



Half-Yearly Financial Report

2021

hGears

the **heart** of your
performance

KEY FIGURES

in kEUR	H1 2021	H1 2020
Revenue	70,486	57,671
Gross Profit	41,098	31,947
Gross Profit margin in %	58.3	55.4
Adjusted EBITDA	13,063	8,090
Adjusted EBITDA margin in %	18.5	14.0
EBIT	5,310	1,882
Net result for the period	1,824	(105)
Net return on revenues in %	2.6	(0.2)
Free cash flow	2,615	873

in mEUR	30 June 2021	31 December 2020
Net debt	-13.9	46.4
Leverage	N.A.	2.0x

In EUR thousand (unless otherwise stated)

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OUR STRATEGY

EUROPEAN LEADER FOR HIGH-PRECISION GEARS AND COMPONENTS FOR E-MOBILITY

hGears was founded in 1958 and is headquartered in Schramberg, Germany. From here, we operate our global production facilities in Schramberg, Germany, Padova, Italy, and Suzhou, China. We combine over 60 years of experience in advanced machined steel metal processing and state-of-the-art powder metal production and are one of the few companies to offer customers both processes worldwide. We develop and manufacture high-precision gears and components with a focus on products for e-mobility applications.



We strive to be the leading manufacturer worldwide for best-in-class precision gears and components for e-mobility applications. Therefore, we are focused on the ongoing organic and profitable expansion of our business activities and our market share in the e-mobility industry. This includes both the acquisition of new customers and the expansion of the portfolio of products and services we offer to our existing customers.

CONTINUED LEADERSHIP THROUGH STRONG R&D

We are a first mover in e-mobility and a quality leader in all business areas we operate in. Our strong research and development (R&D) capabilities form the backbone of this success. Coupled with our unique co-development expertise, this enables us to meet even the highest precision requirements. We also benefit from our extensive production technology know-how in e-drive applications for e-mobility and e-tools. With expertise in both machined steel and powder metal production technologies, we seek to play an important role in the ongoing development of e-mobility, particularly in e-bikes.

WORKING IN TANDEM WITH OUR CUSTOMERS

Because of the specialized nature of our products, we usually work together with our customers in a co-development role to adapt the product and related manufacturing process to suit their designs. We intend to continue enhancing our co-development capabilities as they are a key differentiator for winning projects in newer markets such as e-mobility. By playing a crucial role in the development process, we are not only able to provide our customers with tailor-made solutions that meet the high precision requirements for parts in the e-mobility industry, but also deepen the relationship we have with each one of them.

THE FIRST SIX MONTHS OF 2021 AT A GLANCE



€ 70.5m

Revenue H1 2021



€ 13.1m

Adj. EBITDA H1 2021



18.5%

Adj. EBITDA margin
H1 2021



+28.0%

YoY revenue growth
e-Mobility division



1958

HQ Germany
founded



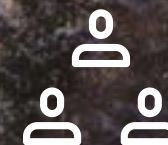
#1

European market share
e-bike precision components



x3

Production sites
in Germany, Italy, China



828

Employees

LETTER TO SHAREHOLDERS

Dear shareholders,
Ladies and gentlemen,

The hGears Group experienced a very positive business development in the first half of 2021. We were able to increase our revenues by 22.2% year-on-year to a total of EUR 70.5 million largely due to continued market share gains in e-Mobility and e-Tools as well as rapid market recovery in Conventional. At the same time, as a result of the increased share of e-Mobility sales, increased efficiency and operational leverage, our adjusted EBITDA grew by 61.5% from EUR 8.1 million in the first half of 2020 to EUR 13.1 million in the reporting period. The adjusted EBITDA margin increased correspondingly from 14.0% to 18.5%, thus leading to 450-bps margin growth year-on-year.

This positive development demonstrates that our strategic focus on e-mobility is paying off, as we are already seeing it convert successfully into earnings growth.

We anticipate the effects of these strategic growth measures to be fully realized in the coming years. The increasing awareness of climate change-related issues, the urbanization and constantly increasing need for micro-mobility solutions have underpinned a buoyant market for e-bikes, while the number of registrations of electric and hybrid vehicles is rising significantly. As first movers in the industry, we want to play a key role in this fundamental shift in how people move about. With our high-quality products and our strong market position, we are well-positioned to take full advantage of the strong tailwinds offered by the dynamically growing markets for both e-bikes and electric and hybrid vehicles.

The high demand for combustion-free e-drive products we are currently seeing across the automotive industry is also reflected in our project pipeline. In 2021



From left to right: Pierluca Sartorello (CEO), Daniel Basok (CFO)

we expect to deliver components to be used in the manufacturing of more than 2.7 million e-bikes, which would mean a further increase of our market share in this end market. In June, following a successful prototyping phase, we received an order for serial production from a new very promising e-bike customer. We are confident that future cooperation with this customer will have a great impact on our company's earnings and profitability. Moreover, we are currently continuing the co-development and negotiations with several potential new customers, key players for both e-bike and electric and hybrid vehicle projects.

The IPO in May marked a major milestone in the history of our company. With the successful listing of our shares in the Prime Standard segment of the Frankfurt Stock Exchange, we received EUR 62 million in gross proceeds with which we will continue securing our organic growth in e-Mobility. Shortly after the IPO we further strengthened our co-development capabilities, by hiring engineers for the research and development department as well as new sales engineers. Additionally, we already initiated acquisitions of new machinery to expand our production capacity for our e-Mobility business area and started the ramp-up of production,

which will continue throughout the remainder of this year and extend well into 2022.

The results for the first half of the year are fully in line with our expectations and we are well on track to meeting our forecast for this year. Moreover, we expect the e-Mobility business area to further increase its share of revenues in 2021. Given the highly attractive growth prospects in our target markets and our very good revenue visibility, we are confident that we can meet our medium-term goals of increasing Group revenue to EUR 250 million and expanding e-Mobility business area revenue to EUR 150 million. We face this task with great enthusiasm and appreciate the trust that you, our shareholders, continue to place in us.

Schramberg, 2 August 2021

The Management Board

Pierluca Sartorello
CHIEF EXECUTIVE OFFICER



Daniel Basok
CHIEF FINANCIAL OFFICER




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1. COMPANY FUNDAMENTALS

a) Business model

hGears AG (also “hGears” or “Company”) is a global manufacturer of high-precision gears and components with a focus on products for e-mobility applications. The Company develops, manufactures and supplies high-precision components and sub-systems as well as complex full system solutions. Products include gears, sprockets, shafts, structural components, complete gearboxes and other missioncritical components to be used primarily in combustion-free electrical or battery-driven applications (e-drive), e.g. for e-bikes, electric and hybrid vehicles (EHV), power and gardening tools. Mission-critical components are core parts for the proper functioning of the final product and need to meet high quality requirements.

Within the supply chain, hGears functions as either a Tier 1 or a Tier 2 supplier. As a Tier 1 supplier, hGears supplies its products directly to original equipment manufacturers (“OEMs”) in the power and gardening tool industries. As a Tier 2 supplier, hGears produces components for manufacturers who themselves develop systems for integration into end products (e.g. for e-bikes and EHV). Many of hGears’ customers are leaders in their respective industries and the Company benefits from long, stable and sustainable relationships with them, having served many key customers over 15 years.

hGears’ revenues are divided into three distinct business areas, whereby E-drive business areas (e-Mobility and e-Tools) accounted for 68% of Group revenue in the first

hGears focuses on products for e-bike drive systems and drive train units for EHV.

six months of 2021, with e-Mobility as the largest business area accounting for 36% of Group revenue.

e-Mobility

In this segment, hGears focuses on products for e-bike drive systems and drive train units for EHV. The business area includes the co-development and manufacturing of components for e-drive applications (e.g. drive shafts, crank shafts and toothed washers). E-drive systems for vehicles require high precision components that are lightweight, noiseless and capable of withstanding high torque.

e-Tools

This business area focuses on the components used in the power mechanisms 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 tools, trimming tools).

Conventional

The focus of the Conventional business area is on gear units for various applications, such as rolling shutters and systems for heating, ventilation and air conditioning, motorbikes, recreational vehicles and non-combustion precision components for premium and luxury vehicles. The segment includes the production of various precision components for traditional automotive applications (e.g. drives, steering and brake systems and vehicle bodies) as well as other industrial applications. Automotive and industrial applications are not part of hGears' primary strategic focus.

b) Group strategy

The clear strategic focus is on the e-Mobility business area, which, due to the strong end market dynamics, constitutes the core pillar of hGears' growth strategy. hGears seeks to be one of the leading manufacturers worldwide for best-in-class precision gears and components for e-mobility applications.

E-mobility applications as a key driver for strong profitable growth

In the emerging e-mobility industry, high-precision components are vital for the development and optimization of e-drive applications: this provides market growth potential for hGears with its focus on

high-quality precision components.

Through decades of industry experience, hGears has acquired the know-how and developed the capabilities necessary to meet the highly demanding requirements for precision gears and components used in such applications. These include ability to withstand high torques, reducing weights and minimize noise and losses. hGears exploits this ability with its state-of-the-art technological processes deployed at the highest quality manufacturing standards.

Today, hGears focuses on the ongoing profitable organic expansion of related business activities and increasing its market share in e-mobility applications. The Company is the leading supplier of high-precision gears and components for e-bikes in Europe. In 2020, components produced by hGears were in approximately 43 % of e-bikes sold on the continent. In 2021, the Company expects to further increase its market share with an anticipated delivery of components to be used in 2.8 million e-bikes out of 5.6 million e-bikes estimated to be sold in Europe.

At the heart of hGears' organic growth strategy is the expansion of its customer base, also including the transitioning of customers from the Conventional business area to the e-Mobility business area, and by expanding the scope of products and solutions it offers to existing e-Mobility customers. An example of an additional potential future application for hGears' gears and shafts is in "brake by wire" systems of electric vehicles, where motors and gears apply brake pressure instead of traditional hydraulics. These systems are expected to become more common in electric vehicles in the future and hGears is already engaged in discussions about prototyping agreements with certain customers.

To enable this growth, hGears will use the majority of the proceeds received from the IPO in May 2021 to increase its production capacity for products in its e-Mobility business area, mainly by purchasing new machinery and equipment and by expanding its highly skilled technical staff.

The Company is the leading supplier of high-precision gears and components for e-bikes in Europe.

Co-development

hGears can tailor its offering to customers' needs and further strengthen business relationships by playing a crucial and integral part in its customers' development process. This calls for hGears to work together with its customers in a "co-development" role to design components and find technically optimal solutions to meet the customer's specifications. The consolidated experience, deep knowledge of the applicable standards and the usage of the state-of-the-art calculation tools represent a fundamental background in this activity.

Co-development is particularly important for manufacturers of e-bikes and EHV because mission-critical components typically go hand in hand with higher

quality and precision requirements and often necessitate tailored solutions. Co-development is ultimately a key differentiator for winning projects in newer markets, such as e-mobility, and most customers choose to take advantage of this option.

c) Research and development

With over 60 years of experience in advanced machined steel metal processing and state-of-the-art powder metal production, hGears' research and development programs are primarily set up to investigate, validate and deploy the usage of new materials, advanced simulation models and innovative production processes into the manufacturing footprint and the Company's business model.

With a specific focus on innovation for e-mobility solutions conjugated with continuous improvements in quality and cost, hGears firmly believes that its research and development capabilities and colligated expertise are key differentiating factors and represent the key driver behind the Group's leading market position. The capacity of designing for NVH (Noise, Vibration, Harshness), lightness and efficiency, integrated by the competence of simultaneous engineering, represent typical outcomes.

At the core of hGears' Group engineering are the multi-national technical teams made up of highly talented and experienced engineers who are able to cover all research and development phases from advanced development to application and process engineering. Representing a

Over 60 years of experience in advanced machined steel metal processing and state-of-the-art powder metal production

strong strategic asset to support the Company's business growth, engineering teams work closely with customers as part of hGears' co-development competency.

In the financial period ended 30 June 2021, hGears had approximately 43 full-time employees involved in R&D and engineering through its advanced and process engineering or application engineering departments, which represents an increase of nearly 10% compared to 31 December 2020.

As communicated during the IPO, hGears will use a portion of the IPO proceeds to further increase its activities in R&D. The goal is to capitalize on its production technology know-how in e-drive applications

and to increase range and performance while reducing costs. As part of this investment, hGears has hired a new Chief Technical Officer who will be primarily responsible for the further improvement of engineering skills and tools, supervising the execution of the Company's R&D programs and establishing a structured patents management policy to protect hGears' intellectual property.

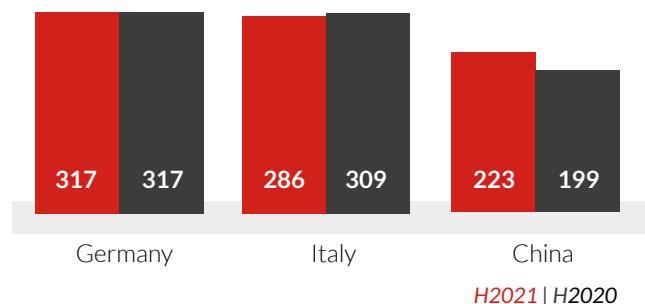
Current R&D activities are focused on the development of additional production processes and the expansion of the Company's patent portfolio, especially in its e-Mobility business area.

d) Sites and employees

Headquartered in Germany, hGears operates globally with production facilities in Schramberg, Germany, Padova, Italy and Suzhou, China.



hGears employs 826 employees (full-time equivalents) not including members of the Management Board. The distribution across the different sites is as follows:



Of these employees, 744 (previous year: 746) were working as factory workers and 82 (previous year: 79) were employed as administration employees and managers.

hGears plans to continue to invest in its team and expects that the principal focus of future staff growth will be on increasing highly skilled technical personnel, in particular operators of CNC machines and engineers.

e) Management system and performance indicators

Despite voluntarily providing revenue figures for the three business areas, hGears is a one-segment company.

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

f) Sales and marketing

hGears' customers select suppliers by testing their technical feasibility in an offer phase. Typically, the number of potential suppliers per component is limited to two or three players given the need for manufacturers to possess very specific production and technical capabilities. Higher product complexity and degree of customization tend to shift the purchasing decision towards the engineering (as opposed to the purchasing) department of OEMs and Tier 1 Suppliers and extend the time frame of the selection process, e.g. in the automotive industry qualification processes can take up to 5 years.

Existing and potential customers typically contact hGears with requests for quotations, although hGears will also reach out to existing or potential customers it knows are developing projects that it may want to be involved in. hGears also typically attends two to three trade shows each year. Large sales orders or sales orders from new customers are negotiated on a Group level under the supervision of the Group Head of Business Development. Smaller sales orders are handled by the head of business development of the relevant business area or key account managers located at each production facility. Most of hGears' sales are made on a free carrier (FCA) basis, with delivery taking place at hGears' production site.

2. BUSINESS REPORT

a) General economic environment

The Kiel Institute for the World Economy (IfW) reported that global economic activity expanded in the first quarter of 2021 by posting global output growth of 0.8%, which is roughly in line with the average level of the years prior to the corona crisis.¹

According to the IfW, in the first few months of the current year, economic expansion was still slowed by high COVID-19 infection figures and the measures taken to contain them in many countries. Nevertheless, the effects remained mainly limited to the services sector.² Global industrial production and world trade, on the other hand, initially grew strongly, but were recently held back by supply bottlenecks and logistical problems.³

Economic researchers expect a significant overall increase in global production of 6.7% for 2021.⁴ According to the IfW, the waning of the COVID-19 pandemic and a reversal of the measures taken to contain it will contribute to this. In the eurozone, signs are pointing to a strong recovery in 2021, according to the IfW.

Reasons for this are a declining incidence of infections due to rapidly advancing vaccination campaigns, seasonality and infection protection measures throughout Europe. This allows governments to gradually reduce the measures that are still in place.⁵

Therefore, the IfW expects the economic output of the eurozone to increase by 5.3% in 2021. Similarly,

Germany's gross domestic product is expected ⁶ to grow by 3.9% in 2021.⁷

b) Sector-specific environment

For Europe, sales volumes of e-bikes are expected to grow at a CAGR of ca. 22% between 2019 and 2025⁸ with over 12.5 million e-bikes expected to be sold in 2025.

Of the overall 4.6 million e-bikes sold in Europe in 2020, approximately two million contained hGears components. In Germany, electric bike sales rose 36% in 2018, representing 23.5% of all bikes sold.⁹ In the Netherlands, more than half of all adult bikes sold in 2018 were electric.¹⁰

The EHV market is also expected to grow significantly in the future. Sales volumes of electric and hybrid vehicles in Europe are expected to grow at a compound annual growth rate ("CAGR") of approximately 43% p.a. between 2018 and 2025.¹¹

c) Presentation of results of operations, financial position and cash flows

Results of operations

In the first six months of financial year 2021, hGears recorded revenues of EUR 70.5 million (previous year: EUR 57.7 million), an increase of 22.2% compared to the prior-year period. Growth was primarily driven by expansion of order volumes from existing customers.

In the e-Mobility business area, revenues rose by 28.0% from EUR 19.4 million in the first half of 2020 to EUR 24.8 million in the reporting period.

This positive development was in line with the Company's strategic goal of expanding business activities in e-Mobility and to increase hGears' market share.

E-Tools revenues were up 20.6% year-on-year totalling EUR 22.5 million (previous year: EUR 18.7 million) in the first half of 2021. The strong double-digit growth in this business area is primarily due to an increase in order volume as a result of people redirecting their spending to home improvement and high-quality tools during the COVID-19 lockdown periods.

In the Conventional business area, hGears generated revenues of EUR 22.4 million in the first half of 2021 compared to EUR 19.2 million in the prior-year period. This 16.3% increase is the result of catch-up effects in the wake of market recovery in the automotive industry following the various restrictions and uncertainties related to the global COVID-19 pandemic.

Other capitalized own work decreased by 16.5% from EUR 42 thousand in the first half of 2020 to EUR 35 thousand in the period under review.

1. Kiel Institute for the World Economy (2021), Economic Reports from Kiel, The World Economy in Summer 2021, p. 2. 1

2. Ibid. p. 2. 2

3. Ibid. p. 2. 3

4. Ibid. p. 8. 4

5. Kiel Institute for the World Economy (2021), Economic Reports from Kiel, The World Economy in Summer 2021, p. 10.

6. Kiel Institute for the World Economy (2021), Economic Reports from Kiel, The World Economy in Summer 2021, p. 8, p. 29. 6

7. Kiel Institute for the World Economy (2021), Economic Reports from Kiel, The German Economy in Summer 2021, p. 3. 7

8. Cycling Industries Europe

9. Deloitte (2020), Discover the future- 2020 predictions for UK technology, media and telecommunications, p.8

10. Ibid. p.8

11. IHS 2021

Inventories increased from EUR 14.6 million to EUR 16.4 million. This increase reflects a deliberate reduction of inventories in the same period of the prior year due to the uncertainties related to the COVID-19 pandemic as well as an anticipation of the traditionally lower production levels during the summer months.

The increase in revenues and inventories resulted in higher costs of raw materials and consumables used in the first half of 2021. They amounted to EUR 30.5 million (previous year: EUR 24.2 million), which represents an increase of 25.9%.

Gross profit, defined as total output minus raw materials and consumables used, was EUR 41.1 million in the first half of 2021 compared to EUR 31.9 million in the same period last year. This 28.6% increase is the result of the higher share of e-Mobility sales as well as the increased efficiency in production. The gross margin was 58.3%, up from 55.4% the previous year.

Adjusted EBITDA at Group level amounted to EUR 13.1 million in the first six months of financial year 2021 (previous year: EUR 8.1 million) which is 61.5% above the previous year's level. The adjusted EBITDA margin increased correspondingly from 14.0% to 18.5%. IPO-related one-off costs in the amount of EUR 1 million are included in the adjustments.

hGears Group achieved reported EBITDA of EUR 10.4 million (previous year: EUR 7.4 million) in the first six months of 2021, a 41.2% increase. The reported EBITDA margin was up from 12.8% to 14.8%.

In the first half of 2021, Group earnings before interest and taxes (EBIT) nearly tripled year-on-year from EUR 1.9 million to EUR 5.3 million, largely due to operational leverage. The EBIT margin also increased significantly from 3.3% to 7.5%.

Based on the reasons mentioned above, earnings before taxes (EBT) for the Group rose from EUR 0.1 million in the first half of 2020 to EUR 3.3 million in the reporting period.

Personnel expenses amounted to EUR 22.6 million (previous year: EUR 18.4 million) reflecting 32.1% of total revenue. Compared to the previous year, personnel expenses from revenues slightly decreased by 0.2 percentage points from 31.9% in the first half of 2020.

Depreciation in the first six months of 2021 totalled EUR 5.1 million compared to EUR 5.5 million the prior year.

In the first half of 2021, other operating expenses and other operating income amounted to EUR 8.1 million in total (previous year: EUR 6.2 million), or 11.4% of total revenue (previous year: 10.7%). This increase of 0.7 percentage points mainly relates to one-off IPO transaction costs and the increase in the bad debt allowance required under IFRS 9.

Due to the reasons outlined above, the net result for the period rose significantly from EUR -0.1 million in the first half of 2020 to EUR 1.8 million in the period under review.

Financial position

The Company's balance sheet total increased by 26.0% from EUR 124.9 million on 31 December 2020 to EUR 157.3 million on 30 June 2021.

At a total of EUR 70.3 million, non-current assets at the end of June 2021 were slightly lower compared to the end of financial year 2020 (31 December 2020: EUR 71.8 million).

Current assets rose by 64.0% to EUR 87.1 million as of the reporting date, compared to December 2020 (31 December 2020: EUR 53.1 million). This significant increase is primarily attributable to the rise in cash and cash equivalents which, due to the IPO in May 2021, more than doubled to EUR 53.5 million (31 December 2020: EUR 23.4 million). In addition, both inventories and trade receivables rose compared to the end of 2020 totalling EUR 16.4 million (31 December 2020: EUR 14.6 million) and EUR 14.0 million (31 December 2020: EUR 11.6 million) respectively. The increase in inventories relates to the expected sell-out in the following quarters whereby the increase in trade receivables is resulting from revenue growth.

Also, as a direct result of the IPO, hGears' total equity increased significantly to EUR 87.7 million at the end of the first half of 2021 (31 December 2020: EUR 25.6 million).

Non-current liabilities decreased from EUR 51.3 million as of 31 December 2020 to EUR 24.5 million as of 30 June 2021, which reflects a 52.2% reduction in borrowings.

This development was mainly driven by complete repayment of EUR 14.6 million shareholder loans in the wake of the IPO and repayment of EUR 8 million long-term loan as part of the amendment of the financing agreement with the banks.

At EUR 45.1 million, current liabilities were 5.9% below the level at the end of 2020 (31 December 2020: EUR 48.0 million). This development includes a significant 19.0% decrease in borrowings, which totalled EUR 14.8 million as of 30 June 2021 (31 December 2020: EUR 18.3 million). The reduction in current liabilities relates to repayment of EUR 3 million of the working capital facility due to a high level of cash and cash equivalents. The Company has the right to draw on this facility at any time.

Cashflow

hGears recorded operating cash flow of EUR 1.3 million in the first six months of 2021. Cash flow from operating activities was EUR 4.2 million in the same period of the previous year. The decrease was due to repayment of the accrued interest on the shareholder loans and an increase in inventory and trade receivables. Cash flow from investing activities from January to June 2021 was EUR - 3.7 million compared to EUR - 2.3 million in the prior-year period. Due to proceeds received from the IPO and after the repayment of shareholder loans and external debt, cash flow from financing activities rose significantly from EUR 3.3 million in the first half of 2020 to EUR 32.3 million in the reported period.

Free cash flow rose significantly to EUR 29.9 million from EUR 5.2 million in the first half of 2020.

d) Summary assessment of the business situation of the company

With revenue growth of 22.2% to EUR 70.5 million in the first half year of 2021, the Management Board considers the results to be in line with expectations.

Moreover, the Management Board is confident that the Company will continue the positive development in the second half of the year and, under the assumption that there is no aggravation of measures for the containment of the COVID-19 pandemic that would impact production for hGears or its customers, confirms the guidance for financial year 2021 as a whole.

3. OUTLOOK, RISK AND OPPORTUNITIES REPORT

a) Outlook Report

Based on the expansion of order volumes from existing customers and the current order book situation, hGears expects strong single-digit growth in revenues for financial year 2021 compared to the previous year and the share of revenues in its e-Mobility business area to further increase in 2021 with continued double-digit growth. The Company also anticipates single-digit growth for revenues in its e-Tools and Conventional business areas. hGears also expects customers in its Conventional business area to continue to rotate into the e-Mobility business area in the medium term due to a strategic shift

to combustion-free electronic drive applications.

The Company expects also to maintain a profitability level for the coming financial years as a result of the continued change in the business mix to mission-critical components and e-mobility, and due to the investments and cost improvement measures initiated in prior years.

The Company also expects that the envisaged increase in revenues will have a positive impact on other key performance indicators, such as EBITDA, adjusted EBITDA, return on revenues and free cash flow.

b) Risk Report

Risk management and general statement concerning the risk situation

Reporting forms the basis for the assessment of overall risk by the Management Board. In producing reports, all risks are summarised and reported to the Supervisory Board at regular intervals.

As a result of the circumstances described in the Risk Report, the risks in financial year 2021 compared to the previous year have not changed. At this stage, the impact of COVID-19 cannot be reliably assessed quantitatively for periods starting on July 1, 2021. According to management's assessment of the overall risk, there are currently no risks that could endanger the continued existence of hGears AG or significantly impair its financial situation, assets or equity position.

Key risks identified by the Management Board**Sales risks**

Based on the forecast of macro-economic development as produced in 2020 by the “German Council of Economic Experts (GCEE),” we anticipate a positive market environment in Europe in 2021. For the EU area, the GCEE expects GDP growth rate of 4.9 % in 2021. Consequently, if events move forward in line with current economic forecasts, we see no particular risk to sales looking forward. Looking back on the first half of 2021, we see accelerated growth in the e-Mobility and e-Tools business areas. Conventional experienced catch-up effects following restrictions related to the COVID-19 pandemic resulting in strong growth during the first six months of 2021. Despite the fact that the global semiconductor shortage is already affecting production levels in the automotive industry, the Company has not been affected so far from reduction of orders related to it. hGears continuously monitors the situation with relevant customers in order to understand the possible impact of the shortage on its financials and operations.

Procurement risks:

Based on bilateral agreements, the prices and delivery terms of the majority of our production materials have been secured with our suppliers for 2021. Bottlenecks are not to be expected in the materials we process, but we are nevertheless working increasingly on a “second source strategy” for the relevant materials. At present, no restrictions in material supply due to the COVID-19 pandemic are expected.

Financial risks**Default risk**

To minimise risks of default, the Group has adequate measures in place for debt collection and trade receivables management. Among others, the Group uses non-recourse factoring agreements to anticipate trade receivables collection. Considering the current blue-chip customer base, we do not see any material risk-laden elements.

Liquidity risk

Liquidity risks are controlled through financial planning. Ongoing risks are covered by monthly operational accounting. At this point in time, and based on our current liquidity, we do not see any risks from the global COVID-19 situation. To mitigate the potential effects of changes in interest rates on the financial result, the Group entered into floating-to-fixed interest rate swaps. Therefore, the Group covers part of the nominal value of bank loans with variable interest rates.

Currency risks

The currency risk is largely countered by hedging.

c) Opportunities Report

Based on our development and production expertise and the continued positive assessment of the economic environment, we see further opportunities for growth in the expanding e-mobility market. Through further productivity increases and streamlining of the product portfolio, we see the possibility of producing outsourced goods in-house again to increase value creation and thus our own performance.

Interim Consolidated Financial Statements

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UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the period 1 January to 30 June

in kEUR	Note	H1 2021	H1 2020
Revenue	3.1	70,486	57,671
Other capitalized own work		35	42
Changes in inventories		1,027	(1,585)
Total output		71,548	56,128
Other operating income		1,219	846
Raw materials and consumables used		(30,451)	(24,182)
Personnel expenses	3.3	(22,607)	(18,375)
Depreciation, amortization and impairment		(5,125)	(5,506)
Other operating expenses		(9,274)	(7,029)
Profit / loss from operating activities		5,310	1,882
Finance income		1	2
Finance expenses		(1,995)	(1,770)
Financial result		(1,994)	(1,768)
Income before income taxes		3,316	114
Income and deferred taxes		(1,492)	(218)
Net result of the period		1,824	(104)
Result attribution to shareholders		1,824	(104)
Basic/diluted earnings per share (Euro)	3.4	0.54	(1.67)

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period January 1 to June 30

in kEUR	H1 2021	H1 2020
Net result of the period	1,824	(104)
Other comprehensive income:		
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment benefit obligations	-	-
Stock option program	637	-
Tax effect	-	-
Other comprehensive income that may be reclassified subsequently to profit or loss		
Gains/(losses) on cash flow hedges	108	(92)
Tax effect	(27)	25
Currency translation adjustment*	444	(133)
Total other comprehensive income	1,162	(200)
Total comprehensive income	2,986	(304)

*Currency differences from the translation of mG miniGears (Suzhou) Co., Ltd, Suzhou

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in kEUR	Note	30 June 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment		65,463	66,198
Intangible assets		1,420	1,541
Other non-current assets		117	125
Deferred tax assets		3,268	3,925
Total non-current assets		70,268	71,789
Current assets			
Inventories	4.1	16,436	14,555
Trade receivables	4.2	14,045	11,647
Other receivables		442	738
Other current assets		2,296	2,487
Other current financial assets		285	203
Cash and cash equivalents		53,546	23,434
Total current assets		87,050	53,064
Total assets		157,318	124,853

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in kEUR	Note	30 June 2021	31 December 2020
Share capital		10,400	63
Capital reserve		69,239	20,448
Other reserves		400	400
OCI		1,878	716
Retained earnings		3,925	(2,789)
Net result of the period		1,824	6,714
Total equity	4.3	87,666	25,552
Lease liabilities		12,362	13,440
Borrowings	4.4	9,731	20,999
Shareholder loans		-	14,341
Deferred tax liabilities		257	284
Provisions		319	319
Employee benefit obligations		1,405	1,503
Other non-current liabilities		445	428
Total non-current liabilities		24,519	51,314

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in kEUR	Note	30 June 2021	31 December 2020
Lease liabilities		2,722	2,772
Borrowings	4.4	14,792	18,273
Provisions		526	689
Other current financial liabilities		78	64
Trade and other payables		25,963	25,395
Current tax liabilities		1,052	6,714
Total current liabilities		45,133	47,988
Total liabilities		69,652	99,302
Total equity and liabilities		157,318	124,853

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 30 June

in kEUR	Share capital	Capital reserve	Other reserves	Currency translation	Cash Flow Hedge Reserve	Employee plan	Retained earnings	Total equity
Balance at 1 January 2021	63	20,448	400	827	10	(121)	3,925	25,551
Capital increase	10,337	48,791	-	-	-	-	-	59,128
Net result of the period	-	-	-	-	-	-	1,824	1,824
Other comprehensive income	-	-	-	444	81	637	-	1,162
Balance at 30 June 2021	10,400	69,239	400	1,271	91	516	5,749	87,666
Balance at 1 January 2020	63	20,448	400	1,107	22	(110)	(2,789)	19,140
Net result of the period	-	-	-	-	-	-	(104)	(104)
Other comprehensive income	-	-	-	(133)	(67)	-	-	(200)
Balance at June 30 2020	63	20,448	400	974	(45)	(110)	(2,894)	18,836

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

for the period 1 January to 30 June

in kEUR	H1 2021	H1 2020
Profit / loss from operating activities	5,310	1,882
Depreciation, amortisation and impairment	5,125	5,506
Other non-cash items	155	(65)
Income tax proceeds/payment	(514)	(137)
Provisions and others	(261)	17
Interest paid	(5,215)	(1,315)
Interest received	1	2
Change in inventories	(1,783)	2,122
Change in receivables	(2,215)	1,121
Change in liabilities	479	(5,277)
Change in other assets	399	1,089
Change in other liabilities	(203)	(793)
Net cash provided by (used in) operating activities	1,278	4,152
Cash flows provided by (used in) investing activities		
Payments for Property, plant and equipment and intangible assets	(3,857)	(2,302)
Income from sales of fixed assets	142	-
Net cash provided by (used in) investing activities	(3,715)	(2,302)

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

for the period 1 January to 30 June

in kEUR	H1 2021	H1 2020
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	131	9,315
Repayments of borrowings	(15,017)	(4,115)
Repayments leasing agreements	(1,431)	(1,868)
Repayments Shareholder loans	(10,466)	-
Capital increase	59,129	-
Cash flows provided by (used in) financing activities	32,346	3,332
Net cash increase (decrease) in cash and cash equivalents	29,909	5,182
Cash and cash equivalents at the beginning of the year	23,434	17,703
Effects of exchange rate changes on cash and cash equivalents	203	(75)
Net cash increase (decrease) in cash and cash equivalents	53,546	22,810

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Selected explanatory notes to the unaudited condensed consolidated half year 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 April 27, 2021.

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

These unaudited condensed consolidated half-year financial statements consist of the financial statements of hGears AG, its subsidiaries: Herzog GmbH (herewith: "Herzog"); mG miniGears S.p.A (herewith: "mG Italy"), and its second-tier subsidiary mG miniGears (Suzhou) Co., Ltd. (herewith: "mG China") 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 traditional steel machining with powder metal technologies.

The Company raised gross proceeds of around EUR 62.4 million. This corresponds to a market capitalization of EUR 270 million

On May 18, 2021 the Company successfully completed a global offer for subscription and sale of its ordinary shares. The start of trading on the Prime Standard was set by Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) on May 21, 2021. The offer comprised 2,400,000 shares from a capital increase, 3,400,000 shares from the holdings of the selling shareholders (1,000,000 thereof from the exercise of an upsize option) and a market customary over-allotment ("greenshoe option") of 461,774 shares. This results in a free float of 60%.

Based on the offer price of EUR 26.00 per share, the Company raised gross proceeds of around EUR 62.4 million. This corresponds to a market capitalization of EUR 270 million.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements of hGears Group as of and for the six months ended June 30, 2021 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for fiscal 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union, taking into account the guidance published by the IFRS IC.

hGears Group’s fiscal year ends December 31. All intercompany transactions are eliminated during the preparation of the condensed consolidated interim financial statements. The condensed consolidated interim financial statements have been prepared on a historical cost basis, unless otherwise stated. The condensed consolidated interim financial statements are presented in Euro (“€”). All amounts are rounded to the nearest thousands, except when otherwise indicated. Due to rounding, differences may arise when individual amounts or percentages are added together.

The condensed consolidated interim financial statements are prepared under the assumption that the business will continue as a going concern. Management believes that

hGears Group has adequate resources to continue operations for the foreseeable future.

hGears Group capitalized certain legal, accounting and other third-party fees that are directly associated with in-process equity (IPO). These costs (kEUR 3,271) were recorded in shareholders’ equity as a reduction of capital reserve.

The income tax expense in these half-year consolidated financial statements is calculated on the basis of the effective income tax rate anticipated for the year as a whole.

In March 2020, the World Health Organization classified the COVID-19 outbreak as a global pandemic. Even if the pandemic is significantly impacting the world economy mainly for travel restrictions and other government measures, in the first half-year 2021 hGears Group has not suffered from any significant decrease in sales, nor any significant deterioration in its financial position or other adverse effects.

At the time the condensed consolidated half-year financial statements were prepared, the underlying assumptions and estimates were still subject to the uncertainties of the effects of the COVID-19 pandemic. All significant risks in connection with COVID-19 known at the time the condensed consolidated half-year financial statements were prepared and affecting the assets and liabilities recognized as of June 30, 2021 were taken into account.

There were no significant changes in estimates or impairment requirements due to COVID-19. The COVID-19 pandemic remains a dynamically evolving situation that could have a negative impact on the business of hGears Group and it is constantly monitored by management.

IFRSs issued, endorsed by the EU and applied for the first time in the reporting period

	Adopted by the EU	Early adoption	Impact on hGears Group
Amendments			
Deferral of effective date of IFRS 9 (Amendments to IFRS 4)	Endorsed	permitted	none
Interest Rate Benchmark Reform – Phase 2	Endorsed	permitted	none

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 first-half of 2021 amount to kEUR 70,486 (first half 2020: 57,671 kEUR).

The Group derives revenue from its operations at a point

in kEUR	H1 2021	H1 2020
Sales of goods	69,754	57,333
Other	732	338
Revenues	70,486	57,671

in time in the following major revenue streams, business areas and geographical regions:

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:

- e-Mobility: focuses on products for e-bike drive systems and drive train units for electric and hybrid

in kEUR	H1 2021	H1 2020
e-Mobility	24,829	19,405
e-Tools	22,532	18,682
Conventional	22,393	19,246
Sales of goods	69,754	57,333

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 the first half 2021 increased due to steady increase in sales of products for e-bikes and electric and hybrid vehicles. The portion of e-Mobility out of sales of goods has also increased (first half 2021: 35.6%, first half 2020: 33.8%).

The increase in sales of goods in e-Tools business area in absolutely value is mainly due to higher global demand. The portion of e-Tools out of sales of goods almost remained as in comparison period of previous year (first half 2021: 32.3%, first half 2020: 32.6%).

Sales of goods in Conventional business area increased due to recovery from slow-down related to Covid-19. The portion of Conventional out of sales of goods decreased as in comparison period of previous year (first half 2021: 32.1%, first half 2020: 33.6%).

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

Sales of goods in the EU area include sales in Hungary for a total amount of kEUR 21,859 (first half 2020: kEUR 17,260) and in Germany for a total amount of kEUR 18,198 (first half 2020: kEUR 16,704).

in kEUR	H1 2021	H1 2020
EU area	50,048	43,387
USA	5,856	3,341
China	4,928	3,891
Rest of the world	8,922	6,714
Sales of goods	69,754	57,333

3.2. 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 Group 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 management reporting purposes.

The following table shows the segment Revenue and Adjusted EBITDA to consolidated net result of the period: The adjustments include individual items where they lead to material effects in a reporting year. These individual items may relate in particular to one-off transaction costs and associated measures.

in kEUR	IFRS consolidated	
FY	H1 2021	H1 2020
Revenues	70,486	57,671
Adjusted EBITDA⁽¹⁾	13,063	8,090
One-off transaction costs	(2,628)	(702)
Depreciation, amortization and impairment	(5,125)	(5,506)
EBIT	5,310	1,882
Finance income & Dividends	1	2
Finance expenses	(1,995)	(1,770)
EBT	3,316	114
Income and deferred taxes	(1,492)	(218)
Net result of the period	1,824	(104)

(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

in kEUR	IFRS consolidated	
FY	H1 2021	H1 2020
Personnel costs ⁽¹⁾	788	18
One-off advisory fees	-	31
One-off special project cost	1,661	93
COVID adjustments ⁽²⁾	172	482
Other	7	77
Total	2,628	702

(1) it includes costs for severance payments and costs for stock option program
(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	H1 2021	H1 2020
Return on revenues in % ⁽¹⁾	2.6%	-0.2%
Free Cash Flow ⁽²⁾	2,615	873

(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 June 30, 2021 this single most important customer represented accounts receivable with a carrying amount of kEUR 974 (June 30, 2020: kEUR 1,254) and revenues in the first half 2021 in the amount of kEUR 21,795 (first half 2020: kEUR 17,219).

hGears Group earns revenues worldwide through its operations. The geographic location of revenue is determined based on the final location of delivery, sales by region are presented in section 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	Schramberg		Padova		Suzhou		Reconciliation ⁽¹⁾		IFRS consolidated	
FY	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Additions	3,130	2,564	700	1,710	191	121	-	-	4,021	4,395
Carrying amounts	35,666	34,311	22,857	24,355	8,681	9,109	(321)	(480)	66,883	67,295

(1) The reconciliation relates to the elimination of intra-group transactions.

3.3. Earnings per share

The line item breaks down as follows:

The basic earnings per share as of June 30, 2021 is EUR 0.54 (June 30, 2020: EUR -1.67). 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 the first half, amounting to 3,399,517 (first half 2020: 62,500).

The 190,500 options granted on June 4, 2021 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended December 31, 2021. These options could potentially dilute basic earnings per share starting from 2025.

4. NOTES TO THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

4.1. Inventories

The net value of the inventories as of June 30, 2021 is kEUR 16,436 (December 31, 2020: kEUR 14,555).

The gross value of written-down inventories as of June 30, 2021 was kEUR 21,621 (December 31, 2020: kEUR 19,324).

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

in kEUR	June 30, 2021	December 31, 2020
Raw materials, consumables and supplies	7,269	6,533
Finished goods and work in progress	14,352	12,791
Provisions for inventory	(5,185)	(4,769)
Total	16,436	14,555

in kEUR

Balance as of December 31, 2019	(4,993)
Addition	(714)
Other	2
Balance as of June 30, 2020	(5,705)

in kEUR

Balance as of December 31, 2020	(4,769)
Addition	(686)
Release	11
Utilization	6
Other	253
Balance as of June 30, 2021	(5,185)

During the first half 2021 write-down of kEUR 686 (first half 2020: 714 kEUR) 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 and to the correct production prices. During the first half 2021 the Group recognized income from release for a total amount of kEUR 11. The utilization mainly refers to the scrapping in the Italian subsidiary.

4.2. Trade receivables

The carrying amounts of the trade receivables approximate to their fair values. Current trade receivables are non-interest bearing. Movements in the Group's loss allowance for expected credit losses of trade receivables areas follows:

in kEUR	June 30, 2021	December 31, 2020
Trade receivables, gross	14,503	11,873
Loss allowances for expected credit losses	(458)	(226)
Total	14,045	11,647

in kEUR	
Balance as of December 31, 2019	(147)
Addition	(29)
Other	1
Balance as of June 31, 2020	(175)

in kEUR

Balance as of December 31, 2020	(226)
Addition	(228)
Other	(4)
Balance as of June 31, 2020	(458)

The Group entered into a factoring arrangement with banks. Under these arrangements, Herzog, mG China and mG Italy have sold trade receivables to the bank. As the sale is non-recourse and the companies have not retained any risk, trade receivables amounting to kEUR 2,524 as of June 30, 2021 are derecognized in their entirety (December 31, 2020: kEUR 3,528). Further trade receivables intended to be sold and amounting to kEUR 1,308 are not yet sold as of June 30, 2021 (December 31, 2020: kEUR 1,348).

4.3. Equity

On April 19, 2021, the Company's share capital increased from kEUR 63 to kEUR 8,000 from company funds. On May 18, 2021 the share capital is increased to kEUR 10,400. At June 30, 2021 the total share capital of the company is divided into 10,400,000 ordinary shares with a par value of 1 Euro.

Besides the minimum amount of share capital, required under German law, there are no distribution restrictions applicable. The entity itself does not hold any own shares. All shares issued are fully paid.

Capital Reserve represents contributions of the shareholders (kEUR 6,963), the contribution of miniGears companies (kEUR 13,485), reduced by kEUR 7,938 as result of the share capital increase from Company funds. The proceeds from IPO amounts to kEUR 60,000, reduced by certain legal, accounting and other third-party fees that are directly associated with inprocess equity (kEUR 3,271).

Other reserve includes the legal reserve is booked in the subsidiary mG Italy and it comes from the result of the previous year and is equal to 5% of its share capital.

The OCI Reserves includes:

- Currency Translation Reserve: it includes the reserve of the subsidiary mG China deriving from translating its results and financial position from RMB (functional currency) into EURO (presentation currency);
- Changes in Fair value of derivative contracts (Interest Rate Swap and Foreign exchange forward contracts);
- Changes in Employee Plan Reserve related to employee termination indemnities of defined benefit plans and stock option program.

Retained earnings includes the result of the current period and the results of the previous years that are not still paid to the shareholders.

4.4. Borrowings

The carrying amounts of borrowings are as follows:

in kEUR	June 30, 2021	December 31, 2020
Bank loan current	14,792	18,273
Bank loan no-current	9,731	20,999
Total	24,523	39,272

hGears AG signed a Credit Facilities Agreement with Hamburg Commercial Bank AG (former: HSH Nordbank AG, hereafter: HCOB) and Skandinaviska Enskilda Banken AB (Publ) (hereafter: SEB) with a max volume of EUR 50,000,000 and a duration of 5 years (hereafter “refinancing”) on September 21, 2018. The contract contains a margin that is determined depending on the leverage ratio. If the leverage ratio changes, the contractual credit margin changes. Any change in the credit margin is recognized in the income statement through a change in the carrying amount. At the same time all shareholders have concluded capital maintenance and subordination agreements with the banks. The refinancing replaced the previous loan agreement with Unicredit and BHF banks.

On November 21, 2019 the company signed an amendment and restatement agreement in relation to the EUR 45,500,000 Credit Facilities Agreement originally dated September 21, 2018 in which the company has renegotiated with the banks specific covenants requirements.

Amongst others the effects of the adoption of IFRS 16 were considered in the covenant calculation resulting in an increase in the interest margins by 0.5%.

On December 7, 2020 the company and the lenders signed a second amendment to the Credit Facilities Agreement whereas Company agreed to voluntary prepay EUR 2,000,000 of outstanding facility B. Other terms and conditions remained unchanged.

Lenders are Hamburg Commercial Bank AG (former: HSH Nordbank AG) and Skandinaviska Enskilda Banken AB (Publ) participating 50% each.

The “Cancellation condition” of the Facility Agreement reported in the table above is:

1) change of control: Finatem III GmbH & Co. KG ceasing to directly or indirectly hold more than one-half of the shares in the Company or control the Company or the sale of all or substantially all of the assets of the Group.

During 2020 the banks decreased the credit margins for all tranches two times. These revisions of the estimated contractual cash flows had to be reflected by adjusting the amortized cost to the present value of the future contractual cash flows discounted with the original effective interest rate and resulted in a reduction of the amortized cost. The adjustments were recognized in profit or loss.

On April 28, 2021 the Group signed Third Amendment to the facilities agreement with the banks.

The main amendments include:

- change of control clause has been reduced to 30% (before: 50%);
- subordination of shareholders loans has been excluded;
- Interest Cover and Minimum Liquidity covenants have been removed.

On May 31, 2021 the Company repaid fully a total amount of kEUR 8,000 of Facility B.

As of June 30, 2021, hGears Group had met all financial and non-financial covenants under its existing facility agreements.

5. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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.

The paid interests during the first half 2021 in the cash flow statement include interests for factoring in an amount of kEUR 51 (first half 2020: 81 kEUR) and accrued interests from shareholder loans of kEUR 4,199.

	December 31, 2019	Cash flows	Non-cash changes					June 30, 2020
			Acquisition	IFRS 16	Fair value changes	Foreign exchange movement	Other	
Finance lease liabilities	17,460	(2,212)	-	-	-	(43)	2,634	17,839
Carrying amounts	39,111	4,347	-	-	-	-	947	44,405
Shareholder loans	13,660	-	-	-	-	-	374	14,034
Other current financial liabilities	129	(81)	-	-	-	28	68	144

	December 31, 2020	Cash flows	Non-cash changes					June 30, 2021
			Acquisition	IFRS 16	Fair value changes	Foreign exchange movement	Other	
Finance lease liabilities	16,212	(1,729)	-	-	-	141	460	15,084
Carrying amounts	39,272	(15,584)	-	-	-	-	835	24,523
Shareholder loans	14,341	(14,599)	-	-	-	-	258	-
Other current financial liabilities	63	(51)	-	-	-	-	66	78



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 meetings and also within its supervisory board meetings.

On September 21, 2018, as well as by amendment of November 21, 2019 and December 7, 2020, the Group concluded with consortium banks, HCOB and SEB, a new Facilities Agreement.

On April 28, 2021 the Group signed Third Amendment to the facilities agreement with the banks. In exchange to full early repayment of Facility B (kEUR 8,000) by the Group, Interest Cover and Minimum Liquidity covenants have been removed. Moreover, change of control clause has been reduced to 30% (before: 50%) and the subordination of shareholders loans has been excluded. The Group shall ensure that it complies with the financial covenants-leverage on the Group level, during the term

of the Agreement, Testing Dates are March 31, June 30, September 30 and December 31 of each year. As of June 30, 2021, the financial covenants had been 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 cooperation with the operating units.

This condensed half-year financial report does not contain all the information and explanatory notes relative to financial risk management that must be included in the annual report. For additional information in this regard refer to the notes to the consolidated financial statements at December 31, 2020.

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 June 30, 2021	Fair Value June 30, 2021
ASSET			
Non-current assets			
Other non-current assets	AC	117	117
Current assets			
Trade receivables			

in kEUR	Classification IFRS 9	Carrying amount June 30, 2021	Fair Value June 30, 2021
Trade receivables	AC	12,769	n/a*
Trade receivables subject to factoring	FVPL	1,276	1,276
Other receivables	AC	442	n/a*
Other current financial assets			
Derivatives with hedge accounting	n/a	228	228
Derivatives without hedge accounting	FVPL	57	57
Cash and cash equivalents	AC	53,546	n/a*
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	n/a	12,362	12,362
Borrowings	FLAC	9,731	10,609
Shareholder loan	FLAC	-	-
Current liabilities			
Finance lease liabilities	n/a	2,722	n/a
Borrowings	FLAC	14,792	15,647
Other current financial liabilities			
Derivatives with hedge accounting	n/a	10	10

in kEUR	Classification IFRS 9	Carrying amount June 30, 2021	Fair Value June 30, 2021
Derivatives without hedge accounting	FVPL	3	3
Accrued interest	FLAC	65	65
Trade and other payables			
Trade payables	FLAC	16,862	n/a*
Other payables			
Other current non-financial payables	n/a	9,101	n/a

Carrying amounts per category (in kEUR)		June 30, 2021
Financial Assets measured at amortized costs	AC	66,874
Financial Liabilities measured at amortized costs	FLAC	41,450
Financial Assets & Liabilities measured at Fair Value through Profit or Loss	FVPL	1,333

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

in kEUR	Classification IFRS 9	Carrying amount June 30, 2021	Fair Value June 30, 2021
ASSET			
Non-current assets			
Other non-current assets	AC	125	125
Current assets			
Trade receivables			
Trade receivables	AC	10,299	n/a*
Trade receivables subject to factoring	FVPL	1,348	1,348
Other receivables	AC	738	n/a*
Other current financial assets			
Derivatives with hedge accounting	n/a	95	95
Derivatives without hedge accounting	FVPL	108	108
Cash and cash equivalents	AC	23,434	n/a*
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	n/a	13,440	n/a**
Borrowings	FLAC	20,999	21,959
Shareholder loan	FLAC	14,341	14,975

in kEUR	Classification IFRS 9	Carrying amount June 30, 2021	Fair Value June 30, 2021
Current liabilities			
Finance lease liabilities	n/a	2,772	n/a**
Borrowings	FLAC	18,273	18,691
Other current financial liabilities			
Derivatives with hedge accounting	n/a	13	13
Accrued interest	FLAC	51	51
Trade and other payables			
Trade payables	FLAC	16,197	n/a*
Other payables			
Other current non-financial payables	n/a	9,199	n/a*

Carrying amounts per category (in kEUR)		Dec 31, 2020
Financial Assets measured at amortized costs	AC	34,596
Financial Liabilities measured at amortized costs	FLAC	69,861
Financial Assets & Liabilities measured at Fair Value through Profit or Loss	FVPL	1,456

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



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 payment under non-cancellable short-term and low value leases and existing purchase commitments are as follows:

8.1.2. Other commitments

The Group has no purchase commitments for capital expenditures related to property, plant and equipment.

in kEUR	H1 2021	H1 2020
No later than 1 year	228	78
Later than 1 year and no later than 5 years	89	97
Later than 5 years	1	1
Total	318	176

8.1.3. Contingencies

As of June 30, 2021, there were no contingent liabilities.

8.2. Related party transactions

Finatem III GmbH & Co. KG. the direct parent of the Company and ultimate controlling party of the Group, has an interest of 35,81 % in the capital of the Company as of June 30, 2021. 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 or financing of operating activities.

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:

- Accrued financial expenses: the total value for the first half 2021 is equal to kEUR 237 (first half 2020: kEUR 339);
- Residual financial loan: the balance as of June 30, 2021 is equal to kEUR 0 (at the end of 2020: kEUR 13,163). The shareholder loans were completely repaid on May 31, 2021;
- Revenues: the total value for the first half 2021 is equal to kEUR 1,179 (first half 2020: kEUR 0) and it is related to "Cost Sharing and Indemnity Agreement";

The income are posted in the line Other operating expenses.

The transactions with minority shareholders are summarized below:

- Accrued financial expenses: the total value for the first half 2021 is equal to kEUR 20 (first quarter 2020: kEUR 35);
- Salaries: the total value for the first half 2021 is equal to kEUR 35 (first half 2020: kEUR 71);
- Building rent: the total value for the first half 2021 is equal to kEUR 224 (first half 2020: kEUR 224)
- Revenues: the total value for the first half 2021 is equal to kEUR 131 (first half 2020: kEUR 0) and it is related to "Cost Sharing and Indemnity Agreement";
- Residual financial loan: the balance as of June 30, 2021 is equal to kEUR 0 (at the end of 2020: kEUR 1,179). The shareholder loans were completely repaid on May 31, 2021.

The Group monitors that all transactions with related parties substantially took place on the basis of normal market condition.

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 Board of Management as well as the members of the Supervisory Board of hGears.

On April 27, 2021 the Supervisory Board was appointed. Beside Mr. Seidler and Ms. Dr. Fontane all other members of the Supervisory Board of hGears AG are also members of the Supervisory Board of mG Italy and thus hold key management positions in the Group:

Board of Management:

- Pierluca Sartorello (Chairman)
- Daniel Basok

Supervisory Board:

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

The short-term employee benefits for members of the Supervisory Board is shown below:

in kEUR	H1 2021	H1 2020
hGears AG	82	38
mG Italy	34	39
Total	116	76

In addition, other operating expenses (legal fees) of kEUR 99 thousand (first half 2020: kEUR 9) were incurred with members of the Supervisory Board in the first half of 2021.

The compensation of the board of management for employee services is shown below:

in kEUR	H1 2021	H1 2020
Salaries and other short-term employee benefits	1,131	210
Share-based payments	565	-
Total	1,696	210

The unpaid liabilities to the board of management are shown below:

in kEUR	June 30, 2021	December 31, 2020
Payroll liabilities	352	479
Total	352	479

The company shares owned by Supervisory Board members and Management Board members are shown below:

in kEUR	H1 2021	H1 2020
Pierluca Sartorello	125,898	0
Daniel Basok	8,077	0
Management Board	133,975	0
Volker Stauch	45,967	0
Christophe Hemmerle	5,769	0
Daniel Kartje	2,307	0
Mathias Seidler	11,538	0
Dr. Gabriele Fontane	3,846	0
Supervisory Board	69,427	0
Total	203,402	0

Some of the shares attributed to Mr. Volker Stauch, and to Mr. Pierluca Sartorello are still held by Finatem III GmbH & Co. KG. These will be transferred to

their owners after the end of the lock-up period. 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. For fiscal years 2019 a similar loan for similar purpose have been granted in amount of kEUR 30 respectively. In 2020 the board member repaid kEUR 164 based on the FTC refund received in Italy and by offsetting the payment of the bonuses. During the first half 2021 no additional loans were given to the management board member.

Additional information related to the managing directors as of June 30, 2021 is as follows:

Pierluca Sartorello:

- CEO
- Residence: Treviso (Italy)
- Degree in International Business

Daniel Basok:

- CFO
- Residence: Friesenheim (Germany)
- Degree in Economics and Accounting, Certified Public Accountant (Israel)

8.3. Share-based payments

The "Stock Option Program 2021" of hGears AG was approved by the resolution dated 5 May 2021 of 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. 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

	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at January 1	-	-	-	-
Granted during the year	26.16	190,500	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	-	-

	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 30 June	26.16	190,500	-	-

Vested and exercisable at 30 June

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.

Set out below are summaries of options granted under the plan:

Grant date	Expiry date	Exercise price	Share options 30 June 2021	Share options 30 June 2021
June 4 2021	June, 2027	26.16	190,500	-

No options expired during the periods covered by the above tables. Share options outstanding at the end of the reporting period have the following expiry dates and exercise prices:

The assessed fair value at grant date of options granted during the reporting period ended June 30, 2021 was EUR 3.34 per option (2020 – EUR 0). 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 June 30, 2021 included:

- 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
- exercise price: 26.16 Euro
- grant date: June 4, 2021
- expiry date: June 3, 2027
- share price at grant date: 25.80 Euro
- expected price volatility of the company's shares: 40%
- expected dividend yield: 0%
- risk-free interest rate: 0%

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.

8.4. Subsequent events

No events of special significance occurred after the end of the reporting period as of June 30, 2021 that would have to be reported here.

Schramberg, July 29, 2021

Pierluca Sartorello
Chief Executive Officer



Daniel Basok
Chief Financial Officer



STATEMENT OF RESPONSIBILITY

To the best of our knowledge, and in accordance with the applicable accounting standards for interim reporting, the interim consolidated financial statements provide a true and fair view of the Group's net assets, financial position and results of operations, and the group management report presents the Group's business performance, including the financial performance and the financial position, in a manner that gives a true and fair view and describes the principal opportunities and risks of the company's anticipated development during the remainder of the financial year.

Schramberg, 29 July 2021

The Management Board

Pierluca Sartorello
Chief Executive Officer

Daniel Basok
Chief Financial Officer



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Disclaimer

This report contains forward-looking statements. These statements are based on current experience, estimates and projections of the Management Board and the information available at the time this half-yearly financial report was prepared. They are not guarantees of future performance and results and are subject to risks and uncertainties that are beyond hGear's ability to control or predict, such as future market conditions, regulatory changes or the behaviour of other market participants, for instance. These and other factors can cause the actual results, performance and financial position to deviate significantly from the estimates stated herein. hGears does not assume any obligation to update the forward-looking statements contained in this report. Certain numerical data, financial information and market data, including percentages, in this document have been rounded according to established commercial standards. Furthermore, in tables and charts, these rounded figures may not add up exactly to the totals contained in the respective tables and charts.

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