangible assets, linked to taxonomy-eligible and compliant economic activities (numerator) divided by the net turnover (denominator) within the meaning of Article 2(5) of Directive 2013/34/EU.

Capital expenditure Capital expenses or capital expenditure (CapEx) within the meaning of the EU taxonomy comprise the additions to tangible and intangible assets during the financial year under consideration before depreciation and revaluations, including those resulting from revaluations and impairments for the financial year concerned and excluding changes in fair value. This also includes additions to property, plant and equipment and intangible assets resulting from business combinations. Capital expenditure includes costs incurred on the basis of IFRS Standards IAS 16 Property, Plant and Equipment, paragraph 73 (e) (i) and (iii); IAS 38 Intangible Assets, paragraph 118 (e) (i); IAS 40 Investment Property, paragraph 79 (d) (i) and (ii) (for the cost model); IAS 41 Agriculture, paragraph 50 (b) and (e); and IFRS 16 Leases, paragraph 53 (h). Taxonomy-eligible and taxonomy-compliant capital expenditure relates to assets associated with taxonomy-eligible and taxonomy-compliant economic activities, or is part of a plan to expand taxonomy-eligible and taxonomy-compliant economic activities, or to convert taxonomy-eligible economic activities into taxonomy-compliant economic activities.

Operating expenses Operating expenses (OpEx) within the meaning of the EU taxonomy include direct, non-capitalised costs relating to research and development, building refurbishment, short-term leasing, maintenance and repair and all other direct expenditure related to the day-to-day maintenance of tangible fixed assets necessary to ensure their functionality. Taxonomy-eligible and taxonomy-compliant operating expenses may relate to assets or processes associated with taxonomy-eligible and taxonomy-compliant economic activities, or may be part of a plan to expand taxonomy-compliant economic activities, or to convert taxonomy-eligible economic activities into taxonomy-compliant economic activities. In order to determine the taxonomy-eligible and taxonomy-compliant operating expenses of hGears, the expenses in the reporting year were analysed in a first step to determine which proportion relates to assets or processes associated with the taxonomy-eligible and taxonomy-compliant economic activities 3.3 and 3.6 (numerator). The taxonomy-eligible and taxonomy-compliant operating expenses determined in this way were divided by the total operating expenses covered by the taxonomy (denominator). The taxonomy regulation does not provide for a direct allocation to operating expenses in the consolidated financial statements.

Combined Management Report

hGears | the **heart** of your performance

PRELIMINARY REMARK

The German Corporate Governance Code (GCGC) contains recommendations for disclosures on the internal control and risk management system that go beyond the statutory requirements for the management report and are therefore outside the scope of the audit of the content of the management report performed by the auditor. In this report they are assigned to the content of the corporate governance statement; moreover, they are contained in separate paragraphs to set them apart from the disclosures to be audited and flagged accordingly.

OVERVIEW

The economic disruption caused by the latest COVID restrictions and the associated supply chain bottlenecks finally eased at the beginning of 2023. At the same time, energy and commodity prices fell comparatively quickly and the feared wage-price spiral did not materialize, meaning that inflation rates worldwide fell faster than expected. Nevertheless, the hoped-for strong economic recovery failed to materialize, which is likely to be largely due to the challenges associated with the central banks' restrictive monetary policy to combat inflation. Meanwhile, and contrary to hopes and expectations, geopolitical tensions and wars did not decrease in 2023, but actually increased. Russia's invasion of Ukraine has continued unabated for more than two years, and Hamas' terrorist attack on Israel on 7 October 2023 has triggered a new conflict in the Middle East. The combination of the high cost of living due to inflation, high interest rates and concerns about the geopolitical situation created unfavorable conditions for consumer sentiment and ultimately for economic development. Against this backdrop, hGears managed to generate solid results. A certain saturation effect following the boom in the coronavirus years and a significant deterioration in consumer sentiment resulted in an overstocking situation in all channels of the bicycle industry, which was reflected in volume and ultimately sales setbacks in the e-Mobility business area. Once the global supply chain problems in the automotive industry had finally been resolved, the Conventional business area benefited from a catch-up effect in the first half of the year, although the momentum weakened as the year progressed. Rising interest rates on building loans and mortgages had a negative impact on construction activity, which negatively affected demand for professional power tools, while demand for electric garden tools was impacted by weak consumer sentiment and unfavorable weather conditions during the peak season in Europe. hGears' strategic focus remains on sustainable drive and mobility concepts. The management believes that the company is very well positioned to participate in this growth market. With highly motivated employees, a solid infrastructure and a strong balance sheet, hGears is well equipped to look to the future with confidence.

COMPANY FUNDAMENTALS

Business model

hGears AG and its subsidiaries and second-tier subsidiary ("hGears Group", "Group") manufacture, distribute and sell high-precision turned parts, drive components, gear kits as well as complex system solutions. For this, the Group combines steel machining with powder metal technologies.

The Company (co-)develops, manufactures and supplies high-precision components and subsystems as well as complex overall system solutions. The products include gears, sprockets, shafts, structural components, complete transmissions and other mission-critical components used primarily in combustion-free electric or battery-powered applications (e-drive), in areas such as e-bikes, electric and hybrid vehicles (EHV), electric power-tools and gardening equipment. The mission-critical components are essential for the proper functioning of the end product and must meet highest quality requirements.

Within the supply chain, hGears operates as either a Tier 1 or Tier 2 supplier. As a Tier 1 supplier, hGears manufactures and supplies its products directly to original equipment manufacturers ("OEMs"), mainly in the electric power-tools and gardening equipment industries. As a Tier 2 supplier, hGears produces components for manufacturers who in turn develop systems for integration into end products (e.g., for e-bikes and EHVs). Many of hGears' customers are leaders in their own respective industries, and the Company benefits from having long-standing, stable and sustainable relationships with them. Many of hGears key customers have been with the Company for over 15 years.

hGears business activities are divided into three business areas:

e-Mobility

In this business area, hGears focuses on high-precision components for e-bikes and for electric and hybrid vehicles (EHVs). Activities include the (co-)development and production of components for e-drive applications (e.g. drive and crank shafts and gears). e-drives require high-precision components that can withstand high torques, are lightweight and have low noise emission.

e-Tools

This business area focuses on components used in the drive mechanism of electric power-tools and gardening tools (e-drive). It includes the production of precision components used in the part of the gearbox that connects the electric motor to the actual tool (e. g., cutting and trimming tools).

Conventional

This business area focuses on high-precision parts for premium, sports and luxury vehicles (e. g. drive units, steering and braking systems and anti-roll bars) as well as components for motorcycles, motorhomes, ventilation and air condi-tioning systems, roller shutters and heating systems.

The e-drive business areas (e-Mobility and e-Tools) accounted for 60.9 % of Group total revenues in 2023 (2022: 68.6 %), with e-Mobility being the largest business area at 37.4 % (2022: 38.0 %).

Share Capital

The Company successfully completed its IPO in 2021. Since 21 May 2021, hGears shares have been listed in the Prime Standard of the Regulated Market of the Frankfurt Stock Exchange. There were 2,400,000 new shares and 8,000,000 old shares admitted to trading on the regulated market, amounting to a total of 10,400,000 no-par value ordinary bearer shares. Each share has a notional amount in the share capital of EUR 1.00, is granted one vote at the Annual General Meeting, and is fully entitled to dividends, should a dividend be paid.

Group strategy

The clear strategic focus is on the e-Mobility business area, which is the mainstay of hGears' growth strategy due to the strong dynamics of the end market. The Company aims to be one of the world's leading manufacturers of high-precision components for e-mobility applications.

Strong profitable growth through a focus on e-mobility applications

In the emerging e-mobility sector, high-precision components are crucial for the development and optimization of e-drive applications. With hGears' focus on high-quality precision components, this results in market potential.

Decades of industry experience, initially gained in the e-Tools business area, have enabled hGears to develop the competence and know-how to meet the high requirements demanded by these applications for precision transmission parts and components that must withstand high torques, be lightweight, and minimize noise and wear and tear as much as possible. To meet these demands, the Company utilizes the latest technological processes with the highest quality standards in manufacturing.

hGears is currently focusing on further profitable, organic expansion in related business activities and increasing its market share in e-mobility applications. In Europe, the Company is already the leading supplier of high-precision components for e-bikes. According to hGears' own estimates and based on its in-depth market knowledge and decades of experience, almost every second e-bike produced on the European continent in 2022 contained components manufactured by hGears.

hGears' organic growth strategy remains focused on expanding its customer base. This includes expanding the range of products and solutions for new and existing customers in the area of e-mobility as well as transitioning customers from the Conventional business area to the e-Mobility business area. By taking this approach, hGears can benefit from the continuing demand for e-bikes and the future trend of micromobility. As part of the current technical evolution, e-motors and transmissions are being combined to form an integral system. hGears has been able to establish itself as a preferred partner for such systems in this area based on its long-standing experience in the production of high-precision parts. In the past years, hGears succeeded in concluding several prototyping agreements and is constantly in talks with both existing and new customers to embark on further development projects.

To pave the way for further growth hGears continued to make appropriate investments in 2023, with a focus on increasing production capacity in the e-Mobility business area.

Co-development

To optimally tailor its offering to customer needs and further strengthen business relationships, hGears is extensively and meaningfully involved in its customers' development process. The Company works with customers in a "co-development" role to design components and find technically optimal solutions that meet the customer's specifications. hGears provides it based on its long-standing experience, precise knowledge of the applicable standards and use of state-of-the-art calculation tools.

Co-development is particularly important for manufacturers of e-bikes and electric and hybrid vehicles, as mission-critical requirements are typically accompanied by higher quality and precision demands and often require customized solutions. Co-development is also a key differentiator for winning projects in newer markets such as e-mobility and is readily embraced by most customers.

Research and development

hGears has more than 65 years of experience in advanced machined steel processing and state-of-the-art sinter metal production. Its research and development programmes are primarily aimed at testing, validating and integrating new material applications, advanced simulation models and innovative production processes into the Company's production process and business model.

By focusing specifically on innovations for e-mobility solutions combined with continuous quality and cost improvements, hGears firmly believes that its research and development capabilities and combined expertise are key differentiators and the main reasons for its leading market position. Examples in this area are hGears' ability to design for NVH (Noise, Vibration, Harshness) and lightness and efficiency, combined with its expertise in simultaneous engineering.

hGears major strength in engineering is its multinational technical teams, consisting of highly talented and experienced engineers covering all phases of research and development, from advanced design to application and process engineering. These capabilities are an important strategic asset for the Company's further growth. As part of co-development projects, the engineers at hGears make their development expertise available in close cooperation with customers. The added value associated with these activities also supports our efforts in terms of pricing. With this in mind, hGears is considering expanding its engineering activities.

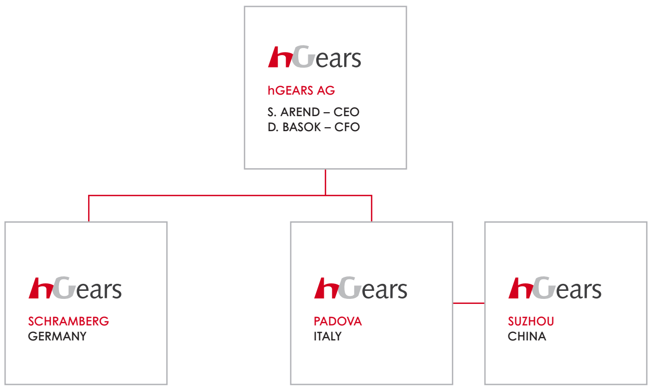
The company utilizes its expertise in process and application technology for e-drives to enhance their range and performance, while simultaneously reducing costs.

Current R&D activities are focused on developing additional production processes and expanding the company's patent portfolio, particularly in the e-Mobility business area.

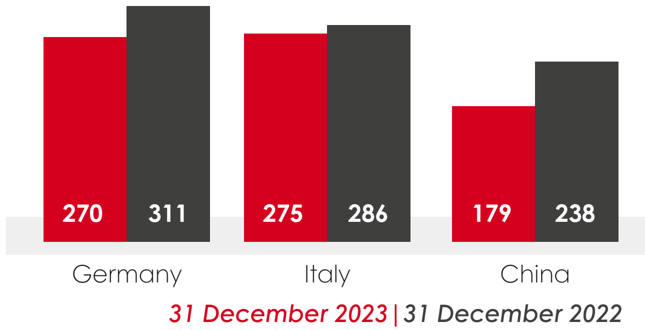
In the fiscal year 2023, hGears employed in research and development, in Advanced Engineering, Process Engineering and Application Engineering 43 full-time employees (2022: 46 FTEs).

Locations and employees

hGears is headquartered in Germany and operates globally with production facilities in Schramberg, Germany, Padua, Italy, and Suzhou, China.



As of 31 December 2023, hGears had 724 employees excluding the Management Board (2022: 835 full-time equivalents, excluding the Management Board). The distribution of employees across the various locations was as follows:



Of these employees, 630 work as factory workers and 94 as administrators and managers.

Management system and performance indicators

Despite the Company's voluntary disclosure of revenue figures for the three business areas, hGears is a single-segment company. Information on segment reporting can be found in Note 3.10 Segment reporting contained in the notes to the consolidated financial statements.

hGears manages its business activities using selected financial performance indicators that are continuously monitored and integrated into the monthly reporting to the Management Board. The key performance indicators used by hGears' management to measure the success of its operations are revenues, adjusted EBITDA (adjusted earnings before interest, taxes, depreciation and amortization) and free cash flow.

Sales and marketing

hGears' customers select their suppliers by first reviewing the supplier's technical capabilities within the scope of a bidding phase. The number of potential suppliers per component is typically limited to two or three, as manufacturers require very specific production and technical capabilities. With increasing product complexity and customization, purchasing decisions are shifting to the engineering departments of OEMs and Tier 1 suppliers and away from procurement departments. This extends the time frame for the selection process, e. g., qualification processes in the automotive industry can take up to five years.

Key performance indicators for the hGears Group

Non-financial performance indicators

As part of the non-financial indicators for assessing employee matters, training hours, days lost due to sickness and accidents at work, the sickness absence rate and employee turnover are recorded and monitored.

In addition, energy consumption, greenhouse gas emissions, water utilisation and waste generation are recorded and monitored. Environmental aspects are also taken into account through certification in accordance with ISO 14001 and IATF 16949 in all three plants and ISO 50001 in Germany. Detailed information and facts on the sustainability criteria can be found in the sustainability report, which forms an integral part of this report and is available on our website (https://hgears.com/company/corporate-culture/corporate-responsibility/).

Financial performance indicators

Revenues, adjusted EBITDA and free cash flow are key performance indicators that the Management Board considers to be of particular importance for the internal management of the Company.

Revenues comprises from the sales of goods and other revenues.

Adjusted EBITDA represents earnings before interest, taxes, depreciation, amortization and management adjustments (for non-recurring items).

Free cash flow comprises cash flow from operating activities and cash flow from investing activities plus interest paid, less interest received and leases that are part of payments for property, plant and equipment and intangible assets.

Revenue in fiscal year 2023 amounted to kEUR 112,475 (2022: kEUR 135,334).

Adjusted EBITDA in fiscal year 2023 amounted to kEUR 5,609 (2022: kEUR 15,283).

The 2023 free cash flow totaled kEUR −3,058 (2022: kEUR −8,337).

Comparison of actual results vs. forecast

The recovery of global economies in 2023 was much slower than anticipated, even though input costs and pandemic related hurdles continued to fade at the beginning of the year and eventually disappeared during the summer of 2023. Central banks' interest rate hikes to tackle inflation rates represented a heavy burden for economies around the globe. Meanwhile, contrary to hopes and expectations, geopolitical tensions and warfare not only failed to decrease in 2023 but actually increased, in the form of a new conflict in the Middle East. In summary, high cost of living, elevated interest rates, and geopolitical insecurities constituted a challenging mix for consumer sentiment and, ultimately, the economic development.

The supply chain constraints in the automotive industry were finally largely resolved in 2023, leading to a certain recovery, while hGears' client base in the premium and luxury segments generally continued to prove resilient. But following the boom during the COVID-19 pandemic, both the e-tools and e-bike industries were confronted with and a downturn in the consumer sentiment, resulting in declining demand in 2023. This led to a significant overstocking situation, which already started to build in 2022. On 1 June 2023 hGears' Management Board specified that total revenues for the full year 2023 will be in the range of EUR 115 – 123 million (2022: EUR 135.3 million; previous guidance: EUR 129 – 137 million). In 2023 hGears reached revenues of EUR 112.5 million, marginal 2.2 % below the guided bandwidth.

Above all in the e-bike business, hGears experienced irregular call-offs of volumes, causing stop-and-go costs that burdened the gross margin. Meanwhile, lower revenues as a result of declining volumes continued to have a negative effect on the operational leverage, taking its toll on the adjusted EBITDA. On 1 June 2023 the Management Board provided a bandwidth for the adjusted EBITDA of EUR 5 – 9 million for the full year 2023 (2022: EUR 15.3 million; previous guidance: EUR 12 – 15 million). The achieved adjusted EBITDA of EUR 5.6 million is within the guided bandwidth, though remaining below the Management's strategic profitability goal.

After EUR −8.3 million in 2022, hGears generated a free cash flow of EUR −3.1 million in 2023, which was above the EUR 9 – 12 million range adjusted on 1 June 2023. The negative free cash flow is primarily due to investments in the first half of 2023, which were related to recent years' expansion plans that were communicated during the IPO and could not be stopped at short notice. The deviation of the reported free cash flow for 2023 compared to the previous guidance (EUR 6 – 9 million) can mainly be explained with a lower profitability, which is caused by a lack of operational leverage.

Overall assessment of the business development

After the boom experienced during the COVID-19 pandemic, both the e-tools and the e-bike industries experienced a significant slowdown, ultimately resulting in an overstocking situation that persisted until yearend 2023. The reason behind the slump in demand was a certain saturation of the market paired with a drop in consumer sentiment, caused by inflationary pressures, rising interest rates and ongoing geopolitical tensions. Meanwhile, demand in the automotive sector remained robust due to catch-up effects after supply chain related constraints in the industry could be resolved.

The hGears Group generated revenue of EUR 112.5 million in 2023. However, the diversified business portfolio of hGears proved to be a strength even though the good performance of the Conventional business, which was supported by the catch-up effect and the strategic targeting of the more resilient premium and luxury segments in the automotive business, could not fully compensate for the slump in the e-Tools and the e-Mobility business areas.

In summary, the burdening impact of stop-and-go costs caused by customers' irregular call-offs on the gross margin paired with a severe lack of operational leverage resulted in a noticeable decline of the adjusted EBITDA.

Non-financial statement

Sustainability and sustainable action are integral and fundamental components of hGears' philosophy and corporate strategy. We not only pay attention to the sustainability of our own operations, but also contribute to products and innovations that themselves make a valuable contribution to ESG issues. As in the previous year, we are integrating our separate non-financial Group report (ESG Report) into the hGears 2022 Annual Report, in accordance with Section 315b (3) of the German Commercial Code (HGB). The report is also available on the hGears website (https://hgears.com/company/corporate-culture/corporate-responsibility/).

ANNUAL REPORT

Economic environment

The recovery of global economies in 2023 was much slower than anticipated, despite major burdens experienced in the previous year, such as soaring energy and raw material costs as a result of the war in Ukraine, shortages caused by supply chain constraints and other fallouts of restrictive COVID policies continued to fade in the first quarter of the year and ultimately disappeared during summer 2023. Inflation rates declined constantly and faster than assumed in the course of 2023 after reaching peaks of 10.6 % in the Eurozone[1] in October 2022 and 9.1 % in June 2022 in the United States[2]. Inflationary pressure fell, not least thanks to a sharp drop in energy costs and an easing on the labour market, while a wage-price spiral largely failed to materialise. The central banks' countermeasures in the form of a restrictive monetary policy to combat inflation rates and bring them down to the targeted level of around 2 % had their effect but represented a heavy burden for economies around the world. Over the course of 2023, the ECB[3] increased its key interest rate by 200 basis points to a level of 4.5 %, while the Federal Reserve[4] in the US raised its key interest rate by 100 basis points to a range of 5.25 – 5.50 %. As expected, the sharp rise in central bank interest rates led to tighter refinancing conditions and was also reflected in higher mortgage rates. This led to lower investment by companies overall and also slowed down residential construction and consumer spending. Meanwhile, and contrary to hopes and expectations, geopolitical tensions and wars did not decrease in 2023, but actually increased; while the war in Ukraine continued unabated, the terrorist attack by Hamas on Israel on 7 October 2023 triggered a new war in the Middle East. The combination of the high cost of living due to inflation, high interest rates and concerns about the geopolitical situation were poor conditions for consumer sentiment and ultimately for economic development.

According to the International Monetary Fund IMF (IMF Update January 2024[5]), global growth slowed from 3.5 % in 2022 to 3.1 % in 2023 due to the adverse circumstances described above. By contrast, China achieved economic growth of 5.2 % in 2023, after the government's prolonged, highly restrictive coronavirus policy had pushed the figure down to 3.0 % in the previous year. However, China recorded a growth rate in 2023 that was below the mid to high single-digit range the country had achieved in previous years. The United States of America also recorded an increase in economic growth to

1 https://ycharts.com/indicators/eurozone_inflation_rate
2 https://ycharts.com/indicators/us_inflation_rate
3 https://www.euribor-rates.eu/en/
4 https://www.forbes.com/advisor/investing/fed-funds-rate-history/
5 https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024

2.5 % in 2023, up from 1.9 % in the previous year. Here, the economic development proved surprisingly resilient against the background of the Federal Reserve's sharp interest rate hikes in response to inflationary trends. In contrast, the economy in the eurozone shrank from 1.8 % in 2022 to just 0.5 % in 2023, which is largely due to the negative growth in Germany of 0.3 % in 2023 after only a moderate 1.8 % in the previous year. Although inflation rates in the eurozone fell continuously over the year, the higher price level compared to previous years weighed on consumers. Nevertheless, the consumer confidence indicator[6] improved from −22.1 points in January 2023 to −16.0 points at the end of the year but remained clearly in double-digit negative territory.

Sector-specific environment

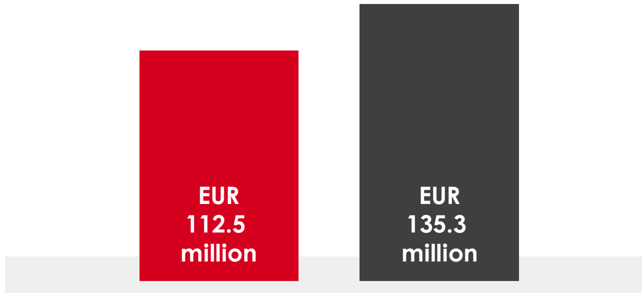
The very high demand during the coronavirus years led to an e-bike boom from 2020 to 2022, while the disruptions in global supply chains, particularly for add-on parts such as brakes and derailleurs, led to a shortage of bicycles. Both bicycle manufacturers and bicycle retailers reacted by significantly increasing their "strategic" stock levels in order to be able to satisfy a supposedly sustained high demand in 2023. However, a certain saturation effect in the bicycle market after the boom in the coronavirus years was underestimated. At the same time, consumer sentiment was slow to recover against the backdrop of ongoing geo-political tensions, concerns about energy prices, inflation and rising interest rates.

The management of hGears has a very deep insight into the e-bike industry, not least thanks to its strong position, and also estimates, based on consultant studies (EY), that after 5 million e-bikes[7] in 2022, only around 4 million e-bikes will be sold in Europe in 2023, which corresponds to a decline of around 20 %. Due to high inventory levels in all channels of the bicycle industry, bicycle manufacturers, and subsequently e-bike motor manufacturers, have reduced their production from around 5 million in 2022 to an estimated 3 million in 2023, reflecting a 40 % decline in volume. hGears supplied components and component sets for around 1.5 million e-bike motors, meaning that around one in two e-bikes produced in Europe contained parts from the company. As a result, hGears was able to keep its market share stable even in challenging market conditions.

According to market research by the European Automobile Manufacturers' Association (ACEA[8]), new car registrations in the European Union rose by 13.9 % in 2023, largely due to a catch-up effect, especially in the first half of the year, after key components for car production became available again. As in the previous year, battery electric vehicles (BEV) showed the most dynamic growth and registrations increased by 36.9 % to around 1.5 million for the year as a whole, bringing this category's share of total registrations to 14.6 %. However, registrations slowed from +53.8 % in the first half of the year to +25.3 % in the second half, largely due to the reduction in subsidies or the complete end of purchase premiums in some EU countries towards the end of the year. In contrast, registrations of hybrid electric vehicles again increased significantly by 29.5 % to 2.7 million units in 2023, while plug-in hybrid electric vehicles (PHEVs) fell by 7 % to 0.8 million units in the same period. As a result, total registrations of electric and hybrid vehicles in the EU rose by 23.7 % to around 5.1 million units in 2023 (2022: 4.1 million). With a drop of 5.8 %, the diesel vehicle category again suffered a decline in 2023 compared to the previous year. As a result, the diesel share of new registrations fell by 280 basis points from 16.4 % to 13.6 % and was therefore one percentage point below the 14.6 % share of registrations for battery-powered electric vehicles. Diesel and plug-in hybrid vehicles were therefore the only categories to suffer declines in 2023. Registrations of petrol-powered vehicles increased by 10.6% in 2023, whereby the trend in the first half of the year (+15.9 %) was also significantly stronger than in the second half of the year (+4.9 %). Overall, the registration figures for petrol vehicles fell slightly from 36.4 % in 2022 to 35.4 % in 2023. Overall, registrations of cars with combustion engines increased by 5.5 % in the reporting period and accounted for 48.9 % of total registrations (2022: 52.8 %).

BUSINESS PERFORMANCE

Revenue



31 December 2023 | 31 December 2022

In 2023, hGears Group generated revenue of EUR 112.5 million, reflecting a 16.9 % decline compared to the previous year (2022 EUR 135.3 million). The decrease in revenue is primarily attributed to reduced volumes above all in the e-Tools and e-Mobility business areas. According to plan the

6 https://tradingeconomics.com/european-union/consumer-confidence
7 https://assets.ey.com/content/dam/ey-sites/ey-com/de_de/topics/strategy-transactions/ey-fahrradstudie.pdf
8 https://www.acea.auto/pc-registrations/new-car-registrations-13-9-in-2023-battery-electric-14-6-market-share/

Company successfully ramped-up capacities for new customer projects in the e-Mobility business area, but these customers reduced volumes due to current slow demand and overcapacities in the e-bike industry. Nevertheless, hGears was able to prolong an existing multi-year contract until 2029 with one of its major e-Mobility customers.

In the e-Mobility business area, revenue declined by 18.3 % from EUR 51.4 million in 2022 to EUR 42.0 million in the reporting period. A deteriorating consumer sentiment in an inflationary and high-interest rate environment, coupled with a reallocation of consumer spending, especially for travel activities after the lockdown experiences during the COVID-19 pandemic, led to a decline in demand for e-bikes. Furthermore, cold and rainy weather conditions in late spring, which is the most important time for bike retail, had an adverse effect on e-bike sales. This situation resulted in a noticeable overstocking in all channels. Nevertheless, industry experts continue to confirm the long-term growth prospects of the e-bike sector and are convinced that the current weakness is a temporary phenomenon. Therefore, the management of hGears sticks to its strategic goal and will continue to expand these business activities after the weak phase in order to increase hGears' market share with existing and new customers in the e-mobility sector.

In the e-Tools business area, revenue declined 36 % year-on-year to EUR 26.5 million in 2023 (previous year: EUR 41.4 million). The negative economic and geopolitical environment continued to burden consumer confidence while rising interest rates continued to have an adverse effect on building and construction. As for bike retail, the cold and rainy weather conditions in spring 2023 had a negative effect on demand for electric gardening tools, while the industry was still busy with reducing inventories. Although there was a certain recovery in summer, above all for gardening tools, overall demand for e-tools remained weak throughout 2023.

In the Conventional business area, hGears generated revenue of EUR 43.2 million in 2023 compared to EUR 41.1 million in the year before, reflecting a 5 % increase. On the one hand, the business area benefited from the automotive industry's overall recovery in 2023 after supply chain-related production constraints could be resolved. On the other hand, hGears continued to benefit from its strategic focus on the premium and luxury segments of the automotive industry, which once again proved highly resilient.

At kEUR 87, other own work capitalized remained in 2023 at the previous year's level of kEUR 98.

Expenses

Raw materials and consumables costs declined by 16.6 % from EUR 66.4 million in 2022 to EUR 55.3 million in 2023. Therefore, the decline was largely proportional to the company's overall sales, despite the late decline in inflationary pressures and the stop-and-go costs caused by irregular customer call-offs. At 49.2 %, the raw materials and consumables ratio also remained largely unchanged from the previous year (49.0 %).

Gross profit, defined as total output less material expenses, was EUR 56.0 million in 2023 compared to EUR 69.8 million in 2022, corresponding to a decrease of EUR 13.8 million. The gross margin (gross profit as a percentage of sales) amounted to 49.8 % in 2023, compared to 51.6 % in the previous year. As explained above, in the first half of the year in particular, inflationary pressure on costs that we were unable to pass on and stop-and-go costs had a negative impact on the company's gross profit margin.

Personnel expenses declined by EUR 3.1 million and amounted to EUR 39.3 million (previous year: EUR 42.2 million), corresponding to 34.9 % of revenue, reflecting an increase in the personnel expense ratio compared to the prior-year period (previous year: 31.3 %). The less favorable ratio mirrors the negative effect of the lack of operational leverage; even though 111 employees left hGears and the company promptly introduced short-time working, it did not succeed in reducing fixed costs to the extent that the volume reductions by customers could have been compensated.

Other operating expenses and other operating income totaled EUR 13.9 million in 2023 (previous year: EUR 15.4 million), or 12.4 % of revenue (previous year: 11.4 %). The increase of 2.3 percentage points resulted mainly from lower revenues. Government grants amounted to EUR 0.6 million in 2023 (previous year: EUR 0.3 million).

Adjusted EBITDA at Group level amounted to EUR 5.6 million in the 2023 financial year (previous year: EUR 15.3 million). The adjusted EBITDA margin reached 5.0 % after 11.3 % in the previous year. The adjustments include extraordinary personnel costs (e. g. severance costs and associated consulting and legal costs) of EUR 2.4 million (previous year: EUR 1.4 million), expenses in connection with the insolvency of customers of EUR 0.7 million (previous year: EUR 0.0 million) and COVID-19-related costs of EUR 0.0 million (previous year: EUR 0.6 million). Other consulting and project costs amounted to EUR 0.2 million (previous year: EUR 1.3 million). For further information, see Note 3.10 Segment reporting in the notes to the consolidated financial statements.

The hGears Group generated an unadjusted EBITDA of EUR 2.3 million in 2023 (previous year: EUR 12.0 million), below the previous year's level. The unadjusted EBITDA margin fell from 8.9 % to 2.1 %, largely due to the adverse effect of stop-and-go costs and a significant lack of operational leverage. These challenges could not be fully compensated by swiftly introduced countermeasures, such as general changes to organizational structures, layoffs of personnel (both blue-collar workers and middle management), and tight cost control.

Depreciation, amortization and impairments in 2023 amounted to EUR 13.1 million and increased by EUR 1.8 million from EUR 11.3 million in the previous year. The increase was mainly due to impairment losses of EUR 0.9 million on non-current assets designated for divestiture.

As a result, Group's earnings before interest and taxes (EBIT) in 2023 turned negative from EUR 0.7 million in 2022 to EUR −10.8 million in the period under review and the Group's earnings before taxes (EBT) declined in the reporting period from EUR −0.7 million in 2022 to EUR −14.5 million in 2023.

Meanwhile, the Financial Result declined from EUR −1.4 million in 2022 by EUR 2.3 million to EUR −3.7 million in 2022 due to rising interest rates. Furthermore, the financial result in 2023 also includes the write-down in connection with the insolvency of a customer in the amount of EUR 1.5 million.

After income and deferred taxes of EUR 0.2 million were incurred in the previous year, the refund in 2023 amounts to EUR 0.7 million.

The net result for the period totaled EUR −13.8 million in 2023, compared with EUR −0.8 million in the previous before. The return on sales (net result as a percentage of sales) was −12.3 % in the reporting period, compared to −0.6 % in 2022.

Net assets

The Company's total assets declined from EUR 157.0 million to EUR 136.7 million in the course of 2023.

Non-current assets totaled EUR 74.6 million at the end of 2023, which was 6.8 % lower than at the end of the fiscal year 2022 (EUR 80.1 million).

Current assets declined by 19.3 % to EUR 62.1 million as of the reporting date of 2023 compared to EUR 76.9 million in December 2022. The primary cause for this decrease is lower cash and cash equivalents of EUR 26.6 million at year-end 2023 (31 December 2022: EUR 36.3 million), as the company could not halt investments that were in accordance with earlier plans and in line with projections provided during the IPO. Inventories were marginally lower at EUR 20.0 million compared to EUR 20.4 million at the end of 2022. Meanwhile, trade receivables increased slightly to EUR 10.5 million in 2023 versus EUR 12.3 million in 2022. Current assets include non-current assets held for sale in the amount of EUR 0.5 million (2022: EUR 0.0 million).

hGears equity decreased compared to the previous year's level due to the negative annual result and amounted to EUR 73.7 million in 2023 (31 December 2022 EUR 88.1 million). And as a result, the equity ratio declined to 53.9 % at year-end 2023 from 56.1 % in the previous year. However, the equity ratio of more than 50 % continues to represent a clear safety margin in the current uncertain economic and geopolitical situation.

Non-current liabilities decreased by EUR 22.2 million or 71.2 % from EUR 31.2 million as of 31 December 2022 to EUR 9.0 million in the reporting period, which is mainly due to lower non-current liabilities to banks, which is related to the expected repayment of the syndicated loan in 2024. The decrease in finance leases is mainly due to the exercise of a purchase option (31 December 2022: EUR 2.5 million) in a lease agreement for land including a building. At the same time, current liabilities of EUR 54.0 million in 2023 were EUR 16.3 million higher than in 2022 (EUR 37.7 million), which is mainly due to higher current liabilities to banks and slightly higher provisions (e. g. for potential losses and other provisions), while trade payables and other liabilities remained almost unchanged at EUR 30.4 million compared to EUR 31.0 million in the previous year.

Financial position

On 21 December 2021, a credit agreement was signed with a bank consortium for EUR 60 million for 3 years. The credit agreement comprises a long-term loan of EUR 15 million and a revolving credit line of EUR 45 million. The cost of debt (interest margin) was 5.24 % as at 31 December 2023 (interest margin 1.35 % + 6M Euribor). At the end of 2023, hGears had drawn EUR 20 million of the credit facility.

On 18 March 2024, hGears signed a binding offer with a lender for a financing ("sale and buy back") in the amount of EUR 15 million with a term of 36 months, which is secured by the production facilities of the German plant. The financing has a remaining amount of EUR 6.0 million which is due on maturity.

The new financing is intended to replace the current loan agreement with the banking consortium, which would expire on 21 December 2024.

Cash flow

hGears recorded cash flow from operating activities of EUR 4.1 million in the 2023 fiscal year. The previous year's cash flow from operating activities amounted to EUR 7.4 million. The decrease is mainly due to a lower contribution from operations.

Compared to EUR −14.1 million in the previous year, cash flow for investment activities declined significantly to EUR −8.1 million in 2023 and was mainly due to spending on equip-ment related to previous years' CAPEX plans that were aligned with projections provided during the IPO.

The cash flow for financing activities amounted to EUR −5.4 million in 2023, after this position recorded EUR −4.2 million in 2022. The main driver behind this evolution is the reduction of leasing liabilities by EUR 5.2 million, about half of which is related to the acquisition of the production site in Schramberg.

In 2023 hGears recorded a net cash flow of EUR −9.4 million after EUR −10.9 million in the previous year.

Finally, cash and cash equivalents stand at a total of EUR 26.6 million (previous year: EUR 36.3 million), offering hGears Group full financial maneuverability.

Summary assessment of the Company's economic situation

In view of the challenging macroeconomic conditions, which led to significant volume reductions and irregular material call-offs in the course of 2023, the Executive Board considers EUR 112.5 million in sales to be a solid result that was only marginally below the adjusted forecast range of EUR 115 – 123 million.

The Management Board is currently focusing on cost control and cash preservation. At the same time, operational excellence, execution and deployment have top priority. As soon as the economy shows clear signs of recovery, the management will return to its strategic growth path.

Principles and objectives of financial management

Default risk

To minimize the default risk, the Group has appropriate collection and receivables management measures in place. Among others, the Group uses non-recourse factoring to anticipate default risks on trade receivables.

Currency risk

Currency risk is largely mitigated through hedging.

Unused credit lines

As of 31 December 2023, there were undrawn credit lines in the amount of EUR 40.0 million.

BUSINESS PERFORMANCE OF HGEARS AG (HOLDING COMPANY)

hGears AG manages the Group's companies as a strategic and operational management holding company. As the central control level, it is responsible for the corporate objectives, the fundamental strategic direction, corporate policy and the organization of the hGears Group.

The result of hGears AG is primarily determined by the investment and financial result as well as by income and expenses associated with the exercise of these holding functions. The business performance of hGears AG is therefore fundamentally determined by the same opportunities and risks and the business performance of the hGears Group. Therefore, the above statements for the hGears Group also apply to hGears AG.

The annual financial statements of hGears AG have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act ("AktG"). There have been no changes to the recognition and measurement methods compared to the previous year. As in the previous year, the annual financial statements and the combined management report of hGears AG and the Group for the 2023 financial year will be published in the company register.

Earnings situation

The revenue of hGears AG mainly resulted from services in connection with the exercise of the holding function. This primarily included remuneration for services and administrative services. Revenue fell by kEUR 220 to kEUR 546, mainly due to lower Group allocations compared to the previous year (kEUR 766).

Other operating income amounted to kEUR 214 and was therefore kEUR 417 lower than in the previous year (kEUR 631). The decline is primarily due to the income from passing on refinancing costs included in the previous year.

Personnel expenses increased by kEUR 846 compared to the previous year (kEUR 1,133) to kEUR 1,979. Personnel expenses include expenses of an extraordinary magnitude or extraordinary significance amounting to kEUR 797 (previous year: kEUR 0). These relate to the expenses of the severance agreement with Mr. Sartorello. Other operating expenses mainly include legal and consulting costs, recruitment costs, travel and entertainment expenses, costs for software maintenance, group services, insurance, acquisition costs and Supervisory Board remuneration.

Other operating expenses include expenses of an extraordinary magnitude or extraordinary significance in the amount of kEUR 513 (previous year: kEUR 101). These mainly relate to expenses for the individual value adjustment of a customer in the amount of kEUR 344 (previous year: kEUR 0). Income from investments includes income from dividends in the amount of kEUR 461 (previous year: kEUR 3,425).

The financial result amounted to kEUR 17 in the 2023 financial year compared to kEUR −56 in the previous year. The result includes write-downs of kEUR 1,525 in connection with the bankruptcy of a customer.

The expenses from loss transfers amounting to kEUR 10,305 relate in full to the control agreement with hGears Schramberg GmbH.

The net loss of hGears AG amounted to kEUR 13,761 in the 2023 financial year (previous year: net profit of kEUR 765).

Financial and asset position

Receivables from affiliated companies result from short-term loans in the amount of kEUR 32,000, from trade receivables in the amount of kEUR 460 (previous year: kEUR 508) and from interest receivables in the amount of kEUR 1,077 (previous year: kEUR 47). Receivables from cash pooling are not included (previous year: kEUR 22,919).

Liabilities to affiliated companies totalling kEUR 10,518 (previous year: kEUR 605) result from offsetting the loss transfer to hGears Schramberg GmbH and VAT, kEUR 5,852 (previous year: kEUR 0) from cash pool and kEUR 351 (previous year: kEUR 403) from deliveries and services.

Outlook hGears AG

The performance indicator for hGears AG (holding company) in accordance with HGB is the equity ratio. The equity ratio describes the ratio of equity to a company's total capital.

The equity ratio fell by 21 percentage points to 76% as at the reporting date compared to December 2022 and was therefore within the forecast of 75% for the 2023 financial year made in the 2022 management report. The reduction is primarily due to the loss absorption of hGears Schramberg GmbH.

We expect hGears AG's equity ratio to remain above 60% in 2024.

DECLARATION IN ACCORDANCE WITH SECTIONS 289F AND 315D HGB

The Management Board and Supervisory Board report on the corporate governance of the Company in this statement in accordance with Sections 289 f and 315 d German Commercial Code and Principle 22 of the German Corporate Governance Code ("Code").

Declaration by the Management Board and the Supervisory Board of hGears AG pursuant to Section 161 of the German Stock Corporation Act ("AktG") on the Recommendations of the "Government Commission German Corporate Governance Code"

Management Board and Supervisory Board of hGears declare that since the last declaration of compliance pursuant to Section 161 AktG dated 14 December 2022 the recommendations of the "Government Commission on the German Corporate Governance Code" (**"Code"**), published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette on 27 June 2022, with the exception of the following deviations have been com-plied with and will be complied with:

- According to **recommendation D.4** of the Code, the Supervisory Board shall form a Nomination Committee composed exclusively of shareholder representatives which nominates suitable candidates to the Supervisory Board for its proposals to the General Shareholders' Meeting. The Supervisory Board does not consider the formation of a nomination committee to be necessary. With a five-member Supervisory Board, efficient discussions and an intensive exchange of views on suitable candidates for the Supervisory Board's election proposals to the General Shareholders' Meeting are also possible in the full Supervisory Board. Furthermore, there is no need for the formation of a nomination committee composed exclusively of shareholder representatives, as the Supervisory Board of hGears AG is not co-determined.

- The remuneration of the Management Board members set forth in the currently applicable service agreements complies with recommendations set forth in Section G. of the Code, except for **recommendation G.3**. According to recommendation G.3 of the Code, in order to assess whether the specific total remuneration of Management Board members is in line with usual levels compared to other enterprises, the Supervisory Board shall determine an appropriate peer group of other third-party entities, and shall disclose the composition of that group. The peer-group comparison shall be applied with a sense of perspective, in order to prevent an automatic upward trend. The Supervisory Board has not determined an appropriate peer group as it is of the opinion that, taking into account the business model and the size of the Company, there are currently no comparable companies who could serve as peers for the purposes of the assessment of management remuneration. However, the Supervisory Board considers the individual compensation of the members of the Management Board to be more than appropriate, particularly in view of the level of management remuneration in other listed companies.

Schramberg, 13 December 2023

hGears AG

The Management Board   The Supervisory Board

The latest Declaration of Compliance is available on the hGears AG website at https://ir.hgears.com/wp-content/uploads/20221212_Declaration-of-Conformity-2023_hGears-AG-EN.pdf

Compensation system and remuneration of the members of the Management Board

The applicable Executive Board remuneration system approved by the Annual General Meeting on 13 June 2023, as well as the resolution adopted by the Annual General Meeting on 22 June 2022 pursuant to Section 113 para. 3 of the German Stock Corporation Act ("AktG") on the remuneration of the members of the Supervisory Board are available on the website of hGears AG (at https://ir.hgears.com/corporate-governance/remuneration-reports/). In addition, the remuneration report and the auditor's report pursuant to Section 162 AktG are also made publicly available on the website of hGears AG (at https://ir.hgears.com/corporate-governance/remuneration-reports/).

Constitution of the Company

hGears AG came into existence on 27 April 2021 by way of a change of form of the limited liability company "hGears Holding GmbH", Schramberg (local court of Stuttgart, HRB 737541) pursuant to Sections 190 et seq. of the German Transformation Act ("UmwG").

The term "hGears-Group" refers to hGear AG and its Group companies. hGears AG is a stock corporation (Aktiengesellschaft) under the German Stock Corporation Act ("AktG"), registered in Schramberg, Germany. It has three governing bodies: the Management Board, the Supervisory Board, and the General Meeting. Their duties and powers are derived primarily from the Stock Corporation Act ("AktG") and the Company's Articles of Association of hGears AG and its bylaws.

Corporate Governance

hGears employs a two-tier management system in accordance with statutory requirements. The Management Board is responsible for managing the Company and the Supervisory Board for the supervision function. The two bodies are strictly separate and distinct in terms of membership and responsibilities.

The hGears Group is managed and supervised in accordance with high, generally accepted standards. The Company's management principles are firmly established in all its segments and set forth the framework for strategic decisions and business policy measures.

The Management Board and Supervisory Board closely follow ongoing discussions regarding corporate governance and systematically adopt ***best practices***. Our understanding of responsible corporate governance is based on the following principles:

- The Management Board and the Supervisory Board work together in confidence for the benefit of the Company. The Supervisory Board exercises its supervision function efficiently and independently.
- The Company is managed with the interests of the shareholders in mind at all times.
- An appropriate and effective internal control and risk management system is practiced.
- Observing and complying with legal and regulatory requirements as well as internal guidelines is of highest priority.
- Timely and transparent communication, both internal and external, is assured.

Working methods and composition of the Management Board

The Management Board manages the Company on its own responsibility.

As a management body, the Management Board is bound to serve the Company's interests and to increase its value with a view to sustainable performance. The members of the Management Board are jointly responsible for the entire management of the company and decide on fundamental issues of business policy and corporate strategy as well as on annual and multi-year planning.

The Management Board is responsible for the preparation of the quarterly reports and the half-yearly financial report of the Company as well as for the preparation of the annual and consolidated financial statements and the management report of hGears AG and the Group. The Management Board also ensures that legal provisions, official regulations and internal company guidelines are observed and works towards their observance by the Group companies (compliance).

The Company is legally represented by two Management Board members or by one Management Board member and an authorised officer (Prokurist).

The Management's Board rules of procedure lay down the details of how it functions as a body. These specifically include:

- the schedule of responsibilities which determines which business areas are to be managed by the Management Board member under his/her own responsibility,
- decisions to be made by the Management Board as a whole,
- the special duties of the Chairman of the Management Board,
- transactions requiring Supervisory Board approval,
- regular, timely and comprehensive briefing of the Supervisory Board,
- rules regarding meetings and resolutions.

The Management Board and the Supervisory Board work closely together for the benefit of the Company. The Management Board informs the Supervisory Board regularly, promptly and comprehensively about all issues of strategy, planning, business development, the financial and earnings situation and compliance that are relevant to the Company as a whole, as well as about entrepreneurial risks, and discusses the status of strategy implementation with it at regular intervals. The members of the Management Board also participate in the meetings of the Supervisory Board in an advisory capacity, unless the Supervisory Board or its Chairman determines otherwise in individual cases.

According to the Company's Articles of Association, the Management Board may consist of one or more members.

The Supervisory Board appointed Mr. Daniel Basok to the Management Board on 8 April 2021 and Mr. Sven Arend to the Management Board on 28 December 2022 with effect from 1 February 2023. The Supervisory Board appointed Mr. Sven Arend as Chairman of the Management Board. Mr. Pierluca Sartorello who has been appointed to the Management Board by the Supervisory Board on 8 April 2021 has prematurely resigned from the Management Board with effect from 7 April 2023.

Working methods and composition of the Supervisory Board

The Supervisory Board supervises and advises the Management Board in the management of the Company's business. The Supervisory Board regularly discusses business development, planning, strategy, and its implementation. It reviews the financial statements and consolidated financial statements, the management report of hGears AG and the Group, and proposal for the appropriation of profits. It adopts the annual financial statements of hGears AG and approves the consolidated financial statements, based on the results of the review conducted by the Audit Committee and taking into account the reports of the independent auditors. The Supervisory Board decides on the Management Board's proposal for the appropriation of profits and the report of the Supervisory Board to the General Meeting. The Supervisory Board also appoints the members of the Management Board and determines their respective area of responsibility. The Supervisory Board decides on the system for the compensation of the members of the Management Board and sets the specific compensation in accordance with the system. It sets the individual targets for the variable compensation and the total compensation of each individual Management Board member, reviews the appropriateness of total compensation, and regularly reviews the Management Board compensation system. Important Management Board decisions – such as those regarding major acquisitions, divestments, fixed asset investments, or financial measures – require Supervisory Board approval.

The Supervisory Board performs all the duties assigned to it under the statutory framework, the Articles of Association and the German Corporate Governance Code (GCGC) in full.

Details of the work of the Supervisory Board are provided in the report of the Supervisory Board for the fiscal year 2023.

The Supervisory Board is composed in accordance with clause 8.1 of the Articles of Association and consists of five persons elected by the General Meeting.

The members of the Supervisory Board are:

- Prof. Volker Michael Stauch (Chairman)
- Christophe Hemmerle (Deputy Chairman)
- Daniel Michael Kartje
- Christoph Mathias Seidler
- Dr. Gabriele Fontane

In the reporting year, the Supervisory Board carried out an internal self-assessment of its work (efficiency audit) with the assistance of an external consultant. The members of the Supervisory Board were given the opportunity to evaluate the effectiveness of the Supervisory Board's work and to make suggestions for improvement via an online questionnaire. The results were discussed by the Supervisory Board. Measures to improve the work of the Supervisory Board include, in particular, improving the culture of discussion within the Supervisory Board and regular dialogue, even without the presence of the Management Board.

Audit Committee

The Supervisory Board has formed an Audit Committee with effect from 1 January 2022. The Audit Committee supervises in particular the accounting and the accounting process. It is responsible for preparing the audit of the annual and consolidated financial statements and the combined management report of hGears AG and the hGears Group and the Management Board's proposal for the appropriation of profits by the Supervisory Board. On the basis of the auditor's report on the audit of the financial statements, it submits proposals for the adoption of the annual financial statements of hGears AG and the approval of the consolidated financial statements by the Supervisory Board following its own preliminary audit. It supervises the effectiveness of the internal control system, the risk management system and the internal audit system. The Audit Committee deals with the supervision of the Company's adherence to legal provisions, official regulations and internal Company guidelines (compliance). It prepares the Supervisory Board's proposal to the General Meeting on the election of the auditor and submits a corresponding recommendation to the Supervisory Board.

The members of the Audit Committee are:

- Christophe Hemmerle (Chairman)
- Daniel Michael Kartje.

Mr. Christophe Hemmerle, as Chairman of the Audit Committee, has expertise in the field of accounting and auditing, and Mr. Daniel Michael Kartje has expertise in the field of accounting. Mr. Christophe Hemmerle has expertise in the field of accounting and auditing due to his many years of experience in management bodies of several international companies and due to previous activities. Mr. Daniel Michael Kartje has knowledge in the field of accounting due to his professional experience.

Management and control of Group companies

The Group's affiliated companies are corporations, whose legal forms differ depending on their domicile. The companies are managed by a management board or a comparable institution. Each shareholders' meeting sets the guidelines for the respective company strategy and make key investment and business decisions.

In principle, Group management approval is required for all key business decisions at the affiliate level.

Transparency and financial accounting

The hGears Group is committed to regular, open and timely communication with institutional investors and analysts, shareholders, employees and other stakeholders.

We regularly share information with shareholders, all of whom are treated equally in terms of the information provided to them. All new facts are communicated without delay by means of press releases and ad hoc announcements, annual and interim financial reports, and presentations to analysts' and investors' conferences. This information, together with the financial calendar and information about the General Meeting, can be viewed or downloaded from our website.

In addition, information is also published with regard to directors' dealings and voting rights announcements, along with all corporate information subject to disclosure.

The annual consolidated financial statements and half-year consolidated financial statements of each financial year are prepared by the Management Board. These statements are prepared on the basis of the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB), as adopted by the EU, and their interpretation by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

The individual financial statements of hGears AG relevant for the dividend payment are prepared in accordance with the provisions of the German Commercial Code (HGB).

Specification to promote the participation of women in management positions pursuant to Section 76 para. 4 and 111 para. 5 of the German stock corporation act (Aktiengesetz – AktG)

The Act for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and in the Public Sector, amended and supplemented by the Act to Supplement and Amend the Regulations for the Equal Participation of Women in Leadership Positions in the Private Sector and in the Public Sector, which came into force on 12 August 2021 (so-called Second Management Positions Act), provides for companies such as hGears AG, which are listed on a stock exchange, to set their own targets for gender distribution on the supervisory board, management board and subordinate management levels, along with target achievement deadlines.

Women on the Supervisory Board

According to clause 8.1 of the Articles of Association, the Supervisory Board of hGears AG is composed of five members who are elected by the General Meeting. With regard to the target figure and the target achievement deadline for the proportion of women on the Supervisory Board, the Supervisory Board has set a target figure of at least 20 % for the proportion of women on the Supervisory Board of hGears AG with a target achievement deadline of 30 April 2025 at the latest. With a proportion of women on the Supervisory Board of 20 % since 8 April 2021, the Company has already achieved its target figure.

Women on the Management Board

According to clause 8.1 of the Articles of Association, the Supervisory Board of hGears AG is composed of five members who are elected by the General Meeting. With regard to the target figure and the target achievement deadline for the proportion of women on the Supervisory Board, the Supervisory Board has set a target figure of at least 20 % for the proportion of women on the Supervisory Board of hGears AG with a target achievement deadline of 30 April 2025 at the latest. With a proportion of women on the Supervisory Board of 20 % since 8 April 2021, the Company has already achieved its target figure.

Women at the first and second management level

The target setting for the proportion of women in the first and second management levels below the Management Board of hGears AG in accordance with Section 76 (4) AktG was not necessary, as hGears AG, as a pure holding company, only has two employees and to this extent there are no management levels below the Management Board.

Succession planning for the Management Board

Long-term succession planning with regard to appointments to the Management Board is carried out through regular discussions between the chairmen of the Management Board and the Supervisory Board and regular discussion of the topic by the Supervisory Board. In these discussions, the contract terms and renewal options for current members of the Management Board are discussed, as well as possible successor candidates. In succession planning for the Management Board, the Supervisory Board ensures, among other things, that the 70-year age limit set for the Management Board is complied with.

Diversity concept for the Management Board

The diversity concept for the Management Board stipulates that the aspects of age, gender, educational and professional background, and internationality are taken into account in the composition of the Management Board as follows:

- The members of the Management Board should complement each other in terms of their expertise and knowledge. In particular, the board as a whole should have expertise and experience in the area of e-mobility/e-tools/automotive and industrial applications as well as in the areas of production, marketing and sales, and finance.
- The members of the Management Board shall have diverse educational and/or professional backgrounds.
- The composition of the Management Board should appropriately reflect the internationality of the Company.
- The Management Board as a whole should have many years of management experience.
- The initial appointment of Management Board members should be for a maximum of three years.
- The Management Board as a whole should have a balanced age structure.
- As a rule, the term of office of a member of the Management Board should not extend beyond the age of 70.

The aim of this diversity concept is to staff the Management Board in such a way that its members as a whole have the knowledge, skills and professional experience required to perform their duties properly, so that the Management Board as the management body can control and manage the Company in the best possible way.

Implementation of the diversity concept for the Management Board

The diversity concept for the Management Board is implemented by the Supervisory Board as part of the procedure for appointing Management Board members. The Supervisory Board observes the requirements set out in the diversity concept for the Management Board when selecting candidates or proposing candidates for appointment to the Management Board.

The current composition of the Management Board complies with the diversity concept adopted by the Supervisory Board. The members of the Management Board cover a broad spectrum of knowledge and experience and in the current composition show diversity in terms of professional and educational background. The Management Board as a whole includes all knowledge and experience deemed essential in view of the activities of the hGears Group. All members of the Management Board have international experience.

Targets for the composition of the Supervisory Board, qualification profile, diversity concept

Requirements on the Composition of the Supervisory Board

Qualification profile

The Supervisory Board shall have the competencies which are considered essential for the activities and business of the hGears Group. The Supervisory Board shall be composed in such a way as to ensure qualified control and advice of the Management Board by the Supervisory Board. In this respect, a complementary interaction of members with different personal and professional backgrounds as well as diversity with regard to internationality, age and gender is considered helpful. This includes in particular extensive and in-depth knowledge and experience in

- the management of an international
- and capital market-oriented company;
- the areas of e-Mobility/e-Tools/automotive
- and industrial applications;
- the areas of procurement, production and sales;
- the main markets in which hGears operates;
- in finance, law and business administration;
- the area of governance/compliance/risk management;
- in the area of sustainability.

In addition, with regard to the requirements of Section 100 para 5 of the German Stock Corporation Act ("AktG"), for members of the Supervisory Board appointed after 1st July 2021, at least one member of the Supervisory Board must have expertise in the field of accounting and at least one other member of the Supervisory Board must have expertise in the field of auditing, and the Supervisory Board members in general must be familiar with the sector in which the Company operates. Pursuant to Art. 107 par. 4 sentence 3 AktG, the requirements of Art. 100 par. 5 AktG apply accordingly to the Audit Committee.

The Chairman of the Audit Committee shall have special knowledge and experience in the application of accounting principles and internal control procedures and shall be familiar with of the audit of the financial statements and shall be independent.

As most of the communication at the meetings and the documents for their preparation are in English, each member of the Supervisory Board should have a good command of the English language.

Independence and Potential Conflicts of Interests

The Supervisory Board shall in accordance with the recommendations of the German Corporate Governance Code (GCGC) include what its shareholder representatives consider to be an appropriate number of independent members representing shareholders. Significant and not merely temporary conflicts of interest are to be avoided.

The Chair of the Supervisory Board, the Chair of the Audit Committee, as well as the Chair of the committee that addresses Management Board remuneration, shall be independent from the Company and the Management Board.

Supervisory Board members shall not be members of governing bodies of, or exercise advisory functions at, significant competitors of the enterprise, and shall not hold any personal relationships with a significant competitor.

No more than two former members of the Management Board shall be members of the Supervisory Board.

Diversity

In favour of diversity, the Supervisory Board shall take into account different professional and international experiences, in particular also an appropriate participation of women and men for its composition. The Supervisory Board shall be comprised of at least 20% women and at least 20 % men.

Industry and international Expertise

At least one shareholder representative shall have many years of international professional experience. It would be desirable if at least one member of the Supervisory Board has knowledge in the field of international e-mobility.

Requirements for Individual Members of the Supervisory Board

General Requirements Profile

Based on their knowledge, skills and professional experience, the members of the Supervisory Board should be able to fulfil its supervisory and advisory duties at hGears AG as an internationally active and capital market-oriented technology company.

With regard to election proposals to the General Meeting, particular attention shall be paid to the personality, integrity, motivation and independence of the candidates. Supervisory Board members shall comply with the limitation of supervisory board mandates as set out in the rules of procedure for the Supervisory Board and comply with the recommended limitation of supervisory board mandates in accordance with recommendation C.4 of the German Corporate Governance Code.

Time Availability

Each member of the Supervisory Board ensures that he/she can make available the expected time required for the duly exercise of his/her mandate. The following must be taken into account:

- At least four ordinary Supervisory Board meetings are held each year, each of which requires an appropriate period of time for preparation.
- Sufficient time shall be reserved for the examination of the annual and consolidated financial statements.
- Membership in one or more committees requires additional time.
- Additional extraordinary Supervisory Board or committee meetings may be necessary to deal with special situations or special topics.

Age Limit

The members of the Supervisory Board shall not be older than 75 years at the time of their election.

Standard term of Supervisory Board mandate

Members of the Supervisory Board shall generally not be on the Supervisory Board for more than 15 years or three terms of office.

Election proposals for the Supervisory Board to the General Meeting shall take these targets into account and at the same time aim to reflect the qualification profile for the entire Supervisory Board.

Sustainability

The supervision and consultation by the Supervisory Board also include, in particular, sustainability issues concerning the environment, social affairs and corporate governance. The Supervisory Board receives regular reports from the Management Board on the group-wide sustainability strategy from hGears AG and the status of the implementation of this strategy. The Supervisory Board deals with both the risks and opportunities for hGears AG associated with social and environmental factors and the environmental and social impact of the Company's activities. The Supervisory Board and the Audit Committee also deal with sustainability reporting, which in addition to reporting on non-financial topics in the management report also includes the sustainability report, and receive information on new developments and the status of implementation at hGears AG.

Status of Implementation

In its current composition, the Supervisory Board fulfils all requirements of the qualification profile for the collegiate body and the individual members, in particular the requirements in relation to professional and personal qualifications and with regard to the knowledge, skills and experience essential for hGears AG, as well as internationality.

Taking into account the ownership structure, the Supervisory Board on the shareholder side includes what they consider to be an appropriate number of independent members.

The status of the implementation of the qualification profile is disclosed below in the form of a qualification matrix.

Qualification matrix

	Prof. Volker Michael Stauch	Christophe Hemmerle	Daniel Michael Kartje	Christoph Mathias Seidler	Dr. Gabriele Fontane
Membership Duration					
Member since	8 April 2021	8 April 2021	8 April 2021	8 April 2021	8 April 2021
Personal Aptitude					
Independence	✓	✓	✓	✓	✓
No Overboarding	✓	✓	✓	✓	✓
Diversity					
Date of Birth	1 April 1952	26 October 1960	17 September 1974	22 April 1963	24 June 1965
Gender	Male	Male	Male	Male	Female
Nationality	German	French	German	German	German
Professional Qualification					
Management of an internationally active and capital market-oriented company	✓	✓		✓	
e-mobility/e-tools/automotive and industrial applications	✓	✓	✓	✓	
Procurement, production and sales	✓			✓	
In the relevant markets, in which the hGears-Group is active	✓	✓	✓	✓	
Finance, law and business administration	✓	✓	✓	✓	✓
Governance/Compliance/ Risk management	✓	✓	✓		✓
Sustainability	✓	✓	✓		✓

General Meeting

Shareholders exercise their rights at the General Meeting. The General Meeting is usually held in the first six months of the fiscal year. Among other things, the General Meeting resolves on the appropriation of profits, the formal approval of the actions of the members of the Management Board and Supervisory Board, and the election of the auditors. Amendments to the Articles of Association and measures to change the capital are resolved by the General Meeting and implemented by the Management Board.

DISCLOSURE IN ACCORDANCE WITH SECTIONS 289A AND 315A HGB

Composition of share capital

The share capital amounts to EUR 10,400,000.00 and is divided into 10,400,000 no-par value bearer shares. All shares carry the same rights and obligations. Each share grants one vote at the Annual General Meeting.

Restrictions affecting voting rights or the transfer of shares

The Management Board is not aware of any restrictions affecting voting rights or the transfer of shares beyond the legal limitations.

The following shareholders hold more than 10 % of the voting rights

Finatem III GmbH & Co. KG, Frankfurt am Main, Germany notified us on 18 June 2021, that its shareholding in the Company was 35.81 % of the voting rights.

Otus Capital Management LP, London, United Kingdom, notified us on 21 December 2023 that its shareholding in the company amounted to 10.04% of the voting rights.

Shares with special rights conferring powers of control

No special rights conferring powers of control apply to shareholders.

Control of voting rights of employee shares with indirect exercise of control rights

The employees participating in the capital of the Company may exercise their control rights directly themselves.

Statutory requirements and provisions of the Articles of Association on the appointment and dismissal of members of the Management Board and on amendments of the Articles of Association

The appointment and dismissal of members of the Management Board are based on Sections 84 and 85 German Stock Corporation Act ("AktG") in conjunction with Section 6 of the Articles of Association. According to Section 6 (1) of the Articles of Association, the Management Board shall consist of one or more persons; the Supervisory Board determines the number its members. Members of the Management Board are appointed by the Supervisory Board for a maximum period of five years. Re-appointments are permitted. The Supervisory Board can dismiss a member of the Executive Board when there is good cause for the dismissal. The Supervisory Board decides on the appointment or dismissal of a member of the Executive Board by simple majority.

Pursuant to Section 179 AktG in conjunction with Section 17 (3) of the Articles of Association, amendments to the Articles of Association require a resolution of the Annual General Meeting, which must be passed by a simple majority of the votes cast and simple majority of the share capital represented at the time the resolution is adopted where statutory law requires capital majority, unless mandatory law requires a higher majority.

Authorization of the Management Board to issue and repurchase shares

The Management Board is authorized to issue shares as well as to acquire and use treasury shares as follows:

Authorization to issue convertible bonds, warrant-linked bonds and profit-participation right

The extraordinary General Meeting of the Company of 5 May 2021 authorized the Management Board, subject to the approval of the Supervisory Board, to issue until 4 May 2026 convertible and/ or warrant-linked bonds or profit participation rights (together the "Bonds") on one or more occasions with a total nominal amount of up to EUR 120,000,000.00 subject to further terms and has created contingent capital for this in the amount of up to EUR 3,261,600.00 (Conditional Capital 2021/I). The holders of the abovementioned Bonds can be granted conversion or subscription rights in respect of up to 3,261,600 new, ordinary bearer shares (Inhaberaktien) with no par value (Stückaktien) in the Company with a notional interest in the share capital of a total of up to EUR 3,261,600.00.

Repurchase shares

The Management Board was authorized by the Annual General Meeting on May 5, 2021 to acquire treasury shares representing a total of up to 10 % of the share capital until 4 May 2026, under the condition that the shares to be acquired on the basis of this authorization, together with other shares held by the Company which the Company has already acquired and which are still in its possession or attributable to the Company in accordance with Sections 71a et seq. AktG, at no time exceed 10 % of the share capital of the Company. The shares acquired pursuant to this authorization may be used, under exclusion of the shareholders' subscription rights, for any legally admissible purposes, in particular those specified in the authorization.

Authorized capital

By virtue of the Articles of Association, the Management Board is authorized to increase the share capital of hGears AG in accordance with the Articles of Association until 31 March 2026, with the approval of the Supervisory Board, by issuing new no-par value bearer shares against cash and/or non-cash contributions (including so-called mixed non-cash contributions) on one or more occasions, but by no more than a total of EUR 4,000,000.00 (Authorized Capital 2021). The shareholders are entitled to the statutory subscription rights. The new shares may also be underwritten by one or more banks or companies within the meaning of Art. 186 par. 5 sentence 1 AktG designated by the Executive Board with the obligation to offer them to the shareholders for subscription (indirect subscription right). However, the Executive Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights in the cases specified in the authorization.

Conditional capital

The Company's share capital is conditionally increased by up to EUR 3,261,600.00 by issuing up to 3,261,600 new no-par value bearer shares carrying dividend rights from the beginning of the financial year in which they are issued (Conditional Capital 2021/I). The conditional capital increase serves to service bonds issued on the basis of the authorization resolution of the Annual General Meeting on 5 May 2021.

The Company's share capital is conditionally increased by up to EUR 738,400.00 by issuing up to 738,400 no-par value bearer shares (Conditional Capital 2023). The Conditional Capital 2023 is exclusively for the purpose of issuing shares of the Company to issue subscription rights to shares of the Company to members of the Management Board of the Company and selected executives of the Company and of companies affiliated with the Company within the meaning of Sections 15 et seq. AktG in the form of stock options in accordance with the authorization resolution of the Annual General Meeting on 13 June 2023. The conditional capital increase will only be implemented to the extent that share options are granted in accordance with the aforementioned authorization resolution (share option programme 2023), the holders of the share options exercise their option rights and the company does not grant any treasury shares to service the stock options. The new no-par value bearer shares are entitled to dividends from the beginning of the financial year for which the Annual General Meeting has not yet passed a resolution on the appropriation of profits at the time of issue. The Supervisory Board is authorized to amend the wording of the Articles of Association accordingly in line with the respective 'utilization of Conditional Capital 2023 and after expiry of all exercise periods. The Management Board with the approval of the Supervisory Board and – with regard to the members of the Management Board – the Supervisory Board are authorized to determine the further details of the issuance of shares from the Conditional Capital 2023.

Agreements related to change of control

hGears AG has entered into the following material agreement, which contains provisions in the event of a change of control following a takeover bid:

Unused credit line agreements provide for an extraordinary right of termination by the lenders.

Compensation agreements in case of a takeover offer

The employment agreement with one senior employee provides for a compensation payment in the event of a premature termination of the employment following a change of control. The compensation payment amounts to two annual gross salaries and is subject to the condition that the senior employee is significantly impacted by the change of control as further specified in the employment contract.

RISKS AND OPPORTUNITIES REPORT

i) Risks and opportunities

As a Group with production sites in Germany, Italy and China, hGears is exposed to risks associated with its business activities. The risk management system practiced at hGears makes risks transparent at an early stage so that countermeasures can be taken. Risks and opportunities are defined as possible future developments or events that may lead to a negative or positive deviation from hGears' budget. In general, the Company takes only entrepreneurial risks when they are manageable, and the associated opportunities are expected to generate a commensurate increase in the Company's value.

ii) Risk management system

In the Group, the management boards of the companies and their subordinate managers are the operational management responsible for the risk management system and internal control system. This structure is based on the eight elements of the globally recognized framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

A risk manager reporting to the CFO ensures the implementation of the management's risk policy and determines and describes the overall risk situation. Risk aggregation is carried out by means of Monte Carlo simulation for the early identification of possible "developments threatening the existence of the Company" (cf. Section 91 (2) AktG) as a result of the combined effects of several individual risks.

Risk management is interlinked with the existing planning and controlling processes and covers all legal entities of the hGears Group. The operational managers of hGears, who report directly to the Management Board, identify risks above a defined threshold. Opportunities are pursued and implemented by the Controlling department. Strategic decisions are directed by the Management Board.

hGears is active in the progressive, fast-growing field of e-mobility applications. In the area of precision transmission parts and components, the Company is one of the global market leaders. hGears strengths include its innovations, product quality and solid customer relationships.

iii) Opportunities management system

The identification and exploitation of opportunities are controlled by operational management. The basis for this is the target agreement process originating from the Management Board, which is monitored by the Controlling department.

iv) Internal control system

The internal control system comprises all the systematically defined controls and monitoring activities aimed at ensuring the security and efficiency of business management, the reliability of financial reporting, and compliance of all activities with laws and policies. An effective and efficient internal control system is key to managing risks in our business processes successfully. The structure of the internal control system at hGears covers all material business processes and goes beyond the controls for the accounting process.

Risk management is supported by the internal control system (ICS). Both systems are based on risk identification. While risk management also deals with the analysis of high-level and strategic risks, which are generally controlled by specific measures, the ICS focuses on the implementation of automated and manual controls within the accounting processes.

The ICS comprises all methods and measures established in the Company to ensure the reliability of internal and external accounting and reporting of financial and non-financial data, as well as compliance with the prescribed business policies and legal regulations applicable to hGears. The internal control system helps the management achieve its development and profitability goals and avoid the loss of resources.

hGears strives for optimal interaction between the RMS and ICS in order to realize synergies within the scope of operational practice.

Key controls will be assessed and reported centrally once a year by the operating units as part of a self-assessment.

Accounting and reporting instructions (e.g., the Accounting Manual) serve as training material and ensure the accuracy of the financial statements.

Combined, the interaction of IT systems, structures, processes and continuous communication leads to improved quality and efficiency, as well as to more transparency and security through the control and monitoring mechanisms.

v) Organization of the risk management process

A Group-wide policy defines the specific roles and responsibilities of the parties involved in the risk management process as well as the process and requirements for reporting risks and opportunities.

The risk management process involves various levels and functional units, which meet annually in the Risk Management Committee and ensure risk reporting. The Risk Management Committee deals with the risk inventory and measures and reviews the appropriateness of the risk policy. Suddenly emerging significant risks are reported immediately or in the monthly Risk Review Meeting. Group-wide risks, such as currency and financial risks, are reported centrally in a top-down approach.

The Supervisory Board is informed several times a year about the Company's risk profile.

vi) Assessment of risks and opportunities

The quantitative description of the individual risks is based on the probability of occurrence and the amount of loss. Triangular distributions with the values for the best, most likely and worst case are used for market fluctuations.

For the early identification of developments threatening the Group's continued existence and for determining the overall scope of risk and risk-bearing capacity, TOP net risks and market fluctuations are aggregated once a year using Monte Carlo simulation. The simulation uses software to analyze possible risk-related future scenarios by means of independent simulation runs.

vii) Opportunity and risk situation

The opportunity and risk situation reports on the main opportunities and risks. The observation horizon in the risk management system of hGears is generally 12 months on a rolling basis. The following table lists the TOP net risks in descending order. The extent of damage from net risks on the Group's EBIT is assessed as medium from EUR 0.5 million, as substantial from EUR 1.25 million and as high from EUR 2.5 million:

Risks (net)	Extent of damage	Change from previous year
Declining customer demand	high	increased
Disruption of the supply chain	substantial	increased
Material cost increase	substantial	decreased
IT availability	substantial	increased
Non-compliance	medium	–
Sales price increase towards OEMs	medium	decreased
Cybercrime	medium	increased

IT availability, cybercrime and compliance have a low probability of occurrence (0 % to 10 %), while the other risks have a higher probability.

Declining customer demand

The market is currently being affected by extraordinary events, higher inflation and lower consumer spending. These are leading to a fall in demand, which is having a direct negative impact on hGears' profit margins.

Disruption of the supply chain

The risks taken into account are based on a shortage of raw materials and supplies. The main reasons for this are possible bottlenecks at suppliers and disruptions to transport routes due to the geopolitical situation.

hGears takes measures to minimise the risk as much as possible. Risk-minimising activities include the connection of additional suppliers and the use of alternative transport routes.

Material cost increase

Rising raw material, energy and transport costs that cannot be passed on to our customers in a timely manner have a direct negative impact on hGears' margins.

On the basis of bilateral agreements, prices and delivery terms for the majority of production materials, energy and transport are secured with suppliers for the respective current year and can be taken into account for the next contract period with customers.

IT availability

Serious disruptions such as system failures, attacks on the hGears network, the loss or manipulation of data can result in business interruptions and thus also affect customers. hGears is constantly working on optimising its IT landscape in both the conceptual and operational areas.

hGears takes a range of technical and organisational measures to minimise risks and identify dangers in good time, including the TISAX certification of the hGears sites, which is currently being implemented. In addition, hGears organises training and further education measures for its employees regarding the handling of IT systems.

Non-Compliance

In principle, compliance violations can result in considerable fines, loss of reputation and claims for damages. Depending on the country, prison sentences for managers are also possible. With a Code of Ethics, hGears minimizes these risks from legal and policy violations.

Despite comprehensive precautions, hGears cannot completely rule out the possibility of individual employees violating legal regulations, which could lead to the imposition of fines or penalties or the assertion of claims for damages. An existing D&O insurance policy protects hGears against claims for damages due to compliance violations, among other things. No compliance risks arose in the reporting period.

Sales price increase towards OEMs

Customers who do not accept price increases to compensate for our cost increases have a direct negative impact on hGears' profit margin. The same measures are taken as for material cost increases.

Cybercrime

The threat to information security remains high due to the global increase in computer crime.

Key components of hGears' cyber security strategy are the existing cyber security insurance and the Group-wide ISMS (Information Security Management System), which is currently being implemented.

In addition, hGears utilizes conventional solutions such as multi-factor authentication, mobile device management, device control and device encryption as well as network segmentation and network monitoring. Regular awareness trainings lead to continuous sensitization of employees to current security risks.

viii) Opportunities

Based on our development and production expertise and our assessment of the economic environment, we see further growth opportunities in the recovering e-mobility market. We see the opportunity to increase added value and thus our own performance in the future by optimizing our company processes.

ix) Assessment of the risk and opportunities situation

hGears' risk and opportunity situation changed in the past year compared to the previous year due to global shocks. The greatest risk for the Group could result from reduced customer demand and the resulting drop in sales volumes.

In the 2023 financial year, no specific impairments to the net assets, financial position and results of operations that could jeopardize the continued existence of individual subsidiaries or the Group were identified as part of regular risk reporting.

Risk aggregation shows that developments jeopardizing the Company as a going concern can largely be ruled out in the planning period. The Company's risk coverage potential is sufficient to secure the Company's continued existence.

OUTLOOK REPORT

Overall economy

The Russian invasion in Ukraine has been joined by the war in the Middle East, which has further increased geopolitical uncertainty. The situation in the Gaza Strip is raising concerns about a potential escalation in the Middle East. Other parties in the region are openly or covertly confronting the West – which has turned towards Israel – leading to armed conflicts and attacks on Western allies' positions and ships in the region. This has already led to restrictions in shipping traffic in the Gulf of Suez and thus impaired or delayed supply chains. On the other hand, inflation has fallen surprisingly quickly, which is largely due to the fall in energy and commodity costs. However, a worsening of the situation in the Middle East could reverse this situation. Nevertheless, it is expected that the national banks will abandon their hard restrictive course and soon respond to the significant fall in inflation by cutting interest rates. This should also help those nations that have already fallen into a recession, albeit a mild one.

In its January 2024[9] forecast, the International Monetary Fund IMF assumes global economic growth of 3.1 % in 2024, which corresponds to an unchanged growth rate of 3.1 % compared to 2023, after 3.5 % in 2022. According to the IMF, economic growth in China is expected to fall to 4.6 % in 2024 (2023: 5.2 %), while a comparatively robust 2.1 % is forecast for the USA and another relatively meagre 0.9 % for the eurozone. The main reason for the slow development in the eurozone is the weak growth in Germany of just 0.5%, which nevertheless represents a significant improvement compared to the negative development of −0.3 % in 2023. Meanwhile, the IMF expects global inflation to fall from an estimated 6.8 % in 2023 (annual average) to 5.8 % in 2024 and 4.4 % in 2025. The reasons for the decline in inflation are falling energy and commodity prices, the absence of a feared wage-price spiral and, last but not least, the rapid and restrictive intervention of central banks around the world. However, developments are likely to vary from region to region; in advanced economies, a faster decline of 2.0 percentage points to 2.6 % is expected in 2024 compared to developing regions, which is already relatively close to the central banks' target of around 2 % inflation. It is therefore generally expected that key interest rates will also fall significantly in 2024, which in turn should stimulate economic activity.

9 https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024

In an environment characterised by economic and geopolitical uncertainties, hGears' solid balance sheet with an equity ratio of 53.9 % and cash and cash equivalents of EUR 26.6 million at the end of 2023 is reassuring. A resurgence of the coronavirus pandemic currently seems very unlikely but cannot be ruled out in the event of a possible new virus variant. The Russian war of aggression against Ukraine, which began more than two years ago, still seems far from reaching a peaceful resolution, while the conflict between Israelis and Palestinians in the Gaza Strip has added another war to the mix.

e-Bikes

After the boom in the coronavirus years, the bicycle industry continued its production unabated as the bottlenecks associated with the difficulties in global supply chains eased. However, the shortage in the supply of bicycles due to the supply chain problems masked the decline in demand caused by the dampened consumer sentiment and a certain saturation effect following the boom years of the pandemic. This resulted in very high stock levels in all channels of the bicycle industry in 2023, i. e. at bicycle manufacturers, e-motor manufacturers and suppliers, and ordering behavior remained very subdued beyond the second half of 2023 as a result. In the bicycle industry, the current expectation is that stocks will decrease throughout 2024, with orders for frames and components for the 2025 model year anticipated to be placed in the second half of the year. Despite the current temporary dip, industry experts still believe that the long-term positive trend will continue. According to management estimates, industry sources and studies by management consultants (EY[10]), e-bike production is expected to reach around 8 million units in the 2028 bike season, which corresponds to an average annual growth rate of around 13 %. The medium to long-term growth trend for e-bikes is therefore unbroken, and the increasing use of micromobility solutions, e. g. in the form of cargo bikes or lightweight electric vehicles, will further boost demand.

e-Cars

Although the positive trend for electric cars (BEVs) is expected to continue, it was recently clouded by subsidy cuts in some European countries and, above all, by the abrupt end of purchase premiums for e-cars in December 2023 in Germany, which is by far the largest market for e-cars in Europe. As a result, monthly registrations of battery-powered vehicles in Germany fell by 47.6 % in December 2023. As a result, BEV registrations in Europe fell by 16.9 % for the first time since April 2020, despite a positive trend in almost all other European countries. For 2024, automotive expert Prof Dudenhöffer expects a decline of up to 200,000 electric car sales[11] in Germany, which would correspond to around 13 % of European BEV registrations based on 2023 figures. In the long term, however, the trend for e-cars is likely to continue, especially following the European Union's decision that all new cars and vans sold in the EU will no longer be allowed to emit CO_2 emissions from 2035.

e-Tools

The restrictive stance of the central banks caused construction and mortgage interest rates to rise and therefore had a negative impact on construction activity, which is why the market for professional power tools did not recover, contrary to expectations. Meanwhile, the poor consumer climate has had a negative impact on demand from handymen and DIY enthusiasts, who occasionally buy professional tools in line with their ambitions. The expected interest rate cuts are likely to have a positive impact on both construction activity and consumer sentiment, thus stimulating demand for power tools. After a cold and rainy season in 2023, the European market for garden tools could see a recovery in 2024. In addition, horticulture should continue to benefit from a strong electrification trend, not least due to increasing regulation, as combustion engines are considered the main source of pollution in this segment. According to management estimates, industry sources and consultant reports, sales in the global market for power tools and electrified garden equipment are likely to achieve an average growth rate of around 3 %, which is in line with the long-term average.

Conventional

Due to increasing restrictions, such as fleet consumption regulations, the focus of car manufacturers has shifted towards electrified platforms. The popularity of electric vehicles has recently taken a hit due to subsidy cuts, but is nevertheless expected to steadily increase again in the medium to long term. In addition, the days of cars with combustion engines are numbered, as the European Union decided in February 2023 that all new cars and vans sold in the EU from 2035 onwards must no longer emit CO_2 emissions, which ultimately means the legal end to the sale of combustion engines from 2035. However, combustion cars will be allowed to run beyond the legal end of sales (e. g. with e-fuels), which could stimulate demand for special high-end sports cars with combustion engines in the luxury segment until 2035. hGears has positioned itself in this environment as a highly qualified supplier for the production of electrical auxiliary and

10 https://assets.ey.com/content/dam/ey-sites/ey-com/de_de/topics/strategy-transactions/ey-fahrradstudie.pdf
11 https://www.automobilwoche.de/agenturmeldungen/e-auto-forderung-massive-kritik-schnellem-umweltbonus-aus

control systems (e. g. electric steering and braking systems, anti-tank systems), which are replacing hydraulic systems thanks to the introduction of higher-voltage vehicle electrical systems. This new generation of electrical systems is increasingly being used in vehicles with internal combustion engines as well as in electric vehicles due to their faster and more precise operation.

Outlook

Non-Financial performance indicators

hGears intends to train the entire workforce annually in work and personality-related content and, to this end, the training hours per employee are to increase slightly in 2024. In 2024, hGears intends to optimize occupational health and safety measures across the Group and thereby slightly reduce sickness-related absences and days lost due to accidents at work. Employee turnover is set to fall further in 2024.

hGears' energy requirements can only be reduced gradually and incrementally – especially with the purchase of new machines, which is why the main climate effect initially results from the reduction in greenhouse gas emissions. By 2024, we expect to have reduced energy consumption, greenhouse gas emissions, water use and waste generation.

Financial performance indicators

In view of the uncertainties and challenges on the global markets, accompanied by persistently high inventories and shifts in demand trends, the currently still high key interest rates and increased geopolitical risks, the Executive Board of hGears remains cautious in its outlook. For the 2024 financial year, hGears expects sales in the range of EUR 100 – 110 million.

The expected weak volume development is also likely to be reflected in inefficiencies and considerably reduced operating leverage this year. Against this backdrop, the Executive Board will focus primarily on operational excellence, execution and deployment while continuing to optimize cost structures. Ultimately, the Executive Board expects an adjusted EBITDA of EUR 1 – 3 million for 2024.

Meanwhile, it should be possible to generate a free cash flow of EUR 0 to minus EUR 3 million in 2024. Management will continue to only authorize expenditure on investments in fixed assets (CAPEX) if it is certain that additional sales and earnings can be generated in the short to medium term.

In the medium term, i.e. over the next three to five years, hGears is aiming for strong growth, particularly in the e-Mobility business area, albeit from a lower base, and expects to achieve consolidated sales of around EUR 150 – 180 million.

Schramberg, 22 March 2024

Sven Arend
Chairman of the
Management Board

Daniel Basok
Member of the
Management Board

Consolidated Financial Statements

hGears | the **heart** of your performance

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

of hGears AG, Schramberg for the period 1 January to 31 December

in kEUR	Note	2023	2022
Revenues	3.1	112,475	135,334
Other capitalized own work	3.2	87	98
Changes in inventories	3.2	(1,291)	712
Total output		**111,271**	**136,144**
Other operating income	3.3	3,552	3,999
Impairment gains / losses from IFRS 9	4.4	(442)	6
Raw materials and consumables used	3.4	(55,313)	(66,361)
Personnel expenses	3.5	(39,287)	(42,362)
Depreciation, amortization and impairment	3.6	(13,113)	(11,274)
Other operating expenses	3.7	(17,459)	(19,432)
Profit / loss from operating activities		**(10,791)**	**720**
Finance income		126	3
Impairment gains / losses from IFRS 9		(1,525)	–
Finance expenses		(2,292)	(1,380)
Financial result	**3.8**	**(3,691)**	**(1,377)**
Income before income taxes		**(14,482)**	**(657)**
Income and deferred taxes	3.9	688	(184)
Net result of the period		**(13,794)**	**(841)**
The result is attributable to:			
Result attribution to Shareholders		**(13,794)**	**(841)**
Basic / diluted earnings per share (EUR)	**3.11**	**(1.33)**	**(0.08)**

The accompanying notes are an integral part of these consolidated financial statements. Figures in the tables may be rounded.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of hGears AG, Schramberg for the period 1 January to 31 December

in kEUR	2023	2022
Net result of the period	**(13,794)**	**(841)**
Other comprehensive income:		
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment benefit obligations	4	164
Tax effect	(1)	(39)
Stock option programme	0	446
Other comprehensive income that may be reclassified subsequently to profit or loss		
Currency translation adjustment	(609)	(243)
Total comprehensive income	**(14,400)**	**(513)**

* Exchange rate differences arising from the translation of hGears (Suzhou) Co., Ltd., Suzhou
The accompanying notes are an integral part of these consolidated financial statements. Figures in the tables may be rounded.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of hGears AG, Schramberg

In kEUR	Note	31 December 2023	31 December 2022
Property, plant and equipment	4.1	70,552	75,798
Intangible assets	4.2	881	1,307
Other non-current assets	4.5	114	122
Deferred tax assets	3.9	3,077	2,848
Total non-current assets		**74,624**	**80,075**
Inventories	4.3	20,021	20,372
Trade receivables	4.4	10,528	12,298
Other receivables	4.5	765	872
Other current assets	4.5	3,680	6,116
Other current financial assets	4.5	–	1,006
Cash and cash equivalents	4.6	26,597	36,276
Assets held for sale and discontinued operations	4.7	530	–
Total current assets		**62,121**	**76,940**
Total assets		**136,745**	**157,015**

The accompanying notes are an integral part of these consolidated financial statements. Figures in the tables may be rounded.

in kEUR	Note	31 December 2023	31 December 2022
Share capital		10,400	10,400
Capital reserve		69,232	69,232
Other reserves		400	400
OCI		2,072	2,678
Retained earnings		5,435	6,276
Net result of the period		(13,784)	(841)
Total Equity	**4.14**	**73,744**	**88,145**
Lease liabilities	4.8	7,227	9,099
Borrowings	4.9	-	19,694
Deferred tax liabilities	3.9	21	530
Provisions	4.10	319	319
Employee benefit obligations	4.11	1,068	1,100
Trade and other payables	4.12	328	417
Total non-current liabilities		**8,963**	**31,159**
Lease liabilities	4.8	2,516	5,133
Borrowings	4.9	20,081	428
Provisions	4.10	849	564
Other current financial liabilities	4.13	148	242
Trade and other payables	4.12	30,444	30,972
Current tax liabilities	4.14	–	372
Total current liabilities		**54,038**	**37,711**
Total liabilities		**63,001**	**68,870**
Total equity and liabilities		**136,745**	**157,015**

The accompanying notes are an integral part of these consolidated financial statements. Figures in the tables may be rounded.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of hGears AG, Schramberg for the years ended 31 December

				OCI				
in kEUR	Share capital	Capital reserve	Other reserves	Currency translation	Cash Flow Hedge Reserve	Employee plan	Retained earnings	Total equity
Balance at 1 January 2022	**10,400**	**69,239**	**400**	**1,865**	**0**	**485**	**6,275**	**88,664**
Contributions of equity, net of transaction costs	–	(7)	–	–	–	–	–	**(7)**
Net result of the period	–	–	–	–	–	–	(841)	**(841)**
Other comprehensive income	–	–	–	(243)	0	570	–	**327**
Balance at 31 December 2022	**10,400**	**69,232**	**400**	**1,622**	**–**	**1,055**	**5,434**	**88,145**
Balance at 1 January 2023	**10,400**	**69,232**	**400**	**1,622**	**–**	**1,055**	**5,434**	**88,145**
Net result of the period	–	–	–	–	–	–	(13,794)	**(13,794)**
Other comprehensive income	–	–	–	(609)	–	3	–	**(606)**
Balance at 31 December 2023	**10,400**	**69,232**	**400**	**1,013**	**–**	**1,058**	**(8,359)**	**73,744**

The accompanying notes are an integral part of these consolidated financial statements. Figures in the tables may be rounded.

CONSOLIDATED STATEMENT OF CASH FLOWS

of hGears AG, Schramberg for the years ended 31 December

In kEUR	2023	2022
Profit / loss from operating activities	**(10,791)**	**720**
Depreciation, amortisation and impairment	13,113	11,274
Other non-cash items	(303)	793
Income tax payments	525	(2,357)
Provisions and others	256	(217)
Interest paid	(1,887)	(1,219)
Interest received	89	3
Change in inventories	213	(2,657)
Change in receivables	1,540	(235)
Change in liabilities	(440)	2,748
Change in other assets	1,572	(1,855)
Change in other liabilities	219	423
Net cash provided by (used in) operating activities	**4,106**	**7,421**
Cash flows provided by (used in) investing activities		
Payments for Property, plant and equipment and intangible assets	(8,234)	(12,923)
Loans granted	(470)	(1,000)
Income from sales of fixed assets	601	(175)
Net cash provided by (used in) investing activities	**(8,103)**	**(14,098)**
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	5,068	20,128
Repayments of borrowings	(5,304)	(21,343)
Repayments leasing agreements	(5,197)	(2,978)
Share issue transaction costs	–	(7)
Cash flows provided by (used in) financing activities	**(5,433)**	**(4,200)**
Net cash increase (decrease) in cash and cash equivalents	**(9,430)**	**(10,877)**
Cash and cash equivalents at the begining of the year	36,276	47,246
Effects of exchange rate changes on cash and cash equivalents	(250)	(93)
Closing Cash and cash equivalents	**26,597**	**36,276**

The accompanying notes are an integral part of these consolidated financial statements. Figures in the tables may be rounded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

hGears AG (former hGears Holding GmbH) – HRB 778870 was incorporated in 2011 and is domiciled in Schramberg, Germany. The conversion of the legal form of the Company from a limited liability company (Gesellschaft mit beschränkter Haftung) into a stock corporation (Aktiengesellschaft) was registered in the commercial register of the local court (Amtsgericht) of Stuttgart, Germany, on 27 April 2021.

The address of registered office is Brambach 38, 78713 Schramberg.

hGears AG prepares the consolidated financial statements in accordance with IFRS for the largest and for the smallest group of companies in accordance with Section § 290 in conjunction with Section § 315e of the German Commercial Code ("HGB").

The consolidated financial statements consist of the financial statements of hGears AG, its subsidiaries: hGears Schramberg GmbH (former Herzog GmbH, herewith: "Schramberg"); hGears Padova S.p.A. (former mG miniGears S.p.A., herewith: "Padova"), and its second-tier subsidiary hGears (Suzhou) Co., Ltd. (former mG miniGears (Suzhou) Co., Ltd., herewith: "Suzhou") were prepared using uniform group accounting policies.

hGears AG and its subsidiaries and second-tier subsidiary ("hGears Group", "Group") manufacture, distribute and sell precision turned parts, drive components, gear kits as well as complex system solutions. For this, the group combines steel machining with powder metal technologies.

The consolidated financial statements can be viewed on www.unternehmensregister.de

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below and were applied consistently to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of hGears Group as of 31 December 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as adopted by the European Union and Section 315e of the German Commercial Code ("HGB"), were released by the Management Board for issue by the Supervisory Board on 22 March 2024.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The consolidated financial statements are presented in Euros (EUR). Individual items in the consolidated financial statements and the notes to the consolidated financial statements are presented in Euro thousands (kEUR) in accordance with commercial rounding practices. The financial year corresponds to the calendar year. The functional currency of the Company as well as of its subsidiaries is Euro, except for its second-tier subsidiary Suzhou, for which the functional currency is Renminbi (RMB).

Assets and liabilities are generally classified as current if they are expected to be realized or settled within one year.

The consolidated financial statements have been prepared under the historical cost convention except for financial assets and liabilities measured at fair.

The consolidated statement of profit or loss is prepared based on the nature of expense (total cost) method. The consolidated financial statements have been prepared on a going concern basis.

These consolidated financial statements cover the financial year from 1 January 2023 to 31 December 2023 (prior-year comparative period: 1 January 2022 to 31 December 2022).

In some tables that show a breakdown of profit and loss and balance sheet items, individual amounts have been aggregated differently than in the previous year in the interest of clarity.

The following explanatory notes are an integral part of the consolidated financial statements which further comprise the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flow.

In late February 2022, Russian military forces invaded Ukraine, prompting the European Union and the United States of America to impose a series of substantial financial and economic sanctions on Russia. These sanctions were subsequently tightened several times. The measures included the banning of several Russian banks from the SWIFT system, along with extensive restrictions on trading and travel with Russia. There are now fears that Israel's conflict with the Palestinians in the Gaza strip could escalate into a conflagration in the entire region.

hGears Group sees very limited direct impact as the Group has no material suppliers or customers neither in Russia, the Ukraine or the Middle East. However, the widening of the conflict in the Middle East has an impact on shipping in the Golf of Suez, and already caused some delays in global supply chains. Meanwhile, the conflict could also lead to higher oil and ultimately raw material prices, causing inflation to rise again. Due to central banks' interest rates still being at high levels, combined with negative consumer confidence, the potential for a recession remains a topic of discussion. Anticipated interest rate cuts by national banks may stimulate economies worldwide, thereby potentially resolving or at least easing the economic situation.

IFRS issued, EU endorsed and adopted in the reporting period

New standards and interpretations to be applied in 2023 had no material impact on the Consolidated Financial Statements in the reporting year.

IFRS issued, EU endorsed and not yet adopted in the reporting period

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2023:

Title	Key requirements	Effective date and further guidance*
IFRS 17 Insurance Contracts	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are remeasured in each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for eligible groups of insurance contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements …	Originally 1 January 2021, but postponed to 1 January 2023 by the IASB in March 2022

Title	Key requirements	Effective date and further guidance*
IFRS 17 Insurance Contracts	… and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying IFRS 17 to investors and others. The amendments also deferred the application date of IFRS 17 to 1 January 2023. Further amendments made in December 2021 added a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of IFRS 17. The classification overlay applies to all financial assets, including those held in respect of activities not connected to contracts within the scope of IFRS 17. It allows those assets to be classified in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9. The classification can be applied on an instrument-by-instrument basis. No material impact for hGears Group.	1 January 2023 (deferred from 1 January 2021)

IFRS issued, EU endorsed and not yet adopted in the reporting period

Title	Key requirements	Effective date and further guidance*
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	The IASB amended IAS 1 Presentation of Financial Statements to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures. No material impact for hGears Group.	1 January 2023
Definition of Accounting Estimates – Amendments to IAS 8	The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. No material impact for hGears Group.	1 January 2023

IFRS issued, EU endorsed and not yet adopted in the reporting period

Title	Key requirements	Effective date and further guidance*
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences, and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with: • right-of-use assets and lease liabilities, and • decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in the opening balance of retained earnings, or another component of equity, as appropriate. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments. No material impact for hGears Group.	1 January 2023

IFRS issued, EU endorsed and not yet adopted in the reporting period

Title	Key requirements	Effective date and further guidance*
OECD Pillar Two Rules	In December 2021, the Organisation for Economic Co-operation and Development (OECD) released the Pillar Two model rules (the Global Anti-Base Erosion Proposal, or 'GloBE') to reform international corporate taxation. Large multinational enterprises within the scope of the rules are required to calculate their GloBE effective tax rate for each jurisdiction where they operate. They will be liable to pay a top-up tax for the difference between their GloBE effective tax rate per jurisdiction and the 15% minimum rate. In May 2023, the IASB made narrow-scope amendments to IAS 12 which provide a temporary relief from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules, including tax law that implements qualified domestic minimum top-up taxes described in those rules. The amendments also require affected companies to disclose: • the fact that they have applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes • their current tax expense (if any) related to the Pillar Two income taxes, and • during the period between the legislation being enacted or substantially enacted and the legislation becoming effective, known or reasonably estimable information that would help users of financial statements to understand an entity's exposure to Pillar Two income taxes arising from that legislation. If this information is not known or reasonably estimable, entities are instead required to disclose a statement to that effect and information about their progress in assessing the exposure. ** The amendments must be applied immediately, subject to any local endorsement process, and retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, the disclosures about the known or reasonably estimable exposure to Pillar Two income taxes are only required for annual reporting periods beginning on or after 1 January 2023 and do not need to be made in interim financial reports for interim periods ending on or before 31 December 2023. No material impact for hGears Group.	Immediately, except for certain disclosures as noted on the left ** (assuming a corresponding local adoption)

* Mandatory application for the first time in reporting periods beginning on or after this date.

2.2 Basis of Consolidation

The consolidated financial statements for the Group include the accounts and results of hGears AG ("hGears") as well as its subsidiaries and second-tier subsidiary (herewith: subsidiaries). Subsidiaries are all entities with regard to which hGears has the power to govern the financial and operating policies, generally by means of hGears having more than half of the voting rights ('control'). Potential voting rights that are currently exercisable or convertible are taken into consideration when assessing whether hGears controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by hGears and are deconsolidated from the date on which hGears' control ceases. All intercompany transactions, balances, and unrealized results on transactions with subsidiaries are eliminated.

As of 31 December 2023, the financial statements of the following subsidiaries of hGears AG are included in the consolidated financial statements by means of full consolidation:

Subsidiary	Percentage of ownership %	Subscribed capital	Result of FY 2023 (*)
hGears Schramberg GmbH, Schramberg, Germany	100	kEUR 4,400	kEUR 0
hGears Padova S.p.A., Padova, Italy	100	kEUR 2,000	kEUR 279
hGears (Suzhou) Co., Ltd., Suzhou, China	100	kRMB 49,487	kRMB (11,623)

(*) the result is presented in accordance with local GAAP

According to Section 2 of the Control Agreement ***("Beherrschungsvertrag")*** between hGears AG and hGears Schramberg GmbH, signed on 15 November 2016, with the effective date from 1 January 2017, hGears commits itself to assume the losses of hGears Schramberg GmbH in accordance with the provision of Section 302 of the German Stock Corporation Act ***("Aktiengesetz")***.

hGears Schramberg GmbH is exempt from the obligation to prepare notes to the financial statements, to prepare a management report and to publish the annual financial statements under Section 264 (3) German Commercial Code ("HGB").

2.3 Recent Accounting Developments

The IASB continues to issue new standards, interpretations and amendments to existing standards. hGears Group applies these new standards when their mandatory application is required by the EU. hGears Group has not opted for early adoption for any of these standards.

Various new accounting standards and interpretations have been published but are not mandatory for reporting periods ending on 31 December 2023 and have not been adopted early by the Group. These standards are not expected to have a material impact on hGears Group's net assets, financial position, and results of operations for the period presented or future reporting periods and on foreseeable future business transactions, respectively.

IFRSs and Interpretations that have been published but are not yet mandatory

Standard / Interpretation	Adopted by the European Union	Early adoption	Impact on hGears Group
Amendments			
IFRS 16 (Amendment to IFRS 16 Lease Liability in a Sale and Leaseback) (1)	No endorsed	permitted	none
IAS 1 (Amendment to IAS 1 Classification of Liabilities as Current or Non-current including Deferral of Effective Date) (1)	No endorsed	permitted	none
IAS 1 (Amendment to IAS 1 Non-Current Liabilities with Covenants) (1)	No endorsed	permitted	none
IAS 7 and IFRS (Amendments to IAS 7 and IFRS 7 Supplier finance arrangements) (1)	No endorsed	permitted	none
IFRS 10 and IAS 28 (Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture) (2)	No endorsed	n/a	none

(1) IASB/IFRS IC effective date 1 January 2024
(2) In December 2015, the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

2.4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires the Management Board to make judgments, estimates and assumptions that to a certain extent affect the reported amounts of assets and liabilities, income, and expenses, as well as contingent liabilities.

The assumptions and estimates relate primarily to:

- the assessment of the recoverability of intangible assets,
- the uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group,
- the expected cash inflow from trade receivables,
- the valuation of inventories,
- the accounting and measurement of lease agreements,
- the accounting and measurement of shareholder loans,
- the accounting and measurement of management compensation programmes,
- the accounting and measurement of pension provisions and other provisions,
- the accounting for deferred taxes.

The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group is subject to estimates made by the Management Board.

For trade receivables, credit default risks may arise to the extent that customers are unable to meet their payment obligations, resulting in losses to the Group. The calculation of the required loss allowances takes, among others, into account such things as the solvency of customers, existing securities as well as experience based on historical default rates. The actual payment defaults by customers may differ from anticipated payment defaults due to several influencing factors.

Inventories are valued at the lower value of acquisition and manufacturing cost and net realizable value. Net realizable value is determined by subtracting the costs incurred up to completion from the expected sales price of the end product. If assumptions regarding future sales prices or end product market potentials are not appropriate, this may lead to a further need for impairment of inventories.

When accounting for other provisions, the Management Board must make assumptions regarding the probability of certain business transactions resulting in impending losses for hGears Group. Estimates regarding the amount and timing of possible economic outflows form the basis for the measurement of provisions. If the actual amounts and the timing differ from estimates made, this may affect the result of the Group.

The Management Board judgment is required for the calculation of deferred taxes. Deferred tax assets on tax loss carry forwards may only be recognized to the extent that it is probable that sufficient taxable profit will be available in the future. The Management Board analyses various factors to assess the probability of the future utilization of deferred tax assets based on reasonable scenarios taken from the Group's tax planning process.

Assumptions and estimates are based on premises based on the knowledge at hand at the respective time. Unforeseeable developments and developments beyond the Management Board's control may cause a difference between the originally estimated values and the actual amounts arising at a later date. In this case, the assumptions and, if necessary, the carrying amounts of the affected assets and liabilities will be adjusted accordingly.

2.5 Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the related entity operates ('functional currency'). The functional and reporting currency of hGears AG, hGears Schramberg GmbH and hGears Padova S.p.A. is Euro. The functional and reporting currency of hGears (Suzhou) Co., Ltd. is Renminbi.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss as other operating expenses or other operating income, respectively.

Translation differences on non-monetary financial assets and liabilities that are measured at fair value through profit or loss are reported as part of the fair value gain or loss. Conversely, when a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in comprehensive income.

The financial position and statement of profit or loss of a Group´s subsidiary that has a functional currency different from the presentation currency is translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date;
- income and expenses are translated at average exchange rates,
- all resulting exchange differences are recognized as a separate component within equity.

Exchange rate differences arising from the translation of a net investment in foreign operations and from borrowings and other currency instruments designated as hedges of such investments are realized within other comprehensive income (equity). When a foreign operation is partially disposed or sold, exchange rate differences previously recorded within other comprehensive income are recognized in the consolidated statement of profit or loss as part of the gain or loss of the sale.

The following foreign currency rates have been applied:

Chinese RMB	**2023**	**2022**
as of 31 December	7.8509	7.3582
annual average rate	7.6600	7.0788

2.6 Accounting Policies

2.6.1 Revenue Recognition

Under IFRS 15, hGears Group recognizes revenue when it transfers control of goods and products to a customer, which occurs upon delivery. Management applies the following five step model when determining the timing and amount of revenue recognition:

1. Identifying the contracts with customers;
2. Identifying the separate performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to separate performance obligations; and
5. Recognizing revenue when each performance obligation is satisfied.

All revenues of hGears Group qualify as contracts with customers and fall in the scope of IFRS 15.

hGears Group generates revenue mainly from the production and sale of components and assemblies. Revenue is measured based on the consideration specified in a contract with a customer, taking into account variable purchase price components, when it is highly probable that a material adjustment to the cumulative recognized revenue will not occur. The amount of variable consideration is determined using either the expected amount method or the most likely amount based on the most appropriate estimation method. The Group recognizes revenue when it transfers control of an asset to a customer. hGears Group only manufactures products that can be sold to various customers with no or low rework costs. The power of disposal is transferred to the customer upon delivery of the products. Revenue is recognized at a point in time upon delivery. Contracts with customers do not include a financing component, as payment terms are short term, as common in the industry.

All revenue generated by hGears Group is included within the item revenue in the consolidated statements of profit or loss.

2.6.2 Finance income and finance expenses

Interest income and expenses are recognized using the effective interest method.

2.6.3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as measured at amortized cost.

2.6.4 Trade receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. Trade receivables are recognized initially at their transaction price unless they contain a significant financing component.

The Group usually holds trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Besides such trade receivables, the Group also holds trade receivables, that are subject to a factoring agreement, with the objective of collecting cash flows by selling them to a factor. These trade receivables are classified as measured at fair value through profit or loss.

If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

2.6.5 Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of raw, auxiliary and operating materials is determined by using the specific identification of their individual cost method. The cost of semi-finished and finished goods is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

If the net realizable value of a finished good is lower than costs, the difference is recognized as impairment immediately. When the previous impairment is not necessary anymore, a release of the provision is recognized in the profit and loss.

The finished products and semi-finished products costs include raw materials, direct manpower costs and other direct costs, as well as other indirect production costs for the share attributable to the production (calculated on the basis of the normal operating capacity). Financing costs are not included in the valuation of the inventories but are charged within the consolidated statement of profit or loss when incurred, since there are no requirements for the capitalization. Inventories of raw materials and semi-finished products no longer usable in the production cycle and inventories of unsaleable finished products are impaired.

2.6.6 Property, plant and equipment

Property, plant and equipment is valued at cost less depreciation and impairment losses, if any. Cost includes direct costs (e.g. materials, direct labor and work contracted out) and directly attributable overhead costs.

The estimated useful lives of the principal property, plant and equipment categories are as follows:

Asset class	Estimated useful life
Buildings	10 to 50 years
Plants, Machinery, Tools and Dies	4 to 25 years
Other assets	3 to 15 years

Property, plant and equipment is depreciated using the straight-line method, based on estimated useful life, taking into account residual value. Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the reasons for impairment no longer exist.

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

2.6.7 Right-of-use-Assets/ Lease Liabilities

hGears Group accounts leases in accordance with IFRS 16, which defines a lease as a contract or part of a contract whereby the lessor conveys to the lessee the right to use the asset for an agreed period of time in exchange for consideration.

Where hGears Group is lessee, it generally recognizes a right-of-use asset and a lease liability in the statement of financial position for all leases. The lease liability is measured in the amount of the outstanding lease payments discounted using the incremental borrowing rate, while the right-of-use asset is generally measured in the amount of the lease liability plus initial direct costs.

The right-of-use asset is generally depreciated over the shorter of the lease term and the useful life of the right-of-use asset. If ownership of the leased asset is transferred to the lessee at the end of the lease term, or if the exercise of a purchase option was taken into account at the inception of the lease liability, the right-of-use asset is depreciated until the end of the useful life of the leased asset. The lease liability is adjusted using the effective interest method and taking the lease payments into account.

The incremental borrowing rate is the rate that the lessee would have to pay to obtain, over a similar term and with similar security, the funds that would be required to obtain an asset of similar value to the right-of-use asset in a similar economic environment to the underlying lease arrangement.

Lease payments are discounted at the rate implicit in the lease if that rate can readily be determined. Otherwise, discounting is at the incremental borrowing rate.

The right-of-use assets recognized in the consolidated statement of financial position are reported in those items that the assets underlying the lease would have been reported if they had been beneficially owned by hGears Group. The right-of-use assets were therefore reported under non-current assets within property, plant and equipment as of the balance sheet date.

There are recognition exemptions for short-term leases and leases of low-value assets. hGears Group takes advantage of these and consequently does not recognize right-of-use assets or lease liabilities for such leases. The associated lease payments are recognized directly in profit or loss as an expense. Leases of low-value assets are those where the value of the leased asset does not exceed USD 5,000 when new. Furthermore, the accounting requirements of IFRS 16 are not applied to leases of intangible assets.

In determining the lease term, all relevant facts and circumstances are taken into consideration that create an economic incentive to exercise, or not to exercise, the option. Optional periods are taken into account in determining the lease term if it is reasonably certain that the option will be exercised.

A right-of-use asset is subsequently measured at cost less any accumulated depreciation and, if necessary, any accumulated impairment. If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the right-of-use asset is depreciated to the end of the useful life of the underlying asset. Otherwise, the right of-use asset is depreciated to the end of the lease term. In the subsequent measurement of a lease liability, the carrying amount is increased to reflect interest on the lease liability and reduced to reflect the lease payments made. According to IFRS 16, the depreciation of right-of use assets is recognized within functional costs. The interest due on the lease liability is a component of interest expense. In determining the lease term, all facts and circumstances offering economic incentives for exercising extension options or not exercising termination options are taken into account. In determining the lease term, those options are only considered if their exercise is reasonably certain.

A lease modification shall be accounted for a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

2.6.8 Intangible assets

Intangible assets include non-monetary assets, with no physical substance, clearly identifiable and suitable to generate future economic benefits. Such purchased intangible assets are capitalized at acquisition cost, including the expenses directly attributable to prepare the asset for its use, and subsequently measured net of accumulated depreciations and of any possible impairment losses. Amortization commences when the intangible asset is available to be used and is systematically allocated over the estimated useful life. In case of identification of the possible impairment indicators, the recoverable amount of the intangible asset is estimated, attributing an impairment in the consolidated statement of profit or loss. Should the requirements for the impairment no longer exist, the book value is reinstated through profit or loss, to the extent that the intangible asset`s carrying amount does not exceed the carrying amount net of amortization that would have been determined if an impairment had not been recognized.

hGears Group does not have any intangible assets with an indefinite useful life.

Other intangible assets with a finite useful life

Intangible assets with a finite useful life are capitalized at cost, as previously described, and subsequently measured net of accumulated amortizations and of any possible impairment. Amortization starts when the asset is available to be used and is systematically allocated over the estimated useful life. The useful life estimated by the Company for the categories of intangible assets is as follows:

Asset class	Estimated useful life
Software and licenses	5 years
Brands and trademarks	5 years
Other	5 years

Following Padova (former mG Italy) contribution in hGears AG (in January 2015), the Management Board of the Group initiated a process of implementing and introducing a new brand in the market ("hGears") with the aim to place it, commercially, in combination with the existing and established mG miniGears brand as from July 2015.

The useful life estimated by the Group is 5 years starting with the transition date in July 2015.

It is expected that the brand awareness of the "hGears" brand in the market is going to increase and, at the same time, the brand awareness of "mG miniGears" is going to decrease; for this reason the Management Board considered it appropriate to update the estimate of the useful life of the "mG miniGears" brand previously considered to be indefinite to a definite useful lifetime of 5 years.

Impairment of intangible assets

Intangible assets with an indefinite life are not subject to amortization but subjected at least annually (more frequently in presence of specific impairment indicators) to the verification of the absence of lasting losses of value such to require an impairment, while intangible assets with a finite useful life are subjected to this verification only in the presence of specific impairment indicators.

The verification if an impairment of an intangible asset becomes necessary occurs by estimating the recoverable amount of the intangible asset and comparing it with the carrying amount. The recoverable amount is the higher amount of the fair value of an asset and its value in use, which is determined as the current value of expected cash flows that the company estimates will derive from the continuing use of the asset and from its disposal at the end of its useful life. This recoverable amount is determined for each individual asset unless said asset does not generate cash flows that are largely dependent of those generated by other assets. If the recoverable amount is lower than the carrying amount, the latter is reduced accordingly; such reduction constitutes an impairment loss, which is recognized in the consolidated statement of profit or loss. Should the reasons that triggered impairment losses previously recognized no longer exist, with the exception of the goodwill, the impairment is reversed to the extent the estimated value does not exceed the net carrying amount that the asset would have had if no impairment losses had been carried out. The reversal of value is recorded in the consolidated statement of profit or loss.

2.6.9 Trade and other payables

These amounts represent unpaid liabilities for goods and services provided to the Group prior to the end of the financial year. The amounts are unsecured and are usually paid within 30 days of recognition (for the German companies) and 60 days (for Padova and Suzhou). Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Contract liabilities are the entity's obligation to transfer goods or services to a customer for which the entity has received (or still has to receive) consideration from the customer.

2.6.10 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that the facility or parts of it will be drawn down. In this case, the fee is deferred until the drawdown occurs.

Borrowings are derecognized when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been repaid or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss as other income or finance expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.6.11 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation resulting from past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood of an outflow to settle these obligations is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the Management Board's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured at the balance sheet date at the present value of management's best estimate of the settlement amount of the current obligation.

The increase in the provision due to the passage of time is recognized as interest expense.

2.6.12 Employee Benefits

2.6.12.1 Pension obligations

The Group has defined benefit plans and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (funds). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay to all employees the benefits relating to employee service in the current and prior periods. The other plans are defined benefit plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually depending on one or more factors such as age, years of service and compensation.

2.6.12.2 Other benefits

Liabilities for wages and salaries, including monetary and non-monetary benefits and accumulating sick leave that are expected to be fully settled within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

2.6.13 Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. The Management Board periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Management Board establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in the consolidated statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.6.14 Financial instruments

2.6.14.1 Recognition and derecognition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group offsets financial assets and financial liabilities only if offsetting is legally enforceable and it is intended to actually offset them. In general, financial instruments in the form of financial assets and financial liabilities are presented separately and on a gross basis.

Financial instruments are recognized as soon as hGears Group becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are initially (de-)recognized and measured at the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss as other finance income or financial expense. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. Any revisions of the estimated cash flows are reflected by adjusting the amortized cost of the respective financial liability with recording the resulting change in amortized cost in profit or loss.

2.6.14.2 Financial assets

Financial assets include primarily trade receivables, receivables from banks, granted loan, cash on hand and derivative financial assets. The classification of financial instruments is based on the business model within which these instruments are held and on the contractual cash flows.

Classification

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss.

Subsequent measurement of financial assets depends on the measurement category into which the Group classifies its financial assets. According to IFRS 9 there are three measurement categories:

- Amortized cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

For the classification in one of these categories hGears Group differentiates between debt and equity instruments.

Subsequent measurement of **debt instruments** depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

- Financial assets are classified as measured at **Amortized Cost** if the Group holds the assets for collection of contractual cash flows (business model "hold to collect") and the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. After initial recognition, such financial instruments are subsequently carried at Amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the statement of income when the financial assets are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in the consolidated statement of profit or loss.

- Debt financial assets are classified as measured at **fair value through other comprehensive income** if the business model is "hold to collect and sell" and the contractual cash flows are solely payments of principal and interest on principal amount outstanding. The changes in fair value are recognized in other comprehensive income and are reclassified to profit or loss when the instrument is derecognized. Changes in expected credit losses are recorded in profit or loss by adjusting the FVOCI reserve instead of the carrying amount.

- Financial assets that do not meet the criteria for AC or FVOCI are classified as measured at **fair value through profit or loss**. In addition, the Group may irrevocably designate a debt instrument as measured at FVPL (so-called fair value option). Gains or losses on a debt instrument classified into this category are recognized in profit or loss and presented net within other income/(expenses) in the period in which they arise.

hGears Group does not make use of the fair value option.

Pursuant to IFRS 9, hGears Group classifies its financial instruments in the following categories:

- Financial assets and financial liabilities measured at amortized costs (most of the non-derivative financial assets of hGears fall into this category since both criteria are met);
- Financial assets and financial liabilities at fair value through profit and loss.

Equity investments are measured at fair value through profit or loss. Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the consolidated statement of profit or loss. In addition, there is an irrevocable option to present fair value gains and losses on equity investments in other comprehensive income. The Group decides on an instrument-by-instrument basis whether it elects this option. In this case, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. However, dividends from such investments continue to be recognized in the consolidated statement of profit or loss as other income when the Group's right to receive payments is established.

Impairment of financial assets

Financial assets are subject to credit risk that are taken into consideration in the recognition of loss allowances or, for losses already incurred, when reporting an impairment. The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at AC and FVOCI.

The general impairment methodology applied follows a three-stage approach which is based on the change in credit quality of financial assets since initial recognition (general approach). According to this approach hGears Group considers the probability of default upon initial recognition of the respective asset and whether there has been a significant increase in credit risk. At initial recognition, debt instruments are assumed to have a low credit risk, for which a loss allowance for 12 months ECL is recognized (stage 1). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL (stage 2). A significant increase in credit risk is presumed if a debtor is more than 60 days past due in making a contractual payment or if the rating of the debtor was downgraded by external rating agencies (for example by insurance companies). If there is objective evidence of impairment (stage 3), hGears Group also accounts for lifetime ECL.

The Group considers that there is objective evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- higher probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The company categorizes a financial asset for write off only based on decisions made on specific debtors. The decision is based on available information and after the company concluded all required actions to collect the over dues amounts. Where financial assets have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

For trade receivables, the Group applies the simplified approach which uses a lifetime ECL allowance. Expected credit losses have been determined based on specific credit risk parameters for probability of default (PD), loss given default (LGD) and gross exposure (EAD) per debtor. The data are estimated from historical experience and adjusted by forward-looking information from macroeconomic estimates.

An impairment loss for trade receivables is recorded using an allowance account. For all other financial assets impairment loss directly reduces the carrying amount. Impairment losses are recognized in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

For detailed information on credit risk refer to Note 6.2.2.

2.6.14.3 Financial liabilities

Financial liabilities primarily include liabilities to banks, to shareholders, to leasing companies and derivative financial liabilities. They are initially recognized at fair value. Lease liabilities are accounted for in accordance with IFRS 16 and are not subject to the measurement principles presented below. For further information on lease liabilities, please refer to Note 2.6.7. At initial recognition, the Group measures a financial liability at its fair value minus any directly attributable transaction costs, in case a financial liability is not classified at fair value through profit or loss. Transaction costs of financial liabilities carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss.

Subsequent measurement of financial liabilities depends on the measurement category into which the Group classifies its financial liabilities. According to IFRS 9 there are two measurement categories for financial liabilities:

- Amortized cost (AC)
- Fair value through profit or loss (FVPL)

Financial liabilities at **Amortized cost** are trade and other payables, liabilities to banks and shareholders. After initial recognition, financial liabilities are subsequently measured at Amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as in case of amortization using the effective interest method.

Financial liabilities at **fair value through profit or loss** include financial liabilities held for trading. Derivatives, which are not designated as hedging instruments in hedge accounting, are classified as held for trading and therefore recognized at fair value through profit and loss. Gains or losses on liabilities held for trading are recognized in consolidated statement of profit or loss.

2.6.14.4 Derivatives and hedge accounting

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months; it is classified as a current asset or liability when the remaining maturity is less than 12 months.

- The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument.

If hedge accounting would not have been applied, the profit or loss arising from remeasuring the derivative financial instrument at its fair value is immediately recognized in the consolidated statement of profit or loss.

If hedge accounting is applied, derivatives can be designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

hGears Group only designates derivatives within cash flow hedges, whereby the effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve in other comprehensive income. The deferred gain or loss is removed from equity and recognized in consolidated statement of profit or loss in the same period in which the hedged transaction is recognized. The gain or loss relating to the ineffective portion of changes in the fair value of the hedging instrument is recognized immediately in the consolidated statement of profit or loss.

When an hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss recorded in equity shall remain in equity and be reclassified to the consolidated statement of profit or loss when the forecast transaction occurs. If the hedged forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in equity shall immediately be reclassified to profit or loss.

At inception of a hedge relationship, hGears Group documents the economic relationship between the hedging instrument and hedged item, its risk management objective and strategy for undertaking the hedge transaction as well as the method to assess hedge effectiveness prospectively.

2.6.15 Government Grants

Government grants which compensate the Group for expenses are recognized as other operating income in the same period as the expenses themselves or as reduction of the related expenses.

Government grants related to assets are recognized in other operating income over the life of a depreciable asset. Cash-effective government grants are shown in cash flow from operating activities. Short-time work describes the reduction of the regular working hours for a temporary period of time. During that time the employer pays a salary to the employee which is reduced accordingly. The top-up amounts paid by the employer to the employees form an integral part of the current remuneration to be granted for work performed and have to be recorded as personnel expenses. Since the employee is entitled to the short-time work compensation, the forwarding of this compensation to the employees represents a transitory item in the financial statements from the company´s point of view. While the costs of social security contributions borne by the employer are to be recorded as personnel expenses, the reimbursements from the federal employment agency are categorized as performance-related grants under IAS 20. According to IAS 20.30 these reimbursements are reported as a deduction from personnel expenses (net statement).

2.6.16 Non-current Assets Held for Sale and Discontinued Operations

An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. The Standard defines "highly probable" as meaning "significantly more likely than probable", where "probable" means "more likely than not". An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. After the reclassification, the assets are no longer depreciated as planned.

Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense. Facility-holding costs (e.g. insurance, security services, utility expenses etc.) to be incurred between the date of classifying the asset as held for sale and the date of ultimate disposal should not be recognized as costs to sell. Such costs are not incremental costs directly attributable to the disposal of an asset (or disposal group) because they would be incurred whether or not the facility was being sold. If the sale of an asset (or disposal group) is expected to occur beyond one year, costs to sell are measured at their present value, i.e. discounted for the time value of money. The subsequent unwinding of the discount is presented in profit or loss as a financing cost.

3. NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

3.1 Revenues

hGears Group generates revenue from the sale of manufacturing, distribution and selling of precision turned parts, drive components, gear kits as well as complex system solutions. Revenues for the financial year 2023 amount to kEUR 112,476 (2022: kEUR 135,334).

The Group derives revenue its operations at a point in time in the following major revenue streams, business areas and geographical regions:

in kEUR	2023	2022
Sales of goods	111,705	133,956
Other	770	1,378
Total Revenues	**112,475**	**135,334**

Other revenues relate to the sale of scrap mainly in Germany.

hGears Group earns revenues on the sale of goods through its operations consisting of 3 business areas. The following table provides hGears Group's sale of goods by business area:

in kEUR	2023	2022
e-Mobility	42,011	51,418
e-Tools	26,516	41,411
Conventional	43,178	41,127
Sales of goods	**111,705**	**133,956**

- **e-Mobility:** focuses on products for e-bike drive systems and drive train units for electric and hybrid vehicles. It includes the co-development and manufacturing of components for electrical drive applications (e. g. drive shaft, crank shaft and toothed washer). Electrical drive systems for vehicles require high precision components which are capable of withstanding high torque, are light weight and reduce noise;
- **e-Tools:** focuses on components utilized in the powering mechanism of battery driven (e-drive), cordless power and gardening tools. It includes the manufacturing of precision components that are used in the part of the gearbox that connects the electric motor to the actual tools (e.g. cutting tool, trimming tool);
- **Conventional:** focuses on components and gears for premium and luxury vehicles, motorbikes and gear units for various industrial applications, such as rolling shutters and HVAC systems. Traditional automotive and industrial applications are not part of hGears' primary strategic focus.

Sales of goods in the e-Mobility business area in 2023 decreased mainly due to ongoing destocking in the e-bike industry and a slowdown in EHV demand (2023: kEUR 42,011; 2022: kEUR 51,418).

The decrease in sales of goods in the e-Tools business area is mainly due to higher inventories at our customers resulting in order cancellations (2023: kEUR 26,516; 2022: kEUR 41,411).

Sales of goods in the Conventional business area are higher compared to the previous year, after a robust uptick in the first half (2023: kEUR 43,178; 2022: kEUR 41,127).

The following table provides hGears Group's sales of goods by geographic location:

in kEUR	2023	2022
EU area	80,420	97,198
USA	9,050	11,917
China	5,996	7,372
Rest of the world	16,239	17,475
Sales of Goods	**111,705**	**133,956**

Sales of goods in the EU area include sales in Germany for a total amount of kEUR 29,942 (2022: kEUR 35,520) and Hungary for a total amount of kEUR 24,196 (2022: 42,935).

Besides Germany and Hungary, sales in EU area are highly fragmented and are not exceeding more than 10% from sales of goods.

3.2 Other capitalized own work and Changes in inventories

(finished goods and work in progress)

in kEUR	2023	2022
Other capitalized own work	87	98
Changes in inventories	(1,291)	712
Total	**(1,204)**	**810**

3.3 Other operating income

The line item breaks down as follows:

in kEUR	2023	2022
Foreign currency exchange gains	1,723	2,795
Disposal of non-current assets	710	311
Reversal of provisions	98	104
Non-cash benefits to employees	247	235
Government grants	610	306
Refund from social contribution for employees	16	15
Other	148	233
Total	**3,552**	**3,999**

Subsidies received in Italy and Germany in accordance with IAS 20 are reported in the Government grants line.

3.4 Raw materials and consumables used

The line item breaks down as follows:

in kEUR	2023	2022
Raw Materials less discounts received	(37,274)	(42,576)
Consumables used and energy	(13,823)	(17,368)
Outsourced manufacturing costs	(4,216)	(6,417)
Summe	**(55,313)**	**(66,361)**

In 2023, the subsidies received in Germany for the higher energy costs are recognized as a reduction of the Consumables used and energy, according to IAS 20 (kEUR 2,142).

3.5 Personnel expenses

The line item breaks down as follows:

in kEUR	2023	2022
Wages and salaries	(30,159)	(31,771)
Social security contributions	(7,190)	(7,298)
Temporary workers	(1,938)	(3,293)
Total	**(39,287)**	**(42,362)**

Wages and salaries include expenses for defined contribution pension plans in the amount of kEUR 1,934 in 2023 and kEUR 2,121 in 2022.

In 2023, the use of short-time-work in Germany led to claims for the reimbursement of short-time allowance, which are recognized as reduction of the Personnel expenses, according to IAS 20 (kEUR 205).

In 2023 the Group employed 777 people on average (2022: 882).

	2023	2022
Factory workers	594	700
Office workers and Managers	183	182
Total	**777**	**882**

As of 31 December 2023, the Group employed 726 FTEs, including the Management Board (31 December 2022: 838).

	31 December 2023	31 December 2022
Factory workers	630	739
Office workers and Managers	96	99
Total	**726**	**838**

3.6 Depreciation, amortization and impairment

The notes to the individual items show the breakdown of depreciation, amortization and impairment charges between intangible assets and property, plant and other equipment.

Total depreciation, amortization and impairment came to kEUR 13,113 (2022: kEUR 11,274). During the year, special depreciation, according to IFRS 5 is booked for a total amount of kEUR 915. For more information on leasing, we refer to Note 4.7.

3.7 Other operating expenses

The line item breaks down as follows:

in kEUR	2023	2022
Maintenance, distribution and manufacturing expenses	(6,343)	(7,369)
Administration and marketing	(5,938)	(5,961)
Miscellaneous personnel expenses	(1,939)	(2,414)
Foreign currency exchange losses	(1,677)	(2,492)
Lease expenses	(747)	(814)
Losses from disposal of fixed assets	(383)	(101)
Other	(432)	(281)
Total	**(17,459)**	**(19,432)**

The table below shows the fees booked in 2023 and 2022 for the Auditing Company:

in kEUR	2023	2022
Auditors		
* Audit	(607)	(431)
* Other services	–	(49)
Total	**(607)**	**(480)**

The audit services include the audit of the annual and consolidated financial statements of hGears AG and hGears Schramberg GmbH. In addition, the audits of the foreign subsidiaries included in the consolidated financial statements are included (2023: kEUR 132, 2022: kEUR 129).

3.8 Financial result

The line item breaks down as follows:

in kEUR	2023	2022
Interest expense on finance lease liabilities	(540)	(532)
Interest expenses banks loans and overdrafts	(1,138)	(510)
Other interest expenses and similar expenses	(614)	(338)
Financial expenses	**(2,292)**	**(1,380)**
Impairment gains/losses from financial instruments	(1,525)	–
Impairment gains/losses from financial instruments	**(1,525)**	**–**
Interest bank income	89	3
Other interest income and similar income	37	–
Financial income	**126**	**3**
Total	**(3,691)**	**(1,377)**

Other interest expenses and similar expenses include the scheduled amortization of transaction costs in relation to the loan in the amount of kEUR 262 (2022: kEUR 157). In addition, factoring interest in the amount of kEUR 310 is included (2022: kEUR 173). An impairment loss from financial instruments results from the impairment of a financial asset in the amount of EUR 1.5 million. The financial asset amounted to EUR 1.0 million as of 31 December 2022.

For more information on leasing, we refer to Notes 4.1, 4.8 and 5.

3.9 Income and deferred taxes

The line item breaks down as follows:

in kEUR	2023	2022
Current income taxes	(60)	(190)
Deferred income taxes	748	6
from temporary differences	(210)	(262)
from tax loss carry-forwards	958	268
Total taxes	**(688)**	**(184)**

Effective income taxes for 2023 include corporation tax, solidarity surcharges, trade tax and foreign income taxes paid totaling kEUR 60 (2022: kEUR 190). In the table below the expected income tax expenses that would have arisen if the tax rate of the parent company of the Group, which is 29.125 % (2022: 29.125 %), had been applied to the income before taxes, is reconciled with the income tax expense displayed in the consolidated statement of profit and loss.

In kEUR	2023	2022
Income before income taxes	**(14,482)**	**(654)**
Theoretical taxes income/(expenses)	4,218	191
Effective taxes income/(expenses)	719	(184)
Lower / (higher) tax burden related to:	**(3,499)**	**(375)**
Differences in foreign tax rates	(169)	(261)
Taxes not relating to the period	12	(12)
No-deductible expenses and tax free income	322	836
Taxes on dividends	(7)	(50)
Unused tax loss carry forwards	(3,599)	(943)
Others	(58)	54
Tax charge	**(3,499)**	**(375)**

The effective tax rate of the Group is −5.0% (2022: 28.1%).

Deferred tax assets and liabilities from temporary differences and tax loss carryforwards are related to the following items of the consolidated statement of financial position of the Group:

	Deferred tax assets	
in kEUR	31 December 2023	31 December 2022
Employee benefit obligations	–	38
Finance lease liabilities	633	1,455
Intangible	29	48
Inventories	728	688
Other current financial liabilities	59	67
Other receivables	8	2
Property, plant and equipment	549	591
Provisions	289	155
Tax losses carry forward	3,335	2,377
Trade receivables	15	15
Borrowings	71	64
Non-current other liabilities	21	22
Trade and other payables	81	84
Other	–	59
Offsetting	(2,741)	(2,817)
Total	**3,077**	**2,848**

Currently there are no restrictions for the utilization of hGears Group's tax loss carryforwards. Deferred tax assets have been recognized to the extent that the likelihood of utilization based on the company's forecasts is reasonably certain. Deferred tax assets of kEUR 3,335 (31 December 2022: kEUR 2,377) have been recognized for tax loss carry forwards.

There are unused tax losses in the Group for corporate income tax (Tax rate: 15,825 %) in the amount of kEUR 33,055 (31 December 2022: kEUR 21,435) and unused tax losses for trade taxes (Tax rate: 13,3 %) in the amount of kEUR 31,645 (31 December 2022: kEUR 19,221). Only kEUR 1,342 unused tax losses are subject to a time limit of 5 years.

	Deferred tax liabilities	
in kEUR	31 December 2023	31 December 2022
Employee benefit obligations	18	17
Finance lease	–	52
Inventories	9	3
Property, plant and equipment	2,729	3,234
Non-current other liabilities	3	3
Borrowings	–	33
Other	3	5
Offsetting	(2,741)	(2,817)
Total	**21**	**530**

In the period under review, tax effect of kEUR 1 (2022: kEUR 49) resulted from the re-measurement of the employees benefit obligation. These effects are recognised in other comprehensive income; the cumulative amount is kEUR 18 (31 December 2022: kEUR 17).

No deferred tax liabilities were recognized on temporary differences in the carrying amounts of investments, so-called outside basis differences, in the amount of kEUR 18,396 (31 December 2022: kEUR 17,102), as hGears AG can control the timing of the realization of the temporary differences and these will not be reversed in the foreseeable future.

The group does not fall within the scope of the OECD_Model Pillar 2 regime, which applies to multinational companies that have consolidated revenues in at least 2 years out of 4 (which, according to the OECD definition, include any form of income and therefore do not fall within the scope of IFRS 15 recorded sales revenues are limited) of EUR 750 million.

3.10 Segment reporting

An operating segment is defined as a unit of an entity that engages in business activities from which it can earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's chief operating decision-maker, the Management Board, and for which discrete financial information is available.

In light of such definition, hGears consists of one operating segment, production of high precision gears and components.

The management board evaluates hGears Group economic success using selected key figures so that all relevant income and expenses are included. In detail the performance of the operating segment is measured on the basis of consolidated Adjusted EBITDA, the return on consolidated revenues and the consolidated Free Cash Flow, as measured for the Management Board reporting purposes.

The following table shows the segment Revenue and Adjusted EBITDA to consolidated net result of the period:

in kEUR	IFRS consolidated	
FY	**2023**	**2022**
Revenues	**112,475**	**135,334**
Adjusted EBITDA (1)	**5,609**	**15,283**
One-off transaction costs	(3,287)	(3,289)
Depreciation, amortization and impairment	(13,113)	(11,274)
EBIT	**(10,791)**	**720**
Finance income	126	3
Finance expenses	(3,817)	(1,380)
EBT	**(14,482)**	**(657)**
Income and deferred taxes	688	(184)
Net result of the period	**(13,794)**	**(841)**

(1) The Company defines EBITDA as profit from operating activities before depreciation, amortization and impairment. The Company discloses EBITDA as a supplemental APM as it believes this is a meaningful measure to indicate hGears' earnings and thus to evaluate the performance of hGears' business activities over time.

The adjustments include non-recurring items that lead to material effects in a reporting year.

The following table is the breakdown of One-off expenses:

in kEUR	IFRS consolidated	
FY	**2023**	**2022**
Personnel costs (1)	2,375	1,336
One-off advisory fees	54	151
One-off Impairment	684	–
One-off special project cost	162	896
COVID adjustments (2)	–	574
Other	12	332
Total	**3,287**	**3,289**

(1) it includes additional bonuses for employees and accruals for severance costs
(2) it includes additional costs incurred due to the safety measures adopted, unavoidable 'fixed' costs during the lockdown period and personnel expenses for quarantine and illness leave

The following table shows the return on revenues and the Free Cash Flow:

in kEUR	IFRS consolidated	
FY	**2023**	**2022**
Return on revenues in % (1)	(12.3)	(0.6)
Free Cash Flow (2)	**(3,058)**	**(8,337)**

(1) The Company defines return on revenues as the ratio of net result of the period to return revenues.
(2) The Company defines free cash flow as a sum of net cash flow from operating activities and net cash flow for investing activities, minus paid interest, received interest, and receipts leasing contracts, which are part of the payments for PPE and intangible assets

hGears Group generates more than 10% of its sales with one customer. As of 31 December 2023, this single most important customer represented accounts receivable with a carrying amount of kEUR 349 (31 December 2022: kEUR 537) and revenues in 2023 in the amount of kEUR 24,501 (31 December 2022: kEUR 42,841).

hGears's Group earns revenues worldwide through its operations. Geographic location of revenue is determined based on the final location of delivery. Sales by region are presented in Note 3.1.

The non-current assets (intangible assets and property, plant and equipment) of the hGears Group are distributed across the following regions:

in kEUR	hGears AG / Germany		Schramberg / Germany		Padova / Italy		Suzhou / China		Reconciliation (1)		IFRS consolidated	
FY	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Additions	-	6	5,985	11,366	2,924	4,609	229	667	-	-	9,138	16,649
Carrying amounts	73	100	41,658	44,097	22,782	24,225	6,958	8,833	(39)	(150)	**71,432**	**77,105**

(1) The reconciliation relates to the elimination of intragroup transactions

3.11 Earnings Per Share

The basic earnings per share (as defined in IAS 33) as of 31 December 2023 is EUR −1.33 (31 December 2022: EUR −0.08). It is calculated by dividing the net income or loss for the period attributable to holders of ordinary equity instruments of hGears by the weighted average number of ordinary shares outstanding during 2023, amounting to 10,400,000 (2022: 10,400,000).

The 212,950 options granted on 3 August 2023 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 31 December 2023.

The performance targets for the stock options granted in 2023 were not achieved. Therefore, these options expired on 31 December 2023 and will not have any dilutive effect going forward.

4. NOTES TO THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

4.1 Property, plant and equipment

The following table provides the breakdown of the Group's Property, plant and equipment:

in kEUR	31 December 2023	31 December 2022
Land and Buildings	10,937	12,369
Plants and Machinery	45,509	45,981
Tools and Dies	4,695	4,369
Other assets	5,017	5,276
Fixed assets under construction and down-payments	4,394	7,803
Total	**70,552**	**75,798**

The table reported in Annex 1 summarizes the changes occurred in Property, plant, and equipment.

The table below shows the Right-of-Use Assets of leases under IFRS 16:

in kEUR	31 December 2023	31 December 2022
Right-of-use Assets:		
Land and Buildings	6,689	10,690
Plants and Machinery	6,471	6,886
Other assets	751	356
Total	**13,911**	**17,932**

The following table shows the movements in item "Right-of-use assets":

in kEUR	1 January 2022	Addition	Disposal	Depre-ciation	Reclassi-fication	Currency differences	31 December 2022
Right-of-use Assets:							
Land and Buildings	10,426	1,910	–	(1,606)	–	(41)	10,690
Plants and Machinery	6,484	1,008	–	(601)	–	(5)	6,886
Other assets	431	221	(17)	(279)	–	–	356
Total	**17,341**	**3,139**	**(17)**	**(2,486)**	**–**	**(46)**	**17,932**

in kEUR	1 January 2023	Addition	Disposal	Depre-ciation	Reclassi-fication	Currency differences	31 December 2023
Right-of-use Assets:							
Land and Buildings	10,690	–	–	(1,561)	(2,315)	(125)	6,689
Plants and Machinery	6,886	192	–	(607)	–	–	6,471
Other assets	356	693	(2)	(295)	–	(1)	751
Total	**17,932**	**885**	**(2)**	**(2,463)**	**(2,315)**	**(126)**	**13,911**

Additions to the right-of-use assets during the financial year 2023 were kEUR 885 (31 December 2022: kEUR 3,139).

In 2023, application of IFRS 16 – Leases resulted in the recognition of kEUR 2,463 in depreciation and amortization (2023: kEUR 2,486) and interest payments for leasing kEUR 540 (2022: kEUR 532). As of 31 December 2023, lease liabilities amounted to kEUR 9,743 (31 December 2022: kEUR 14,232).

Lease liabilities are effectively secured as the rights to the leased assets recognized in the consolidated financial statements revert to the lessor in the event of default.

For further information on leasing, we refer to Notes 3.8, 4.8 and 5.

Fixed assets under construction and down-payments amounted to kEUR 4,394 and also include down-payments to suppliers for the acquisition of fixed assets (31 December 2022: kEUR 7,803).

The amounts refer to machines.

4.2 Intangible assets

The following table provides the breakdown of the Group's intangible assets:

in kEUR	31 December 2023	31 December 2022
Software and licences	701	1,100
Brands and trademarks	38	2
Down-payments	142	157
Other	–	48
Total	**881**	**1,307**

The table attached in Annex 2 provides a reconciliation of the carrying amounts of hGears Group's intangible assets at the beginning and end of the periods presented in the consolidated financial statements.

Down-payments amounted to kEUR 142 (31 December 2022: kEUR 149).

4.3 Inventories

The net value of the inventories as of 31 December 2023 is kEUR 20,026 (31 December 2022: kEUR 20,372).

in kEUR	31 December 2023	31 December 2022
Raw materials, consumables and supplies	11,325	9,903
Finished goods and work in progress	13,991	15,415
Provisions for inventory	(5,295)	(4,946)
Total	**20,021**	**20,372**

The gross value of written-down inventories as of 31 December 2023 is kEUR 25,316 (31 December 2022: kEUR 25,318).

Movements in the Group's provision for inventory is as follows:

in kEUR	
Balance as of 31 December 2021	**(4,844)**
Addition	(550)
Reverse	362
Utilization	85
Other	1
Balance as of 31 December 2022	**(4,946)**
Addition	(794)
Reverse	236
Utilization	202
Other	7
Balance as of 31 December 2023	**(5,295)**

Depreciation of kEUR 794 was recognized in the consolidated statement of profit and loss. These are mainly due to revaluation in order to state inventories at net realizable value. During the year the Group recognized income from release for a total amount of kEUR 236. The utilization mainly refers to the scrapping.

4.4 Trade receivables

The carrying amounts of the trade receivables approximate to their fair values and it is equal to kEUR 10,528 (31 December 2022: kEUR 12,298).

The Group entered into in various supplier finance programmes of our customers. Under these arrangements, the Group sells trade receivables to financial institutions. When the receivables are transferred, they are paid out in full by the bank, after the deduction of a discount. As the sale is non-recourse and the Group has transferred the credit risk, trade receivables amounting to kEUR 7,797 as of the reporting date, are fully derecognized (31 December 2022: kEUR 8,128).

Further trade receivables intended to be sold and amounting to kEUR 651 are not sold yet as of the reporting date (31 December 2022: kEUR 682).

At 31 December 2023, provision for impairments amounted to kEUR 493 (31 December 2022: kEUR 125).

4.5 Other current assets and non-current assets

The following note provides an overview of financial and non-financial assets.

in kEUR	31 December 2023	31 December 2022
Other receivables non-current	114	122
Total Non-Current	**114**	**122**

The table above mainly refers cash deposits made to secure future payments and services.

in kEUR	31 December 2023	31 December 2022
Other current assets	3,680	6,116
Total Non-Financial Assets	**3,680**	**6,116**
Other receivables current	765	872
Other financial assets current, gross	–	1,006
Total Financial Assets	**765**	**1,878**
Total Current	**4,445**	**7,994**

The deviation in the line Other current financial assets comes from mainly from the impairment of the granted loan (31 December 2022: kEUR 1,000). For more information, we refer to Note 3.8.

The following note provides an overview of current financial other receivables and non-financial other receivables.

In kEUR	31 December 2023	31 December 2022
Receivables for energy costs	287	355
Other	183	329
Total Non-Financial Assets	**470**	**684**
Loan to employees	281	134
Supplier with debit balance	4	11
Suppliers premium	7	37
Other	3	6
Total Financial Assets	**295**	**188**
Total	**765**	**872**

The following table provides the breakdown of the Group's other current non-financial assets:

in kEUR	31 December 2023	31 December 2022
VAT receivables	541	941
Other income tax receivables	2,376	4,304
Current prepaid operating expenses	762	871
Total	**3,680**	**6,116**

4.6 Cash and cash equivalents

At December 31, 2023, cash and cash equivalents amounted to kEUR 26,597 (31 December 2022: kEUR 36,276). This position includes cash in hand in the amount of kEUR 4 (31 December 2022: kEUR 8).

Foreign currency balances were translated into the Group currency at the closing day exchange rate.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was immaterial as of 31 December 2023.

4.7 Assets held for sale and discontinued operations

hGears Group decides to sell some non-current assets previously used in its business. According to IFRS 5, those assets are classified separately from other assets in the statement of Financial Position.

in kEUR	Non-current asset Value	Expected disposal value	Depri-ciation
Fixed assets under construction and down-payments	**1.830**	**915**	**(915)**

The management have the commitment to sell the asset and the sale will be completed within one year of the classification date.

In December 2023 the carrying amount equals to kEUR 530, after the selling of some machines that had previously been reclassified.

4.8 Lease liabilities

The Group leases various plants and equipment within the scope of IFRS 16. The carrying amount of the corresponding lease liabilities amount to kEUR 9,743 (31 December 2022: kEUR 14,232).

Lease liabilities resulting from finance agreements in 2023 amounted to kEUR 14,232.

For more information on leasing, we refer to Notes 3.8, 4.1 and 5.

The Group's lease liabilities are split into non-current and current amounts as follows and relate to the lease of various plants and equipment as described below:

in kEUR	31 December 2023	31 December 2022
Finance lease liabilities current	2,516	5,133
Finance lease liabilities non-current	7,227	9,099
Total	**9,743**	**14,232**

The following table provides the breakdown of the total future gross minimum lease payments at the balance sheet date and their present value:

in kEUR	31 December 2023	31 December 2022
Gross finance lease liabilities – minimum lease payments:		
Less than 1 year	2,890	5,611
1 – 5 years	7,748	9,675
More than 5 years	86	312
Minimum lease payments	**10,724**	**15,598**

in kEUR	31 December 2023	31 December 2022
The present value of finance liabilities – minimum lease payments:		
Less than 1 year	2,516	5,133
1 – 5 years	7,142	8,789
More than 5 years	84	310
Net present value of minimum lease payments	**9,742**	**14,232**

The difference between the minimum lease payments and their present value is the interest portion that the Group has to pay in the future for the leasing contracts. to pay in the future for the leasing contracts.

Expenses related to lessee accounting:

In kEUR	2023	2022
Expenses from short-term leases	464	606
Expenses from leases of low-value assets	148	174
Expenses from variable lease payments	136	34
Total	**748**	**814**

4.9 Borrowings

On 21 December 2021, hGears signed and announced a new credit agreement with a syndicate of banks for a total of EUR 60 million. The new credit agreement includes a EUR 15 million term loan and a EUR 45 million revolving credit facility.

The agreement has a term of 3 years until 21 December 2024 with the option to extend the term twice by one year each time.

The company did not pledge any of its assets to secure the credit agreement.

On 31 January 2022, the conditions precedent of the credit agreement were fulfilled and thus the agreement became effective. The new agreement serves to refinance the Group's existing debt of EUR 20 million, which had been due in September 2023 and was fully repaid in January 2022.

The carrying amounts of borrowings are as follows:

in kEUR	31 December 2023	31 December 2022
Bank loan current	20,081	428
Bank loan no-current	–	19,694
Total	**20,081**	**20,122**

Please refer to the table below for the conditions pertaining to borrowings:

Bank	Nominal Value (kEUR)	Date	Interest rates	Cancellation conditions	Repayment/ Maturity	Transactioncosts (kEUR)
Arrangers	5,000	31 January 2022	0.95 % + 6m EURIBOR	1)	Variable (up to six months)	42
Arrangers	15,000	31 January 2022	0.95 % + 6m EURIBOR	1)	Final maturity	125
Arrangers	40,000	31 January 2022	0.95 % + 6m EURIBOR	1)	Variable (up to six months)	334

The companies hGears AG, hGears Padova S.p.A. and hGears Schramberg GmbH can have the access and utilize the above facilities.

The only Cancellation condition of the borrowings reported in the table above is:

1. change of control whereby "control" means the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to cast, or control the casting of, 30 % or more of the voting shares in the Company. As of 31 December 2023, hGears Group had met all financial and non-financial covenants under its existing facility agreements.

For additional information regarding covenants, see Note 6.1.

4.10 Provisions

The following note provides an overview of provision, current and non-current.

in kEUR	31 December 2023	31 December 2022
Provision, current	849	564
Provision, non-current	319	319
Total	**1,168**	**883**

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

in kEUR	Environment provision	Other risk provision	Warranty provision	Total
Balance as of 31 December 2021	**269**	**120**	**426**	**815**
Addition	–	114	159	273
Release	–	–	(10)	(10)
Utilization	–	(50)	(144)	(194)
Other	–	-	(2)	(2)
Balance as of 31 December 2022	**269**	**184**	**430**	**883**
Addition	–	321	82	403
Release	–	(10)	(42)	(52)
Utilization	–	–	(63)	(63)
Other	–	–	(3)	(3)
Balance as of 31 December 2023	**269**	**495**	**404**	**1,168**

The amounts considered in "Environmental provision", relate to opinions drawn up by legal advisors and other experts. The Company does not expect to utilize the accrued amount over the next 12 months.

The amounts considered in "Other risks provision" refer to the best estimate made by the Management Board about probable liabilities in relation to proceedings against suppliers, tax authorities, employees and other subjects. The estimate takes into account, where applicable, the opinion of legal advisors and other experts, the past experience of the Company in similar situations and the intention of the Company to proceed with further action. This item also includes provisions for anticipated losses. It's expected that the accrued amount of kEUR 444 is utilized in the next 12 months.

The "Warranty provision" has been recognized to cover possible future replacement costs of products sold within during the year and according to the terms of the contractual warranty. The accrued amount is expected to be utilized fully over the next 12 months.

4.11 Employee benefit obligations

This item in question includes the estimated liability for the severance indemnity (TFR) related to the employees of the subsidiary Padova.

Italian "Trattamento di Fine Rapporto" (TFR) benefit is a deferred compensation item established by Italian law. It is governed by the Italian Commercial Code (art. 2120). The value of the "TFR" results from the gross annual salaries of the employees, divided by 13.5. At a later date, this amount is adjusted by applying the inflation rate of the subsidiary country added to 1.5 percentage points (annual rate of increase TFR). The benefit is paid to the employees as a lump sum in case of a termination of the employment, i.e. in case of retirement, death, disability or turnover.

Based on generally accepted interpretation and following the changes made to the national laws by Law no. 296 of 27 December 2006 ("2007 Finance Act") and the following decrees and regulations issued in the early months of 2007, the Italian severance indemnity plans are deemed:

- a defined contribution plan for the quotas of the severance indemnity accrued as from 1 January 2007, both in the case of supplementary pension and in the case of allocation to the Treasury fund by INPS;
- a defined benefit plan for the quotas of the severance indemnity accrued until 31 December 2006, for which it is necessary to carry out actuarial calculations that exclude the component related to future salary increases.

The employee severance fund of Italian companies ("TFR") has no plan assets at its service.

The composition of this item is detailed as follows:

in kEUR	
Balance as of 31 December 2021	**1,386**
Actuarial Losses (profits) from experience	77
Actuarial Losses (profits) from changes in financial assumptions	(241)
Interest costs	6
Utilisation of TFR	(128)
Balance as of 31 December 2022	**1,100**
Actuarial Losses (profits) from experience	(27)
Actuarial Losses (profits) from changes in financial assumptions	24
Interest costs	39
Utilisation of TFR	(68)
Balance as of 31 December 2023	**1,068**

The actuarial assumptions for the defined benefit plans are detailed in the following table:

	31 December 2023	**31 December 2022**
Economic summary		
Inflation rate	3.08 %	3.63 %
Discount rate	2.00 %	2.30 %
Annual rate of increase TFR	3.00 %	3.23 %
Demographic summary		
Mortality	Mortality table RG48 published by the State General Accounting Department	
Inability	INPS tables divided for age and sex	
Retirement	100 % when the AGO requirements are met	
Turnover annual frequence and TFR advances		
Advances frequency	2.00 %	2.00 %
Turnover frequency	5.00 %	5.00 %

The annual frequencies of turnover and TFR advances are derived from the historical experience of the Company and from the experience of the actuary on a significant number of similar companies. Below is a sensitivity analysis related to pension plans with defined benefits on the basis of changes in the key assumptions:

in kEUR		Pension plan 31 December 2023	Pension plan 31 December 2022
Turnover rate	+1 %	1,070	1,120
Turnover rate	–1 %	1,065	1,111
Inflation rate	+0.25 %	1,079	1,127
Inflation rate	–0.25 %	1,057	1,104
Discount rate	+0.25 %	1,051	1,098
Discount rate	–0.25 %	1,085	1,134

The sensitivity above was made on the basis of changes in individual assumptions, while retaining the others unchanged, although in practice any change in an assumption generally can also be reflected in the other as a result of potential correlations. The sensitivity above was calculated using the same method (projected unit credit method) used to calculate the liability recognized in the consolidated statement of financial position. In the tables below are reported the contribution for the following year, the average duration of the defined benefit plan and the future estimated payments of the plan.

Service costs and duration

Service cost 2023	–
Duration (years)	7.05

Future estimated payments for defined benefit plans

Year	in kEUR
1	121
2	103
3	78
4	68
5	115

The total expense recognized in the current period in relation to the Group contributions was kEUR 1,934 during 2023 and kEUR 2,121 during 2022.

4.12 Trade and other payables

The following note provides an overview of the current trade and other payables:

in kEUR	31 December 2023	31 December 2022
Trade payables	21,290	22,053
Current Non-Financial Liabilities	9,154	8,919
Total	**30,444**	**30,972**

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade payables are assumed to be the same as their fair values, due to their short-term nature. The following table provides the breakdown of the Current Non-Financial Liabilities:

in kEUR	31 December 2023	31 December 2022
Contract Liabilities	657	157
Other current liabilities	2,696	2,760
Employees liabilities	4,131	4,583
Current deferred operating expenses	1,670	1,419
Total Current Non-Financial Liabilities	**9,154**	**8,919**

Contractual liabilities as of 31 December 2022, resulted fully in revenues in 2023.

Other current liabilities breakdown is as follows:

in kEUR	31 December 2023	31 December 2022
Taxes and social contributions on wages	1,939	1,904
Auditor costs	488	453
Other	266	403
Total	**2,693**	**2,760**

Employees liabilities and taxes on wages mainly relate to payrolls and wages (also Management Board liabilities – please see Note 8.2.2 for more information) for the month of December, to vacation days accrued but not taken yet to production bonuses and to the related social contributions.

The balance of non-current trade and other payables as of the reporting date included the following items:

in kEUR	31 December 2023	31 December 2022
Anniversary obligation	64	65
Trade payables	191	266
Employee liabilities	73	86
Total	**328**	**417**

4.13 Other current financial liabilities

The balance of other current financial liabilities as of the reporting date included the following items:

in kEUR	31 December 2023	31 December 2022
Interest liabilities	148	4
Derivates liabilities	–	238
Total	**148**	**242**

4.14 Current tax liabilities

The line "Current tax liabilities" includes the liability to the tax authorities related to the calculation of the current taxes on the result of the period. This position includes the payments on account made by the companies to the tax authorities for the taxes to be paid the following year.

4.15 Equity

On 8 April 2021, the Company's share capital increased from kEUR 63 to kEUR 8,000 from company funds. On 21 May 2021 the share capital is increased due to the IPO to kEUR 10,400. At 31 December 2023 the total share capital of the company is divided into 10,400,000 ordinary shares with a par value of 1 Euro.

Apart from the minimum amount of share capital required under German law, there are no restrictions on distribution. The entity itself does not hold any own shares.

All shares issued are fully paid up.

The Capital Reserve comprises the contributions of the shareholders (kEUR 6,963), the non-cash contribution of "former" miniGears companies (kEUR 13,485), reduced by kEUR 7,938 as result of the share capital increase from Company funds. The proceeds from the IPO amounted to kEUR 60,000, less certain legal, consulting and other third-party fees that are directly related to the IPO (kEUR 3,278, increased by kEUR 7 compared to the previous year). Due to the missing recoverability of the tax benefits, no taxes were recognised in equity.

Other reserve includes the legal reserve that is booked in the subsidiary Padova and corresponds to 5% of its share capital.

The OCI Reserves includes:

- ***Currency Translation Reserve:*** it includes the reserve of the subsidiary Suzhou deriving from translating it results and financial position from RMB (functional currency) into EURO (presentation currency);
- Effective changes in ***fair value of derivative contracts***
- in cash flow hedge relationships (interest rate swaps and forward exchange contracts);
- Changes in ***Employee Plan Reserve*** related to employee termination indemnities of defined benefit plans;
- Fair value of Stock Option Programme.

Retained earnings include the result of the current period and the results of the previous years yet to be paid to shareholders.

Authorized capital

By virtue of the Articles of Association, the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital of the Company on one or more occasions on or before 31 March 2026, by up to a total of EUR 4,000,000.00 by issuing up to a total of 4,000,000 new no-par value bearer shares in return for cash contributions and/or contributions in kind (Authorized Capital 2021). The Management Board is authorized, with the approval of the Supervisory Board, to determine the further content of the share rights and the conditions of the share issue and the implementation of the capital increases. Among other things, the Management Board was also authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights under certain conditions and within defined limits. No use has been made of the authorized capital to date.

Conditional Capital 2021/I

The Management Board was authorized by the Annual General Meeting on 22 June 2022, with the approval of the Supervisory Board, to issue convertible and/or warrant-linked bonds or profit-sharing rights with or without conversion or subscription rights (collectively hereinafter also referred to as "bonds") in a total nominal amount of up to EUR 100,000,000.00 on one or more occasions until 4 May 2026. The holders of the Bonds referred to in the preceding sentence may be granted conversion or subscription rights to up to 3,261,600 no-par value bearer shares of the Company with a pro rata amount of the share capital of up to EUR 3,261,600.00 in total.

The conversion and subscription rights may be serviced from conditional capital to be resolved at this or future Annual General Meetings, from existing or future authorized capital and/or from a cash capital increase and/or from existing shares and/or provide for a cash settlement instead of the delivery of shares. No use has yet been made of Conditional Capital 2021/I.

Conditional Capital 2021/II

The Management Board was authorized by the Annual General Meeting on June 22, 2022, with the approval of the Supervisory Board, to reduce the company's Conditional Capital 2021/II by EUR 190,500 by withdrawing 190,500 no-par value bearer shares. After the reduction the Conditional Capital 2021/II amounts to EUR 547,900 and includes 547,900 no-par value bearer shares. Other conditions with regard Conditional Capital 2021/II remain unchanged.

The Management Board was authorized by the Annual General Meeting on June 13, 2023, with the approval of the Supervisory Board, to cancel the existing Conditional Capital 2021/II.

Conditional Capital 2022/I

The Management Board was authorized by the Annual General Meeting on 22 June 2022, with the approval of the Supervisory Board, to conditionally increase the company's share capital by up to EUR 190,500.00 by issuing up to 190,500 no-par value bearer shares (Conditional Capital 2022/I). Conditional Capital 2022/I serves exclusively to issue shares of the company to service subscription rights to shares of the company issued to members of the Management Board of the company and selected managers of the company as well as to companies affiliated with the company within the meaning of sections 15 et seq. of the German Stock Corporation Act ("AktG") in the form of share options in accordance with the authorization resolution of the Annual General Meeting on 22 June 2022. The conditional capital increase shall only be implemented to the extent that stock options are granted in accordance with the aforementioned authorization resolution (Stock Option Programme 2022), the holders of the stock options exercise their rights, and the company does not grant any treasury shares to service the stock options. The new no-par value bearer shares shall carry dividend rights from the beginning of the financial year for which the Annual General Meeting has not yet adopted a resolution on the appropriation of profits at the time of issue. The Supervisory Board is authorized to amend the wording of the Articles of Association in line with the respective utilization of Conditional Capital 2022/I and after expiry of all exercise periods. The Management Board with the approval of the Supervisory Board and – with regard to the members of the Management Board – the Supervisory Board are authorized to determine the further details of the issue of shares from Conditional Capital 2022/I. To date, no use has been made of Conditional Capital 2022/I.

The Management Board was authorized by the Annual General Meeting on 13 June 2023, with the approval of the Supervisory Board, to cancel the existing Conditional Capital 2022/I.

Conditional Capital 2023

The Management Board was authorized by the Annual General Meeting on 13 June 2023, with the approval of the Supervisory Board, to conditionally increase the company's share capital by up to EUR 738,400.00 by issuing up to 738,400 no-par value bearer shares (Conditional Capital 2023). Conditional Capital 2023 serves exclusively to issue shares of the company to service subscription rights to shares of the company issued to members of the Management Board of the company and selected managers of the company as well as to companies affiliated with the company within the meaning of sections 15 et seq. of the German Stock Corporation Act ("AktG") in the form of share options in accordance with the authorization resolution of the Annual General Meeting on 13 June 2023. The conditional capital increase shall only be implemented to the extent that stock options are granted in accordance with the aforementioned authorization resolution (Stock Option Programme 2023), the holders of the stock options exercise their rights, and the Company does not grant any treasury shares to service the stock options. The new no-par value bearer shares shall carry dividend rights from the beginning of the financial year for which the Annual General Meeting has not yet adopted a resolution on the appropriation of profits at the time of issue. The Supervisory Board is authorized to amend the wording of the Articles of Association in line with the respective utilization of Conditional Capital 2023 and after expiry of all exercise periods. The Management Board with the approval of the Supervisory Board and – with regard to the members of the Management Board – the Supervisory Board are authorized to determine the further details of the issue of shares from Conditional Capital 2023.

The total nominal amount of the conditional capitals of the Company, including the Conditional Capital 2021/I in the amount of EUR 3,261,600.00 (Clause 4.3 of the Articles of Association) as well as the new Conditional Capital 2023 in the amount of EUR 738,400.00 (Clause 4.4 of the Articles of Association), which replaced the Conditional Capital 2021/II, amounts in total to EUR 4,000,000.00 and therefore not exceeds half of the share capital existing at the time of the resolution on the conditional capital increase.

4.16 Impairment of assets or cash-generating units

As at 31 December 2023, the hGears Group reviewed the carrying amounts of Intangible assets of kEUR 881 (previous year: kEUR 1,307) and Property, plant and equipment of kEUR 70,552 (previous year: kEUR 75,798) to determine whether there were any indications of impairment of assets or cash-generating units. The review revealed that there was no impairment of property, plant and equipment as at the balance sheet date.

In the fundamental analyses of the recoverability of cash-generating units, the hGears Group determines the higher of value in use and fair value less costs to sell as the recoverable amount and compares this with the corresponding carrying amounts. The cash-generating units correspond to the individual companies of the hGears Group. The value in use is determined by discounting the expected future cash flows from the continued use of the cash-generating units at a risk-adjusted interest rate (WACC). Future cash flows are determined on the basis of the business plan approved by management at the time the impairment test is carried out. The business plan regularly covers a period of five years. It is based on expectations regarding the future economic development of the respective markets and the profitability of the products offered. A risk assessment is also carried out when deriving the value in use. The effects of company-related risks as well as the effects of the Russia-Ukraine conflict and interest rate trends are taken into account in the calculation via cash flows. Country risks, on the other hand, are taken into account as cross-company effects in the interest rate. The assumptions used for the planning calculation are checked for plausibility both on the basis of historical developments and external sources of information. The risk-adjusted interest rate (WACC – weighted average cost of capital) calculated for the respective cash-generating unit – as at 31 December 2023 is 10.32 % (previous year: 9.41 %) after tax plus country risk premium. The WACC before taxes was 12.92 % as at 31 December 2023 (previous year: 9.60 %). The calculation is based on the Capital Asset Pricing Model (CAPM), taking into account current market expectations. Specific peer group information for beta factors, capital structure data and borrowing costs are used to determine the interest rate. The company-specific cash flows were calculated using the respective tax rates of the companies in Germany of 29.13 % (unchanged from the previous year) and abroad of 25.00 % and 27.90 % (unchanged from the previous year). For the periods after the detailed planning phase, the cash flows of the last planning period are extrapolated using growth rates based on long-term inflation expectations. The growth rates used for the calculation are generally 1.0 % (previous year: 1.0 %). Corporate planning is based on past experience, taking current forecasts into account. The war in Russia and Ukraine, high inflation and rising interest rates remain a potentially important influencing factor and may impact our business. In the companies, the main planning assumptions are based on the industry forecasts for the global economy on which sales planning is based, specific customer commitments for individual company-specific adjustments, which also include planned product innovations and cost savings. For 2024, the development of interest rates and Russia's war with Ukraine are factors of uncertainty for the current year. Another uncertainty factor is the development of the market in China, one of the largest markets in the world. This was taken into account in the planning of the respective companies. Scenarios were calculated for the companies (worst case with planned earnings reductions of 20 %, middle case with planned earnings reductions of 10 % compared to the realistic case). These showed that in both scenarios there would be an impairment requirement of EUR 10.2 million and EUR 5.4 million respectively.

5. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOW

The following table provides the reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities

			Non-cash changes				
in kEUR	31 December 2022	Cash flows	Acquisition	Fair value changes	Foreign exchange movement	Other	31 December 2023
Finance lease liabilities	14,233	(5,720)	–	–	(151)	1,381	9,743
Borrowings	20,122	(1,226)	–	–	–	1,186	20,081
Other current financial liabilities	242	(4)	–	(93)	–	4	149

			Non-cash changes				
in kEUR	31 December 2021	Cash flows	Acquisition	Fair value changes	Foreign exchange movement	Other	31 December 2022
Finance lease liabilities	14,381	(3,511)	–	–	(50)	3,412	14,233
Borrowings	21,408	(1,721)	–	–	–	435	20,122
Other current financial liabilities	9	(5)	–	233	–	5	242

The paid interests in the cash flow statement include interests for factoring in an amount of kEUR 310 (2022: kEUR 173) and interest for leasing in an amount of kEUR 540 (2022: kEUR 532).

6. CAPITAL MANAGEMENT AND FINANCIAL RISK MANAGEMENT

6.1 Capital management

hGears Group's policy is to maintain a strong base in terms of equity capital and sufficient cash balance in order to maintain investor and creditor confidence and to sustain the future development of the business. The primary goals when managing capital are to ensure sufficient liquidity to meet working capital requirements, fund capital investments and to safeguard our ability to continue operating as going concern.

hGears Group monitors all capital positions regularly (at least monthly) within its financial reporting, discusses the capital status frequently within the Management Board meetings and also within its Supervisory Board meetings.

On 21 December 2021, hGears signed and announced a new credit agreement with a syndicate of banks for a total of EUR 60 million. The Group shall ensure that it complies with the financial covenants, leverage and equity ratio cover on the Group level, during the term of the Agreement, Testing Dates are 31 March, 30 June, 30 September and 31 December of each year.

As of 31 December 2023, the financial covenants were met.

6.2 Financial risk management

hGears Group's operating activities expose the Group to a variety of financial risks such as market risks, credit risks and liquidity risks. hGears Group's finance department has created controlling instruments and key metrics to identify and evaluate such risks in close co-operation with the operating units.

6.2.1 Market risk

6.2.1.1 Foreign exchange risk

The exposure to the risk of changes in foreign exchange rates arises from commercial activities conducted by Group companies in currencies other than the respective functional currency, and in particular for expected sales made in USD and in EUR (other currencies are used for negligible amounts). These revenues in foreign currencies can be affected by fluctuations in the respective exchange rate impacting on the commercial margins. The Group's companies also hold immaterial debts in foreign currency as well as foreign currency bank accounts.

The Group is primarily exposed to changes in RMB/EUR and RMB/USD exchange rates due to its Chinese subsidiary. The Group also has exposures to changes in USD/EUR exchange rates due to its Italian subsidiary. The measures implemented to hedge against these currency risks are defined at Group level. To mitigate the foreign currency risks and limiting the variability of turnover, the Group enters into foreign exchange forward contracts to partially hedge its planned sales in US dollars on the basis of approved commercial budget. The derivative contracts are concluded exclusively with independently highly rated financial institutions.

The main information relating to foreign currency derivative instruments as of 31 December 2023 and 31 December 2022 are summarized in the table below:

31 December 31 2023

Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR
EUR/USD	2	19 January 2023	Unicredit	from 31 January 2024 to 29 February 2024	From 1.1099 to 1.11	181	(0)

31 December 2022

Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR
RMB/EUR	2	19 January 2022	CMB	from 30 January 2023 to 3 February 2023	from 7. 4226 to 7.4233	563	6
RMB/USD	2	19 January 2022	CMB	from 30 January 2023 to 3 February 2023	from 6.4634 to 6.4638	3,761	(229)
EUR/USD	2	2 February 2022 and 17 May 2022	Unicredit	from 31 January 2023 to 28 February 2023	from 1.079 to 1.159	220	(8)

Currency risks pursuant to IFRS 7 arise as a result of monetary financial instruments that are denominated in a currency other than the functional currency. Exchange rate differences from the translation of financial statements into the presentation currency (translation risk) are disregarded. Currency risks are measured using sensitivity analyses, during which the impact on profit after tax and equity of hypothetical changes to relevant risk variables is assessed. All non-functional currencies in which the Group employs financial instruments are treated as relevant risk variables. The periodic effects are determined by applying the hypothetical changes in the risk variables to the non-derivative and derivative financial instruments existing at the end of the reporting period. The effect to profit or loss arises mainly from U.S. dollar and Euro-denominated non-derivative financial instruments as well as from the non-designated components of derivatives. The impact on other components of equity arises from the components of foreign currency forward contracts designated as cash flow hedges.

The effects of a ten percent increase/decrease in RMB against foreign currencies were as follows as of the balance sheet date:

in kEUR	31 December 2023			
	Equity		Profit for the period	
Exchange rate	10 %	(10 %)	10 %	(10 %)
RMB/EUR	–	–	96	(96)
RMB/USD	–	–	575	(575)

in kEUR	31 December 2022			
	Equity		Profit for the period	
Exchange rate	10 %	(10 %)	10 %	(10 %)
RMB/EUR	–	–	109	(109)
RMB/USD	–	–	8	(8)

The effects of a ten percent increase/decrease in USD against Euro were as follows as of the balance sheet date:

in kEUR	31 December 2023			
	Equity		Profit for the period	
Exchange rate	10 %	(10 %)	10 %	(10 %)
USD/EUR	–	–	(83)	104

in kEUR	31 December 2022			
	Equity		Profit for the period	
Exchange rate	10 %	(10 %)	10 %	(10 %)
USD/EUR	–	–	(70)	124

For further information on derivatives and hedge accounting refer to Notes 2.6.14 and 7.3.

6.2.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings with variable interest rates, which exposes the Group to cash flow risk. In addition, the Group is exposed to interest rate risk due to its investments of available cash in bank deposits. Changes in market interest rates influence the cost and the performance of various forms of financing and utilization, thus impacting on the level of charges and finance income and financial expenses of the Group.

The measurement of the interest rate risk of the Group has been carried out through a sensitivity analysis that shows the effects on the consolidated statement of profit or loss and net equity which would be encountered during the year as of 31 December 2023 in the case of a hypothetical change in market interest rates. The effects to profit or loss results from floating rate financing that is not hedged, impact to equity results from the fair value changes of the interest rate swaps designated as hedging instruments (at the reporting date no contract in place).

in kEUR	31 December 2023	
	Equity	Profit for the period
+200 bps	–	(400)
−200 bps	–	400

in kEUR	31 December 2022	
	Equity	Profit for the period
+100 bps	–	(400)
−100 bps	–	400

For further information on derivatives and hedge accounting refer to Notes 2.6.14 and 7.3.

6.2.1.3 Other market risk

hGears Group is not exposed to equity price risks or commodity price risks as it does not invest in these classes of investments.

6.2.2 Credit risk

Credit risk from financial assets relate to a possible default by a contractual party. The finance department works in close cooperation with other operating departments to identify risks related to account receivables balances. The Group analyses the credit risk of each new client before standard payment and delivery terms and conditions are offered.

The Group is exposed to credit risk from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding trade receivables.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Management Board.

From the beginning of 2021, the impairment value is provided by an external provider. The values are based on historical payment behavior resulting in probability of default (PD) and counterparty and country-specific assumption on recoveries resulting in GD. The impairment is then calculated using EAD (i.e. the gross amount of trade receivables) multiplied with the PD and LGD received from the provider. Moreover, the information given are adjusted in order to evaluate the macroeconomic estimates to consider forward looking information.

As of 31 December 2023 due to the fact, that not all customers are blue chip, no trade receivables are covered by the insurance company. The credit risk from (non-derivative) financial assets is covered by loss allowances for financial assets without objective evidence of impairment as well as by value adjustments for already impaired financial assets.

The default risk from (non-derivative) financial assets is covered by loan loss provisions for financial assets without objective proof of impairment and by impairments on financial assets that have already been impaired.

The table below shows the gross carrying amounts of trade receivables by credit risk rating grades depending on the days past due as well as the respective loss allowances as of the balance sheet date:

in kEUR	31 December 2023		31 December 2022	
	Gross	**Provision**	**Gross**	**Provision**
Amounts undue	9,782	(106)	10,924	(18)
Past due 0 – 30 days	676	–	1,070	(1)
Past due 31 – 60 days	75	(4)	286	(1)
Past due 61 – 90 days	133	–	53	–
More than 91 days	355	(383)	89	(105)
Total	**11,021**	**(493)**	**12,423**	**(125)**
Trade receivables, net	**10,528**		**12,298**	

The table below shows the gross carrying amounts by credit risk rating classes for each class of other financial assets measured at amortized cost and measured at fair value through profit hand loss as of 31 December 2023 and 2022.

in kEUR **31 December 2023**	**Other non-current receivables (deposits)**	**Other current assets**	**Other current financial assets**	**Cash and cash equivalents (bank balances)**
Credit risk rating class 1	114	281	–	26,597
Credit risk rating class 2				
Credit risk rating class 3				
Total	**114**	**281**	**–**	**26,597**

in kEUR **31 December 2022**	**Other non-current receivables (deposits)**	**Other current assets**	**Other current financial assets**	**Cash and cash equivalents (bank balances)**
Credit risk rating class 1	122	134	1,006	36,276
Credit risk rating class 2	–	–	–	–
Credit risk rating class 3	–	–	–	–
Total	**122**	**134**	**1,006**	**36,276**

For these financial assets the identified expected credit losses as of 31 December 2023, are immaterial.

6.2.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities. The Group monitors its short-term liquidity by weekly rolling forecasts and its long-term liquidity by quarterly rolling forecasts and financial reports. The Group ensures to remain solvent all the time by holding sufficient liquidity reserves and though confirmed credit lines.

The tables below present a maturity analysis of financial liabilities based on their contractual maturities for all non-derivative and derivative financial liabilities (including trade payables and other liabilities) as of the balance sheet date. The amounts disclosed are the undiscounted contractual cash flows. Balances due within 12 months equal their carrying amount as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using the spot interest rate applicable at the end of the reporting period 2023 and 2022 respectively.

For FX Forwards the cash flows have been estimated using the spot FX rate applicable at the end of the reporting period 2023 and 2022 respectively.

in kEUR

Financial liability description	Carrying amount	31 December 2023	< 1 year	1 – 5 years	> 5 years
Trade payables	21,290	21,290	21,290	–	–
Other payables	9,482	9,482	9,209	273	–
Derivatives (with gross settlement)	–	(0)	–	–	–
Cashoutflow	–	–	(181)	–	–
Cashinflow	–	–	181	–	–
Borrowings	20,081	21,491	–	–	–
Borrowings – capital portion	–	–	20,000	–	–
Interest expenses on Borrowings	–	–	1,491	–	–
Finance lease liabilities	9,743	10,724	2,890	7,748	86
Total	**60,596**	**62.987**	**54.880**	**8,021**	**86**

in kEUR

Financial liability description	Carrying amount	31 December 2022	< 1 year	1 – 5 years	> 5 years
Trade payables	22,053	22,053	22,053	–	–
Other payables	9,335	9,335	8,919	417	–
Derivatives (with gross settlement)	238	(196)	–	–	–
Cashoutflow	–	–	(3,980)	–	–
Cashinflow	–	–	3,784	–	–
Borrowings	20,122	22,065	1,148	20,918	–
Borrowings – capital portion	–	–	237	20,000	–
Interest expenses on Borrowings	–	–	911	918	–
Finance lease liabilities	14,232	15,236	5,478	9,446	312
Total	**65,980**	**68,493**	**37,402**	**30,781**	**312**

For further information on leasing, we refer to Notes 3.8, 4.1, 4.8 and 5.

7. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

7.1 Fair value measurement

The fair value of financial instruments follows a fair value hierarchy based on input factors. The fair value of financial instruments can be categorized following the hierarchical levels:

- Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2;
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and current borrowings are assumed to be the same as their fair values, due to their short-term nature.

Specific valuation techniques used to determine the fair value of financial instruments include:

- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined as a present value by using forward exchange rates at the balance sheet date;
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis based on observable market data.

The Group's policy is to recognize transfers into and transfers out of the different levels as of the end of the reporting period. There were no transfers between levels 1 and 2 and from level 2 and 3 for recurring fair value measurements during the year.

The fair values of the derivative financial instruments and the fair values of the trade receivables measured at fair value through profit or loss (FVPL) are assigned to level 2. Financial instruments not measured at fair value are assigned to level 2.

7.2 Carrying amounts, amounts recognized, and fair values by class and measurement category

The tables below show the carrying amounts of financial instruments by category as well as the fair values of financial instruments by class.

in kEUR	Classification IFRS 9	Carrying amount 31 December 2023	Fair Value 31 December 2023
ASSET			
Non-current assets			
Other non-current assets	AC	114	114
Current assets			
Trade receivables			
Trade receivables	AC	11,648	n/a*
Trade receivables	FVPL	–	–
Trade receivables subject to factoring	FVPL	651	651
Other receivables	AC	765	n/a*
Other current financial assets			
Other current financial assets	AC	–	–
Derivatives without hedge accounting	FVPL	–	–
Cash and cash equivalents	AC	26,597	n/a*

n/a* According to IFRS 7.29 (a) disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value (e. g. for short-term trade receivables and payables). If this is the case for short-term financial instruments from your perspective, the disclosure of fair value is not required.

Carrying amounts per category (kEUR)		31 December 2023
Financial Assets measured at Amortized costs	AC	**39,124**
Financial Liabilities measured at Amortized Cost	FLAC	**41,519**
Financial Assets & Liabilities measured at Fair Value through Profit or Loss	FVPL	**651**

in kEUR	Classification IFRS 9	Carrying amount 31 December 2023	Fair Value 31 December 2023
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	n/a	7,227	n/a**
Current liabilities			
Finance lease liabilities	n/a	2,516	n/a**
Borrowings	FLAC	20,081	20,081
Other current financial liabilities			
Derivatives with hedge accounting	n/a	–	–
Derivatives without hedge accounting	FVPL	0	0
Accrued interest	FLAC	148	148
Trade and other payables			
Trade payables	FLAC	21,290	n/a*
Other payables	–	–	–
Other current non-financial payables	n/a	9,154	n/a*

n/a* According to IFRS 7.29 (a) disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value (e. g. for short-term trade receivables and payables). If this is the case for short-term financial instruments from your perspective, the disclosure of fair value is not required.
n/a** According to IFRS 7.29 (d) disclosure of fair value is not required for lease liabilities.

in kEUR	Classification IFRS 9	Carrying amount 31 December 2022	Fair Value 31 December 2022
ASSET			
Non-current assets			
Other non-current assets	AC	122	122
Current assets			
Trade receivables	AC	19,480	n/a*
Trade receivables	FVPL	210	210
Trade receivables subject to factoring	FVPL	682	682
Other receivables	AC	872	n/a*
Other current financial assets			
Other current financial assets	AC	1,000	1,000
Derivatives without hedge accounting	FVPL	6	6
Cash and cash equivalents	AC	36,276	n/a*
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	n/a	9,099	n/a**
Borrowings	FLAC	19,694	19,402
Current liabilities			
Finance lease liabilities	n/a	5,133	n/a**
Borrowings	FLAC	428	677
Other current financial liabilities			
Derivatives without hedge accounting	FVPL	238	238
Accrued interest	FLAC	4	4
Trade and other payables			
Trade payables	FLAC	22,053	n/a*
Other payables	n/a	–	–
Other current non-financial payables	n/a	8,919	n/a*

n/a* According to IFRS 7.29 (a) disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value (e. g. for short-term trade receivables and payables). If this is the case for short-term financial instruments from your perspective, the disclosure of fair value is not required.
n/a** According to IFRS 7.29 (d) disclosure of fair value is not required for lease liabilities.

Carrying amounts per category (kEUR)		**31 December 2022**
Financial Assets measured at Amortized costs	AC	**49,677**
Financial Liabilities measured at Amortized Cost	FLAC	**42,179**
Financial Assets & Liabilities measured at Fair Value through Profit or Loss	FVPL	**660**

7.3 Derivatives and hedge accounting

The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. These are mainly currency risks and interest rate risks. For hedging the currency risk, the Group entered into forward exchange contracts to hedge sales planned for the next 12 months. The Group manages its interest rate risk from long-term borrowings with variable interest rates using floating-to-fixed interest rate swaps.

The table below comprises the nominal values and fair values of all derivative instruments in place as of the balance sheet date:

	Nominal values		Fair Values	
in kEUR	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Hedging of currency risk				
Forward exchange contracts	181	4,543	–	(232)
thereof positive fair value	–	563	–	6
thereof negative fair value	181	3,980	–	(238)

hGears Group applies the rules for hedge accounting if a clear economic relationship between the underlying transaction and the hedging instrument is documented and its effectiveness is demonstrated.

For hedges of foreign currency risks of highly probable future sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly the terms of the hedged item. The Group performs a qualitative assessment of prospective hedge effectiveness. Hedge ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of hGears Group or the derivative's counterparty.

The Group enters into interest rate swaps to hedge the interest rate risk of its loans. The derivatives have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. As all critical terms match, there is an economic relationship established. Hedge ineffectiveness may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the hedged loan.

Due to identical nominal values and same risks between the hedged items and hedging instruments, the hedge ratio for foreign currency hedges as well as interest rate hedges is determined as 1:1. Furthermore, the influence of credit risk to the value changes that result from the established economic relationship is considered as not dominating.

As of 31 December 2023 and as of 31 December 2022 there are no open hedges in place.

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward element. The changes in the forward element of the foreign currency forwards that relate to hedged items are accounted for in profit or loss. In case of interest rate hedge accounting, the interest rate swaps are designated in their entirety.

As of 31 December 2023 and as of 31 December 2022 there are no open hedges in place.

The quantitative information about hedging gains and losses resulting from cash flow hedges is presented below by risk category:

in kEUR	Hedging gains or losses recognized in OCI income/(expenses)	Reclassifications from Cash Flow Hedge Reserve to profit or loss	
		Due to realization of hedged item (income)/expense	Line item in statement of comprehensive income
	31 December 2023	31 December 2023	31 December 2023
Hedging of Foreign Exchange Risks	–	–	Other operating income/expenses
Hedging of Interest Rate Risks	–	–	Finance income/expenses

in kEUR	Hedging gains or losses recognized in OCI income/(expenses)	Reclassifications from Cash Flow Hedge Reserve to profit or loss	
		Due to realization of hedged item (income)/expense	Line item in statement of comprehensive income
	31 December 2022	31 December 2022	31 December 2022
Hedging of Foreign Exchange Risks	–	–	Other operating income/expenses
Hedging of Interest Rate Risks	–	–	Finance income/expenses

During the year there was no hedge ineffectiveness to be recognized.

The following table presents the reconciliation of the cash flow hedge reserve separately by risk category:

Cash Flow Hedge Reserve (in kEUR)	**FX hedges**	**Interest rate hedges**
Closing balance 31 December 2021	**–**	**–**
Changes in fair value of hedging instruments recognized in OCI (effective portion)	–	–
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	–	–
Closing balance 31 December 2022	**–**	**–**
Changes in fair value of hedging instruments recognized in OCI (effective portion)	–	–
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	–	–
Closing balance 31 December 2023	**–**	**–**

Losses that were reclassified from other comprehensive income to profit or loss amounted to kEUR 0 (2022: kEUR 0).

7.4 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group might also enter into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The Group has entered into various netting agreements with banks on so-called master netting agreements for the conclusion of derivatives. These agreements allow the Group to offset positive fair values of derivatives with negative fair values of derivatives with the same counterparty in case of insolvency (so-called close-out netting).

The Group did not offset any amounts of financial assets and liabilities in the consolidated statement of financial position. As of 31 December 2023 and 31 December 2022, there were no offsetting agreements material for derivative contracts and other financial assets and liabilities.

7.5 Income, expense, gains or losses on financial instruments

The table below shows the net gains or losses of financial instruments included in the consolidated statement of income (excluding derivative financial instruments used in hedge accounting):

in kEUR	**2023**	**2022**
Financial assets measured at Amortised cost	(2,117)	(496)
Financial liabilities measured at Amortised costs	(1,385)	(691)
Financial assets & liabilities at FVPL	(310)	(77)

Net gains/losses on financial assets at amortized cost include changes in gain and loss allowance from foreign exchange valuation and the impairment of financial assets according to IFRS 9. See Section 3.8 for further information on the value adjustments included.

Net gains/losses on financial liabilities at amortized cost include mainly gains and losses from interest expenses on borrowings and shareholder loans and the adjustment of amortized cost due to changes in estimated cash flows for the Group's bank loans as well as from foreign exchange gains and losses. Net gains/losses for FVPL include fair value changes.

The total interest income and total interest expense for financial assets measured at amortized costs as well as financial liabilities measured at amortized cost comprise of the following:

31 December 2023

in kEUR	Financial assets AC	Financial liabilities AC
Interest income	126	–
Interest expense	–	(1,399)
Total	**126**	**(1,399)**

31 December 2022

in kEUR	Financial assets AC	Financial liabilities AC
Interest income	3	–
Interest expense	–	(666)
Total	**3**	**(666)**

8. OTHER DISCLOSURES

8.1 Contingencies and commitments

8.1.1 Future obligations from short-term and low-value leases

The Group leases machinery and other minor assets under non-cancellable short-term or low value leases agreements. The lease terms are less than 5 years and the agreements are not renewable at the end of the lease term. The future aggregate minimum lease payments under non-cancellable short-term and low value leases and existing purchase commitments are as follows:

in kEUR	31 December 2023	31 December 2022
No later than 1 year	73	115
Later than 1 year and no later than 5 years	67	368
More than 5 years	–	136
Total	**140**	**619**

8.1.2 Other commitments

The Group has no purchase commitments for capital expenditures related to property, plant and equipment.

8.1.3 Contingencies

As of 31 December 2023, there were no contingent liabilities.

8.2 Related party transactions

Finatem III GmbH & Co. KG, Frankfurt am Main, is the largest shareholder with an interest of 34.62% in the capital of the company as of 31 December 2023.

In the normal course of its business activities, hGears Group enters into agreements and transactions with its shareholders and other entities of Finatem III Group (defined as Finatem III GmbH & Co. KG and its subsidiaries, joint ventures and associated companies) for various business purposes, including the furnishing of services. These related-party transactions are described below.

Transactions within hGears Group are not included in the description as these are eliminated in the consolidated financial statements.

The following transactions were carried out with related parties:

8.2.1 Transactions with shareholders

The transactions with Finatem III GmbH & Co. KG are summarized below:

- Revenues: the total value for the financial year 2023 is equal to kEUR 0 (2022: kEUR 10) and is related to "Cost Sharing and Indemnity Agreement". The income is posted in the line Other operating expenses.

The transactions with minority shareholders are summarized below:

- Revenues: the total value for the financial year 2023 is equal to kEUR 0 (2022: kEUR 1) and is related to "Cost Sharing and Indemnity Agreement". The income are posted in the line Other operating expenses;
- Building rent: kEUR 444 (2022: kEUR 442).

The Group believes that all transactions with related parties substantially took place on the basis of normal market conditions.

8.2.2 Transactions with related individuals

The Group's key management personnel is defined as those individuals that have authority and responsibility for planning, directing and controlling the activities of the Group. At hGears Group, key management personnel consists of the members of the Management Board as well as the members of the Supervisory Board of hGears.

In the course of the conversion of the Company into a stock corporation, on 27 April 2021 the Supervisory Board was appointed. Except for Mr. Seidler and Dr. Fontane, all other members of the Supervisory Board of hGears AG are also members of the Supervisory Board of hGears Padova S.p.A., thus holding key management positions in the Group:

Management Board:

- Sven Arend
  (Chairman from 1 February 2023)
- Daniel Basok (CFO)
- Pierluca Sartorello
  (member of the Board until 8 April 2023)

Supervisory Board

Name	Member since	Appointed until	Principal occupation	Other mandates
Prof. Volker Michael Stauch	27 April 2021 (Chairman)	2026	Freelance consultant	Storopack Hans Reichenecker GmbH, Metzingen, Germany: Member of the Supervisory Board
Christophe Hemmerle	27 April 2021 (Deputy Chairman)	2026	Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main, Germany: Managing Partner	Kavaliers GmbH Neuenhaus, Germany: Deputy Chairman of the Supervisory Board FEG Palmer GmbH, Mülheim an der Ruhr, Germany: Deputy Chairman of the Supervisory Board
Daniel Michael Kartje	27 April 2021	2026	Crossgate GmbH, Frankfurt am Main, Germany: Managing Director CODAK GmbH, Kronberg im Taunus, Germany: Managing Director	
Christoph Mathias Seidler	27 April 2021	2026	Entrepreneur	Enviolo Inc., Austin, USA/ Amsterdam, The Netherlands: Member of the Supervisory Board (untill 31 March 2022)
Dr. Gabriele Fontane	27 April 2021	2026	Lawyer and Partner of the law firm Oppenhoff	

The short-term employee benefits for members of the Supervisory Board are shown below:

in kEUR	2023	2022
hGears AG	197	197
Padova	75	75
Total	**272**	**272**

No costs were incurred during the year for members of the Supervisory Board (legal consulting costs) (2022: kEUR 21).

The Management Board receives the following remuneration for their activities:

in kEUR	2023	2022
Salaries and other short-term employee benefits	764	981
Share-based payments	0	349
Total	**764**	**1,330**

The remuneration not yet paid to the members of the Management Board is as follows:

in kEUR	31 December 2023	31 December 2022
Payroll liabilities	135	304
Total	**135**	**304**

There are no long-term employee benefits for key management to report for 2023 and 2022.

The company shares owned by Supervisory Board members and Management board members are shown below:

Shares	31 December 2023	31 December 2022
Sven Arend	29,800	–
Daniel Basok	20,000	10,079
Pierluca Sartorello (1)	–	125,898
Management Board	**49,800**	**135,977**
Volker Stauch	51,680	45,967
Christophe Hemmerle	5,769	5,769
Daniel Kartje	4,000	2,900
Mathias Seidler	11,538	11,538
Dr. Gabriele Fontane	3,846	3,846
Supervisory Board	**76,833**	**69.427**
Total	**126,633**	**205,404**

(1) Member of the Management Board till 8 April 2023

During 2018 a member of the Management Board received unsecured and interest-free loans amounting to kEUR 216 to pay payroll taxes in Germany for fiscal years 2015 – 2018 and to be recovered as foreign tax credit (FTC) with resubmission of Italian tax returns for the same years. A loan for a comparable purpose in the amount of kEUR 30 was also granted for the 2019 fiscal year. In 2020, the Board member repaid kEUR 164 based on the FTC refund received in Italy and by offsetting bonus payments. During 2023 no additional loans were given to the member of the Management Board.

Additional information related to the members of the Management Board as of 31 December 2023 is as follows:

Sven Arend:

- CEO
- Residence: Düsseldorf (Germany)
- Master of Science in Economics.

Daniel Basok:

- CFO
- Residence: Friesenheim (Germany)
- Degree in Economics and Accounting, Certified Public Accountant (Israel)

8.3 Share-based payments

8.3.1 Stock Option Programme 2021

The ***"Stock Option Programme 2021"*** of hGears AG was approved by the resolution dated 5 May 2021 of the General Meeting of the Company authorized the Management Board, with the consent of the Supervisory Board, and – to the extent that members of the Management Board are among the participants entitled to stock options – the Supervisory Board of the Company. The Employee Option Plan is designed to provide long-term incentives for Management Board members and selected executives to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion, and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on hGears AG's share price on the Frankfurt Stock Exchange on the last 20 trading days prior to 31 December 2021, 2022 and 2023. Once vested, the options remain exercisable for a period of two years after a waiting period of 48 months.

Options are granted under the plan for no consideration and carry no dividend or voting rights.

Upon exercise of Stock Option Right, the exercise price per share shall be paid by the exercising Beneficiary for each share to be subscribed. The Exercise Price for all exercised Stock Option Rights shall be transferred to the bank account specified in the Company's allocation offer within ten banking days after the Exercise Date.

The exercise price of options is EUR 26.16.

By resolution dated 22 June 2022 the General Meeting of the Company authorised the Management Board, with the consent of the Supervisory Board, and – to the extent that members of the Management Board are among the participants entitled to stock options – the Supervisory Board of the Company to grant up to 190,500 subscription rights.

By resolution dated 13 June 2023 the Annual authorized the Management Board to cancel the issue of stock options to members of the Management Board and selected executives of the Company and affiliated companies under the Stock Option Programme 2021.

All the granted stock options under the Stock option Programme 2021 forfeited on 31 December 2022, the cancellation had no impact on the financial statements.

8.3.2 Stock Option Programme 2023

On 13 June 2023, the General Meeting of the Company authorised the Management Board, with the consent of the Supervisory Board and – to the extent that members of the Management Board are among the participants entitled to stock options – the Supervisory Board of the Company to grant up to 738,400 subscription rights (Stock Option Programme 2023).

Each stock option right granted under the Stock Option Programme 2023 entitles the holder of the stock option right to subscribe to one company share with a pro rata amount of the share capital of EUR 1.00 from the Contingent Capital 2023 created for this purpose against payment of the exercise price in accordance with these conditions. Alternatively, the company may grant treasury shares against payment of the exercise price.

The share option rights will be issued over a period of three years in three equal tranches per year (tranches 2023 A/B/C, tranches 2024 A/B/C and tranches 2025 A/B/C).

The following performance targets and exercise price apply to the **2023 A/B/C** tranches:

Tranche	Performance target in Euro	Excercise price in Euro
2023/A	8.00	6.00
2023/B	10.00	6.00
2023/C	12.00	6.00

The following performance targets and exercise price apply to the **2024 A/B/C** tranches:

Tranche	Performance target in Euro	Excercise price in Euro
2024/A	14.00	12.00
2024/B	16.00	12.00
2024/C	18.00	12.00

The following performance targets and exercise price apply to the **2025 A/B/C** tranches:

Tranche	Performance target in Euro	Excercise price in Euro
2025/A	20.00	18.00
2025/B	23.00	18.00
2025/C	26.00	18.00

8.3.3 Overview of the Stock Option Programme

Set out below are summaries of options granted under the plans:

	2023		2022	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 1 January	–	–	–	–
Granted during the year	6.00	212,950	26.16	406,500
Exercised during the year	–	–	–	–
Forfeited during the year	6.00	(212,950)	26.16	(406,500)
As at 31 December	**–**	**–**	**–**	**–**
Vested and exercisable at 31 December	–	–	–	–

The performance targets for the stock options granted in 2023 were not achieved. Therefore, these options expired on 31 December 2023.

At the end of the year, the share options outstanding have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Share options 31 December 2023	Share options 31 December, 2022
13 April 2022	31 December 2022	26.16	–	216,000
3 August 2022	31 December 2022	26.16	–	190,500
3 August 2023	31 December 2023	6.00	212,950	–

The fair value of the options granted in fiscal year 2023 amounted to EUR 0.32 per option at the grant date 3 August 2023 (31 December 2022: EUR 2.04 for the options at the grant date 13 April 2022 and EUR 0.03 for the options at the grant date 3 August 2022). The fair value at grant date is independently determined using an adjusted form of the Black-Scholes model which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option, discount for lack of marketability and the correlations and volatilities of the peer group companies.

The model inputs for options granted during the reporting period ended 31 December 2023 include the following:

	SOP 2023 (*)
Exercise price	6.00
Grant date	3 August 2023
Expire date	2 August 2027
share price at grant date	3.99
expected price volatility of the company's shares	40 %
expected dividend yield	0 %
risk-free interest rate	2.8 %

(*) The options are granted for no consideration and vest based on hGears AG's share price. Vested options are exercisable for a period of two years after vesting period.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The total expenses from the options issued under the employee option plan in the amount of EUR 344 (2022: kEUR 446) were recognized in personnel expense.

8.4 WpHG notifications

The voting rights notifications are reflected in the annual financial statements for the fiscal year 2023 of hGears AG. These are published in the electronic Company Register.

8.5 Declaration on the Corporate Governance Code

The Management Board and Supervisory Board of hGears AG have issued the declaration on the Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act ("AktG").

This is permanently accessible on the hGears homepage at "https://ir.hgears.com/de/corporate-governance/declaration-of-complianceentsprechenserklaerung/".

8.6 Subsequent events

On 18 March 2024 hGears signed a binding offer with a lender for a financing ("Sale and Buy Back") of EUR 15 million with duration of 36 months, which is secured by the manufacturing equipment of the German plant. The financing has a balance of EUR 6.0 million due at maturity.

The new financing shall replace the current credit agreement with the syndicate of banks, as disclosed in note 4.9, which would have expired on 21 December 2024, if will not be prolonged.

8.7 Appropriation of earnings

It will be proposed to the Annual General Meeting that the accumulated loss of hGears AG be carried forward to new account.

8.8 Approval of financial statements

The financial statements were authorized for issue by the management board for approval by the Supervisory Board on 22 March 2024.

Schramberg, 22 March 2024

Sven Arend	**Daniel Basok**
Chairman of the Management Board	Member of the Management Board

ANNEX 1 – FIXED ASSET MOVEMENT SCHEDULE TANGIBLE ASSETS

		Change occurred during the current year						
	31 December 2022	Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	31 December 2023
Gross value	20,693	452	–	–	139	–	(264)	21,020
Provisions for amortization and depreciation	(8,324)	–	–	(1,832)	(66)	–	139	(10,083)
Land and Buildings	**12,369**	**452**	**–**	**(1,832)**	**73**	**–**	**(125)**	**10,937**
Gross value	135,872	2,780	(5,737)	–	6,306	–	(592)	138,629
Provisions for amortization and depreciation	(89,892)	–	4,765	(6,949)	(241)	(1,150)	347	(93,120)
Plants and Machinery	**45,982**	**2,780**	**(972)**	**(6,949)**	**6,064**	**(1,150)**	**(245)**	**45,509**
Gross value	18,418	1,352	(26)	–	156	–	(43)	19,857
Provisions for amortization and depreciation	(14,047)	–	26	(1,022)	–	(157)	38	(15,162)
Tools and Dies	**4,371**	**1,352**	**–**	**(1,022)**	**156**	**(157)**	**(5)**	**4,695**
Gross value	18,550	1,137	(531)	–	111	–	(247)	19,020
Provisions for amortization and depreciation	(13,276)	–	529	(1,397)	–	–	140	(14,004)
Other assets	**5,276**	**1,137**	**(2)**	**(1,397)**	**111**	**–**	**(107)**	**5,017**
Fixed assets under construction and down-payments	**7,803**	**3,230**	**(202)**	**–**	**(6,405)**	**–**	**(32)**	**4,394**
Property, plant and equipment	**75,798**	**8,950**	**(1,176)**	**(11,200)**	**–**	**(1,307)**	**(513)**	**70,552**

The table above is integral part of the notes to the consolidated financial statements. Figures in the tables may be rounded.

	31 December 2021	Change occurred during the current year						31 December 2022
		Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	
Gross value	18,487	2,093	–	–	208	–	(95)	20,693
Provisions for amortisation and depreciation	(6,538)	–	–	(1,840)	–	–	54	(8,324)
Land and Buildings	**11,949**	**2,093**	**–**	**(1,840)**	**208**	**–**	**(41)**	**12,369**
Gross value	126,347	6,051	(913)	–	4,612	–	(225)	135,872
Provisions for amortisation and depreciation	(84,020)	–	385	(6,389)	–	–	132	(89,892)
Plants and Machinery	**42,329**	**6,051**	**(528)**	**(6,389)**	**4,612**	**–**	**(93)**	**45,982**
Gross value	18,005	511	(248)	–	167	–	(17)	18,418
Provisions for amortisation and depreciation	(13,140)	–	135	(1,057)	–	–	15	(14,047)
Tools and Dies	**4,865**	**511**	**(113)**	**(1,057)**	**167**	**–**	**(2)**	**4,371**
Gross value	18,066	754	(237)	–	55	–	(88)	18,550
Provisions for amortisation and depreciation	(12,123)	–	212	(1,419)	–	–	54	(13,276)
Other assets	**5,945**	**754**	**(25)**	**(1,419)**	**55**	**–**	**(34)**	**5,276**
Fixed assets under construction and down-payments	**5,975**	**6,881**	**–**	**–**	**(5,042)**	**–**	**(13)**	**7,803**
Property, plant and equipment	**71,063**	**16,290**	**(666)**	**(10,705)**	**–**	**–**	**(183)**	**75,798**

The table above is integral part of the notes to the consolidated financial statements. Figures in the tables may be rounded.

ANNEX 2 – FIXED ASSET MOVEMENT SCHEDULE INTANGIBLE ASSETS

		Change occurred during the current year						
	31 December 2022	Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	31 December 2023
Gross value	5,719	141	–	–	58	–	(28)	5,890
Provisions for amortisation and depreciation	(4,619)	–	–	(592)	–	–	22	(5,189)
Software and licences	**1,100**	**141**	–	**(592)**	**58**	**–**	**(6)**	**701**
Gross value	1,562	1	–	-	379	–	–	1,941
Provisions for amortisation and depreciation	(1,560)	–	–	(14)	(331)	–	2	(1,903)
Brands and trademarks	**2**	**1**	**–**	**(14)**	**48**	**–**	**1**	**38**
Intangible assets under construction and down-payments	**157**	**46**	**–**	**–**	**(58)**	**–**	**(3)**	**142**
Gross value	383	–	–	–	(379)	–	–	4
Provisions for amortisation and depreciation	(335)	–	–	–	331	–	–	(4)
Other	**48**	**–**	**–**	**–**	**(49)**	**–**	**–**	**–**
Intangible assets	**1,307**	**188**	**–**	**(606)**	**–**	**–**	**(9)**	**881**

	31 December 2021	Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	31 December 2022
Gross value	5,321	287	–	–	121	–	(10)	5,719
Provisions for amortisation and depreciation	(4,072)	–	–	(556)	–	–	10	(4,619)
Software and licences	**1,249**	**287**	–	**(556)**	**121**	**–**	**–**	**1,100**
Gross value	1,562	–	–	–	–	–	–	1,562
Provisions for amortisation and depreciation	(1,560)	–	–	–	–	–	–	(1,560)
Brands and trademarks	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**2**
Intangible assets under construction and down-payments	**213**	**71**	**–**	**–**	**(121)**	**–**	**(6)**	**157**
Gross value	383	1	–	–	–	–	(1)	383
Provisions for amortisation and depreciation	(322)	–	–	(13)	–	–	–	(335)
Other	**61**	**1**	**–**	**(13)**	**–**	**–**	**(1)**	**48**
Intangible assets	**1,525**	**359**	**–**	**(569)**	**–**	**–**	**(7)**	**1,307**

The table above is integral part of the notes to the consolidated financial statements. Figures in the tables may be rounded.

RESPONSIBILITY STATEMENT BY THE COMPANY'S LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and results of operations of the Group, and the Group Management Report includes a fair review of the business and position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Schramberg, 22 March 2024
hGears AG
The Management Board

Sven Arend
Chairman of the Management Board

Daniel Basok
Member of the Management Board

INDEPENDENT AUDITOR'S REPORT

To hGears AG, Schramberg

Report on the audit of the consolidated financial statements and of the group management report

Audit Opinions

We have audited the consolidated financial statements of hGears AG, Schramberg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2023, and notes to the consolidated financial statements, including material accounting policy information. In addition, we have audited the group management report of hGears AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2023. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Section [Article] 289f HGB [Handelsgesetzbuch: German Commer-cial Code] and Section 315d HGB.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2023, and of its financial performance for the financial year from 1 January to 31 December 2023, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Section 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Accounting treatment of deferred taxes

Our presentation of this key audit matter has been structured as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Accounting treatment of deferred taxes

1. In the consolidated financial statements of hGears AG deferred tax assets amounting to kEUR 3,077 after netting are reported. These items were recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses to be utilized. For this purpose, insofar as sufficient deferred tax liabilities are not available, future taxable profits are projected on the basis of the adopted business plan. No deferred tax assets were recognized in respect of unused tax loss carryforwards amounting in total to kEUR 64,700 since it is not probable that they will be utilized for tax purposes by means of offset against taxable profits. From our point of view, the accounting treatment of deferred taxes was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

2. As part of our audit, we assessed, among other things, the internal processes and controls for recording tax matters as well as the methodology used for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unused tax losses on the basis of the Company's internal forecasts of its future earnings situation, and the appropriateness of the underlying estimates and assumptions. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3. The Company's disclosures relating to deferred taxes are contained in section 3.9 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to Section 289f HGB and Section 315d HGB as an unaudited part of the group management report.

The other information comprises further

- the separate non-financial group report pursuant to Section 315b Abs. 3 HGB

- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with Section 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with Section 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file hGears Group_KA+LB_ESEF_2023-12-31-de.zip and prepared for publication purposes complies in all material respects with the requirements of Section 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2023 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with Section 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with Section 317 Abs. 3a HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QMS 1 (09.2022)).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the consolidated financial statements and the group management report in accordance with Section 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

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

Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Section 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material non-compliance with the requirements of Section 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i. e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.

- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 13 June 2023. We were engaged by the supervisory board on 29 December 2023. We have been the group auditor of hGears AG, Schramberg, without interruption since the financial year 2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Reference to an other matter – use of the auditor's report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with Section 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Marcus Nickel.

Stuttgart, 22 March 2024

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Marcus Nickel
Wirtschaftsprüfer
(German Public Auditor)

ppa. Bernd Adamaszek
Wirtschaftsprüfer
(German Public Auditor)

FINANCIAL CALENDAR 2024

27 March 2024	Publication annual financial report 2023
14 May 2024	Publication quarterly results Q1 2024
11 June 2024	Annual General Meeting (virtual)
8 August 2024	Publication half-yearly financial report 2024
7 November 2024	Publication quarterly results Q3 2024

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