Annual Report
2022

hGears | the **heart** of your performance

KEY FIGURES

in EUR million	2022	2021
Revenue	135.3	134.9
Gross profit	69.8	76.4
Gross margin in %	51.6	56.6
Adjusted EBITDA	15.3	22.9
Adjusted EBITDA margin in %	11.3	17.0
EBIT	0.7	8.4
Net result	−0.8	2.4
Net return on revenues in %	−0.6	1.7
Free cash flow	−8.3	1.9
Net debt	2.7	11.5
Net debt / EBITDA	−0.2×	−0.5×

CONTENT

OUR STRATEGY

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 60 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 2022 AT A GLANCE

EUR 135.3 M

Revenue
FY 2022

EUR 15.3 M

Adj. EBITDA
FY 2022

EUR 2.7 M

Net cash
FY 2022

Conventional
31 %

e-Mobility
38 %

e-Tools
31 %

Sales
FY 2022

+ 2 new customers
+ 1 extention major contract

FY 2022

#1

European market share
e-bike precision components

×3

Production sites
in Germany, Italy, China

835

Employees

To our shareholders

hGears | the **heart** of your performance

SUPERVISORY BOARD

Prof. Volker Michael Stauch
Chairman of the Board

Christophe Hemmerle
Vice-Chairman

Dr. Gabriele Fontane

Christoph Mathias Seidler

Daniel Michael Kartje

LETTER FROM THE MANAGEMENT BOARD

Dear shareholders, ladies and gentlemen,

The year 2022 was an eventful year, characterized by an adverse economic environment triggered by Russia's invasion of Ukraine, the slower-than-expected fading of the Corona pandemic and persisting supply chain disruptions. The challenges experienced in the past year have not passed without leaving a trace on hGears' performance. Therefore, we want, first of all, to thank all our employees in Germany, Italy and China, who, against this challenging backdrop and through maintained focus and dedication, have again enabled the Company to accomplish a solid business result.

Contrary to expectations, COVID-19 remained a burden for global economies in 2022. The pandemic lasted longer than expected in the Western Hemisphere and only started to subside in summer, while the Chinese government maintained tight restrictions until the end of the year. For our customers, the persistence of the pandemic caused production and supply chain constraints, resulting in slowdowns in our deliveries of high-quality precision gears and components, especially at the beginning of the year. On the one hand, supply chains started to normalize after the summer, but on the other hand, Russia's invasion of Ukraine in the Spring of 2022 caused steep material and energy price increases, resulting in a sharp rise in inflation not seen for decades. Central banks were forced to intervene, lifting interest rates in subsequent steps. Recession concerns led to more cautious order placement towards the end of the year, resulting in some cancellations and postponements from our customers. In this challenging environment, we were able to generate revenues of EUR 135.3 million at the previous year's level. Pass-through clauses in our contracts enabled us to compensate for significant parts of the raw material price increases. However, profitability was nonetheless impacted by the costs not covered by the Group's clauses. The Company's adjusted EBITDA reached EUR 15.3 million in 2022, reflecting a 11.3 % margin. We continued our strategic investments in production facilities for the ramp-up of new projects that will drive our future growth, above all in

From left to right: Sven Arend (CEO), Daniel Basok (CFO) the e-Mobility business area. Meanwhile, as we look to 2023, our focus will be on operations, execution and deployment to ensure profitable growth in the years to come.

In the medium term, hGears is targeting strong growth mainly in the e-Mobility business area and expects Group revenues to reach approximately EUR 180 – 200 million. In line with this growth target, the e-Mobility business area is expected to account for approximately 55 % to 60 % of the Group's total revenue, reflecting the Group's business expansion ambition and strategic focus.

On 28 December 2022, the Supervisory Board announced Sven Arend as the new Chairman of the Management Board (CEO), thereby replacing Pierluca Sartorello as of 1 February 2023. Sven Arend brings decades of proven strategic and operational expertise and has an excellent track record with international organizations, notably in Asia and Italy. His focus on execution and operational excellence will help hGears to build on its existing momentum and move into the next phase of growth. We thank Pierluca Sartorello for his significant contribution to hGears' evolution over the years.

While the current environment continues to be characterized by economic uncertainties caused by geopolitical tensions, our very solid balance sheet gives us a great deal of financial security and the opportunity continue investing, when needed, in additional capacity for future projects. Our focus remains on the sustainable growth of the e-Mobility business area, where we have built further capacities to enable the ramp-up of customer projects. Thus, we remain very well positioned to participate in the positive development in all areas of the e-mobility industries to drive growth in micromobility in coming years. In addition to consumers' demand for environmentally friendly gardening tools, increasing restrictions from legislators are also driving the transition from combustion engines to electric motors, while the general electrification trend in craftsmen's equipment continues to create demand for e-Tools. Conventional mainly serves lucrative small series in the top luxury and supercar segments which – not least due to the performance potential of combined systems – also follows the general trend in the automotive industry towards hybrid and electric solutions. As a company with excellent technical know-how and superior co-development capacities, we are ideally equipped for this emerging transition from internal combustion engines to e-drive applications.

Like in the previous year, we continue to express our hope for peace – especially for the people directly affected by Russia's invasion of Ukraine. And we hope that related global political and economic tensions will ease. Meanwhile, our 2022 performance proves our resilience, based on our strategy, business model and above all, you, our employees, shareholders, customers, suppliers, and all the people behind our Company. We therefore once again express our sincere and heartfelt gratitude to all of you.

Schramberg, 29 March 2023

Management Board,

Sven Arend, CEO
Chairman of the
Management Board

Daniel Basok, CFO
Management
Board Member

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 in the financial year 2022 unreservedly performed the duties imposed upon it by law, the Articles of Association and the Rules of Procedure. It regularly and carefully supervised the management of the Management Board and advised it on all matters of importance to the Company. The Management Board informed the Supervisory Board at regular intervals, comprehensively and in a timely manner by means of written and oral reports about 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 further development, personnel and succession planning, the risk situation, risk management and compliance are relevant corporate matters about which the Management Board regularly informed the Supervisory Board. Where the course of business 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 in the Company.

Insofar as the approval of the Supervisory Board was required by law for individual measures of the Management Board, the Supervisory Board passed a resolution on this.

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

In the financial year 2022, 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 five meetings in the financial year 2022, one of which was held virtually. In addition, twelve resolutions were passed by circulation motion or by telephone. In connection with the performance of their duties, the members of the Supervisory Board had sufficient opportunity in plenary sessions to critically and comprehensively discuss the reports and resolution proposals submitted by the Management Board. They were able to contribute their own suggestions to discussions at any time.

FOCAL POINTS 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 December 31, 2021.

The subject of the virtual Supervisory Board meeting held on 3 February 2023 was in particular the discussion of the results for financial year 2021, which were discussed on the basis of the reporting for December 2021 sent by the Management Board. Furthermore, the Supervisory Board discussed the adjustment of the stock option program and the remuneration report for the financial year 2021.

The subject of the Supervisory Board meeting on 29 March 2022 was in particular the presentation of the annual and consolidated financial statements for 2021 and the presentation and discussion by the Management Board of the business development also on the basis of key figures in the 2021 financial year and in the period up to the end of February 2022. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditors elected by the Annual General Meeting on 5 May 2021, audited the financial statements for the fiscal year 2021 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 2021 financial year 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, Frankfurt am Main.

The financial statement documents and the audit reports for the financial year 2021 were discussed in detail at the

Supervisory Board meeting on 29 March 2022. The auditors reported on the main results of their audit. The Chairman of the Audit Committee reported in detail on the audit of the annual and consolidated financial statements at the plenum session of the Supervisory Board meeting. The Supervisory Board examined in detail the annual and consolidated financial statements and the management report, including the Supervisory Board report, 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 targets for the financial year 2021 and the STI performance targets for the financial year 2022 for the members of the Management Board as part of the variable Management Board compensation, as well as the compensation system for the Management Board and the Supervisory Board. Furthermore, the Supervisory Board unanimously approved the renumeration report and agreed to the proposal to submit it to the Annual General Meeting.

By resolution passed by circulation on 8 April 2022, the Supervisory Board unanimously approved the hiring of a Plant Manager in Schramberg at the Herzog GmbH.

On 11 April 2022, the Supervisory Board passed a unanimous resolution by telephone vote on the issue of tranche 2022 of the Stock Option Program 2021 (SOP 2021) for the members of the Management Board.

On 13 April 2022, the Supervisory Board passed a unanimous resolution by means of a telephone resolution on the issue of stock option rights to the members of the Company's Management Board under the Tranche 2022 of the Stock Option Program 2021 and on the approval of the Management Board resolutions on the establishment of the Stock Option Program 2021 for executives and on the issue of stock option rights to executives under the Stock Option Program 2021.

By resolution passed by circulation on 13 April 2022, the Supervisory Board unanimously resolved to propose to the Annual General Meeting that PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, be elected as auditors for the financial year 2022.

On 1 June 2022, the Supervisory Board passed a unanimous resolution by way of telephone resolution on the adoption of the Rules of Procedure of the Audit Committee.

By resolution passed by circulation on 11 July 2022, the Supervisory Board unanimously approved the hiring of a plant manager in Schramberg by the Herzog GmbH.

At the virtual Supervisory Board meeting held on 19 July 2022, the Management Board reported to the Supervisory Board on business development up to June 2022 and on the forecast for 2022.

The Supervisory Board adopted a resolution on 1 August 2022 by means of a telephone resolution unanimously resolved on the establishment of the Stock Option Program 2022 (SOP 2022) for the members of the Management Board.

The Supervisory Board adopted a resolution on 3 August 2022 by means of a telephone resolution unanimously resolved on the issue of stock option rights to the members of the Management Board of the Company under the Stock Option Program 2022 and on the approval of the Management Board resolutions on the establishment of the Stock Option Program 2022 for the executives and on the issue of stock option rights to executives under the Stock Option Program 2022.

By resolution passed by circular resolution on 2 September 2022, the Supervisory Board unanimously waived the preparation of notes and a management report as well as the disclosure of the annual financial statements of Herzog GmbH.

At the Supervisory Board meeting on 25 October 2022, which was held at the site in Padua, the Management Board presented the current business developments up to September 2022 to the Supervisory Board.

At the meeting on 14 December 2022, the Management Board presented the current business developments to the Supervisory Board and provided an outlook on the key financial figures for the financial year 2022. The Management Board also presented the business plan for the financial years 2023–2027 in the course of the further meeting. Subsequently, the Supervisory Board unanimously adopted a resolution approving the budget for the financial year 2023. Dr Fontane did not attend the meeting excused.

The Supervisory Board members passed a resolution on 14 December 2022 by a circular resolution on the approval of the declaration of compliance pursuant to Section 161 AktG.

On 21 December 2022, the Supervisory Board members passed a resolution by circulation on the approval of the conclusion of a mandate agreement with the law firm

Oppenhoff and on the approval of the invoiced services. The Supervisory Board member Mrs. Dr. Fontane is a lawyer and partner in the aforementioned law firm and abstained from voting on the aforementioned resolution.

By telephone resolution dated 28 December 2022, the Supervisory Board appointed Mr. Sven Arend as a member of the Management Board and Chairman of the Management Board of the Company effective 1 February 2023.

ATTENDANCE AT SUPERVISORY BOARD MEETINGS

The attendance at meetings of the members of the Supervisory Board who were in office in the financial year 2022 is disclosed below on an individualised basis. Where members of the Supervisory Board were unable to attend meetings of the Supervisory Board, they were excused in each case.

Member of the Supervisory Board	Number of meetings	Participation in %
Prof. Volker Michael Stauch	5/5	100 %
Christophe Hemmerle	5/5	100 %
Christoph Matthias Seidler	5/5	100 %
Dr Gabriele Fontane	4/5	80 %
Daniel Michael Kartje	5/5	100 %

2022 is disclosed below on an individualised basis. Where members of the Supervisory Board were unable to attend meetings of the Supervisory Board, they were excused in each case.

COMMITTEES

Audit Committee

In order to perform its duties efficiently, the Supervisory Board established the Audit Committee by resolution of 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, two of which were virtual.

At the meeting of the Audit Committee on 29 March 2022, which was held virtually, the financial statement documents and the audit reports for fiscal year 2021 were discussed in detail. The auditors reported on the main findings of their audit. Another subject of the Audit Committee meeting on 29 March 2022 was the presentation by the Management Board of the development of the internal control, audit and compliance system.

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.

The Audit Committee held a meeting on 25 October 2022 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 discuss current business developments, prepare the audit process, provide information on analyses of the internal control and risk management system, and provide information on the compliance management system.

Attendance at Audit Committee Meetings

The attendance at meetings of the Audit Committee of the members of the Supervisory Board who were in office in the financial year 2022 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 2022, the Supervisory Board continuously observed the further development of corporate governance standards in the Company. In accordance with Principle 22 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 22 December 2022.

CHANGES IN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

There were no changes in the composition of the Management Board and 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.

The Supervisory Board appointed the current members of the Management Board, Mr Pierluca Sartorello (Chairman of the Management Board) and Mr Daniel Basok, by resolution dated 8 April 2021. In the reporting period, the Supervisory Board resolved to appoint Mr. Sven Arend as member of the Management Board and Chairman of the Management Board effective 1 February 2023.

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 2022, 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 certificate. 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 2023 and in the meeting of the Supervisory Board on 29 March 2023. At all meetings, the auditor reported on the main results of the audit and was available to answer questions and provide additional information.

After its own examination and discussion of the annual financial statements and the 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 2022 prepared by the Management Board. The annual financial statements are thus adopted. The Supervisory Board approved the Management Board's proposal for the appropriation of profits.

The Supervisory Board would like to thank the Management Board and all employees for their constant commitment and constructive cooperation in the financial year 2022.

Schramberg, 29 March 2023

Prof. Volker Michael Stauch
Chairman

HGEARS AND CAPITAL MARKETS

Key data hGears stock 2022

Number of shares as of 31 December 2022	10,400,000 shares
Share capital as of 31 December 2022	EUR 10.400.000
Share price as of 31 December 2022	EUR 7.24
Market capitalization as of 31 December 2022	EUR 75.3 million
Share price high 2022	EUR 23.80
Share price low 2022	EUR 5.24

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

After a promising start into the year, global stock markets had to digest strong declines due to Russia's assault on Ukraine on 24 February 2022. As the global economy faced the fallout and uncertainty from the Russia/Ukraine crisis, the Corona pandemic subsided later than expected in summer 2022 in the Western Hemisphere, while China continued its COVID-19 restrictions until the end of 2022, causing severe disruptions in global supply chains. This, paired with the energy crisis and steep increase in raw material prices caused by the war in Ukraine, continued to weigh on corporates' profitability. At the same time, central banks started to increase interest rates to curb the soaring inflation, which reached levels unseen for decades.

In July 2022, the European Central Bank (ECB) started raising the main refinancing rate for banks from 0% to 2.5% in December 2022. The US Federal Reserve (FED) raised interest rates earlier and more aggressively, with the federal fund rate rising from a target range of 0–0.25% to 4.25–4.5% at year-end 2022. The consequences of this have been growing recessionary fears, which have been negative for global stock markets. The leading German DAX large caps index declined by 12.4% in 2022, while the broader European Euro Stoxx 50 fell by 11.7%. Meanwhile, the SDAX Index, which contains small and medium-sized German companies, dropped by 27.4% in 2022, and the sub-index DAX Auto Parts & Equipment fell by 18.3%.

The shares of hGears reached a high of EUR 23.80 on 14 January 2022, with a trough of EUR 5.24 on 16 December 2022. An average of 4,452 shares (2021 12,905 shares) were traded daily in 2022. Over the year, the share price of hGears declined by 66.2% and stood at EUR 7.24 at the end of December, reflecting the adverse geopolitical and ultimately economic conditions experienced in 2022.

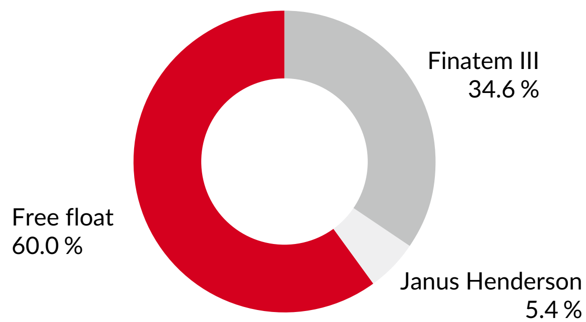
As of 31 March, 2023

Bank	Target price EUR	Recommendation
ABN Amro – Oddo BHF	9	Neutral
Hauck & Aufhäuser	12	Buy
M. M. Warburg	10	Buy

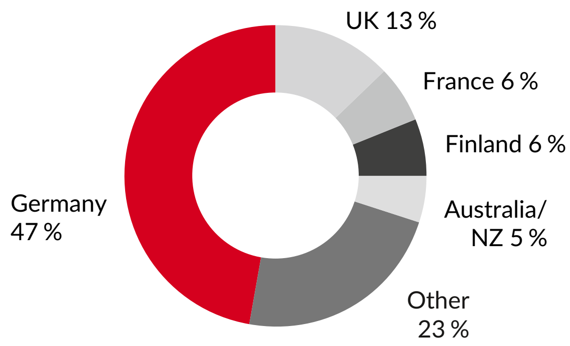
Communication with the Capital Markets

hGears remains focused on open and effective dialogue with the capital markets. In 2022 the Group appointed a Head of Investor Relations and has actively focused on strengthening its relationships with investors, analysts and financial journalists. During the year, the Group further deployed a comprehensive capital market engagement program, including quarterly reporting, site visits, roadshows and the expansion of the Group's sell-side analyst coverage from two to three brokers. The senior management and IR held several virtual roadshows along the quarterly results releases, attended 4 investor conferences and other events such as e. g. the world's largest bicycle trade fair EuroBike in Frankfurt am Main.

Shareholder structure 2022



Shareholders by region 2022



Corporate Responsibility Report

hGears | the **heart** of your performance

NON-FINANCIAL CONSOLIDATED STATEMENT PURSUANT TO SECTION 315B HGB

Reporting

This presentation of sustainability performance covers hGears AG, its subsidiaries Herzog GmbH and mG miniGears S. p. A, as well as its second-tier subsidiary 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. This 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 were 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 gear 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	

* 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.

Prerequisites

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. 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 strengthens long-standing relationships with customers.

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 the company.

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

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")?

- ***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	Chapter
Environmental matters	Section 289c (2) no. 1	• Performance-enhancing, energy-saving components • Innovation and development • Improving the circular economy	05
Employee-related matters	Section 289c (2) no. 2	• Culture of cooperation • Diversity	06
Social matters	Section 289c (2) no. 3	• Product quality & safety • Customer satisfaction	04, 05
Respect for human rights	Section 289c (2) no. 4	• Supply chain monitoring • Respect for labour law and human rights	07
Combating corruption and bribery	Section 289c (2) no. 5	• Corporate governance • Compliance • Code of Conduct	09

Sustainability organisation

In November 2022, 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 five members who advise and support the chairperson in the implementation of all activities related to the achievement of sustainability goals, environmental protection, good corporate governance and social responsibility. The six company values, which are described in a separate chapter, receive special attention in the work of the committee.

Members of the ESG Committee (March 2023):

Sven Arend, Chief Executive Officer (CEO)
Daniel Basok, Chief Financial Officer (CFO)
Federico Mangolini, Chief Operating Officer (COO)
Gianluca Bordin, Group HR Director
Christian Weiz, Head of IR

The sustainability organisation is supplemented at the Schramberg site by the "Energy & Environment Team", which identifies sustainable measures to improve day-to-day business, looks for and implements optimisation opportunities.

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.

Selected campaigns of the "Energy & Environment Team"

In November 2021, the "Energy & Environment Team" started its activities at the Schramberg site. The team is responsible for implementing recommendations and suggestions for improvement from the annual energy and environmental audits, rolling out its own ESG optimisation action items and acting as a liaison for all employees at the site when it comes to ideas and opportunities to improve sustainability at hGears. During 2022, the team initiated measures such as reducing the heating output in some parts of the company's properties, replacing conventional lamps with LED lamps that consume significantly less energy, and reducing the amount of water used at some intake points. Individual action items did not bring about significant changes. Overall, however, the work of this team has led to a noticeable improvement in sustainability.

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. Currently, there is no clear sustainability front runner in the industry. Nevertheless, 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 plans to create a sustainable culture that creates identity, promotes creativity and fosters 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. impeccability, respectability, incorruptibility. hGears wishes to align actions with the ideals and values stated as far as possible. These values include, among others, respon-sibility, 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 tolerance. What is needed are 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.

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

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

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!

the environment, which should be at least as liveable for future generations as it is for today's generation.

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 (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). The Other Automotive and Industrial Applications (Conventional) business area produces gear-boxes for various applications such as premium and luxury automotive vehicles, motorbikes, ventilation and air condi-tioning, as well as precision parts for roller shutters and heating systems. This area includes the production of various precision parts for conventional transmission applications – such as drive, steering and braking systems and the body of the vehicle – and other industrial applications.

The focus of this business area is on transmissions 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 vehicle, the lower the energy required to move it; in the case of e-bikes, this also translates into better handling.

Another 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.

While the amount of residual materials produced at hGears is considerable, almost all of the material is completely recycled, resulting in 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 and collected separately and sent for recycling. Metal chips are sold for recycling after having been melted down.

In 2022, hGears generated additional revenue of more than one million euros 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. Usually, pallets that are too badly damaged are 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

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. In 2022, the amount of energy purchased decreased by nine percent compared to the previous period despite an increase in production output.

Energy consumption Quantities in gigajoules (GJ)	2020	2021	2022
Sourcing of primary energy	**51,195**	**54,888**	**47,615**
Diesel	2,520	2,757	3,320
Natural gas	48,675	52,131	44,295
Sourcing of secondary energy			
Electric power	**117,126**	**123,518**	**115,617**
Total energy sourced	**168,321**	**178,406**	**163,232**

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 commissioned 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. This was the trigger for hGears to switch to sourcing all-green electricity from 2023 onwards.

Greenhouse gas emissions (GHG) in metric tonnes	2020	2021	2022
Scope 1	4,721	4,433	2,722
Scope 2	6,528	5,474	13,953
Scope 3*	9,198**	9,743	9,579
GHG total (scope 1 + 2 + 3.1)	**20,447**	**19,650**	**26,254**

* Emissions in connection with the purchasing of goods and services (scope 3.1), here: steel, sintered metal and lubricants (excluding Suzhou site)
** without 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 millions of litres	2020	2021	2022
Drawn from the public mains	**51,501**	**49,556**	**42,456**

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. This amount 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 millions of litres	2020	2021	2022
Discharge into the public sewage system	36,683	46,019	35,333
Liquid waste	**1,294**	**742**	**718**

Waste

Despite increasing production volumes, hGears has managed to reduce the amount of waste and residual materials in recent years. 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 84 %. Most of the remaining waste volume was incinerated.

Volume of waste in metric tonnes	2020	2021	2022
Total waste volume	**5,526**	**5,966**	**5,488**
Non-hazardous waste	4,372	4,613	4,357
Hazardous waste	1,154	1,353	1,131
Amount of waste recycled	**4,642**	**4,944**	**4,597**
Non-hazardous waste	4,297	4,551	4,326
Hazardous waste	345	393	271
Amount of waste disposed of	**885**	**1,020**	**890**
Non-hazardous waste	76	61	30
Hazardous waste	809	959	860

EMPLOYEES

Successful human resources work is the result of many individual disciplines. However, hGears attaches great importance to the education and training 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 managers.

In the coming years, hGears will increasingly focus on the training and further education 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 2021, hGears had 727 employees at all three locations. During 2022, about 100 employees left the company. At the same time, hGears signed a slightly higher number of new employment contracts, resulting in a total of 835 employees at all locations on 31 December 2022.

Employees	2020	2021	2022
Total headcount	**871**	**919**	**847**
by full-time equivalents (FTE)	861	912	835
Full-time employees	735	693	700
Part-time employees	36	32	33
Temporary employees	100	194	114
Women	**200**	**204**	**192**
	23 %	22 %	23 %
Men	**671**	**715**	**655**
	77 %	78 %	77 %
Employee turnover rate	**6.2 %**	**10.8 %**	**10.0 %**

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

Professional education and training

In 2022, 885 employees participated in further education programmes for a total of 18,982 hours; this corresponded to an average of 21.4 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.

Further training	2020	2021	2022
Number of employees trained	520	533	586
Training hours	13,084	20,583	18,627
Training hours per employee	25.2	38.5	31.8
Further training expenditure in €	217,084	650,517	393,704
Training expenditure per employee in €	417	1,220	672

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 2024 at the latest. All sites have already been certified according to ISO 9001 (quality manage-ment).

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.

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 2022, 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
Number of accidents at work *	19	10	6
Number of hours worked	1,508,789	1,729,901	1,679,638
LTAR **	2.52	1.16	0.72
LWDR ***	13.4	5.8	9.3
Work-related diseases	0	0	0
Work-related fatalities	0	0	0

* Accidents with lost time of more than one day
** LTAR = lost time accident rate (number of accidents at work with lost time of at least one working day) in relation to 200,000 working hours.
*** LWDR = days lost due to accidents at work in relation to 200,000 working hours

Seniority	2020	2021	2022
< 5 years	297	413	356
5 – 9 years	168	119	104
10 – 19 years	197	180	181
20 – 29 years	163	158	155
30 – 39 years	42	45	47
≥ 40 years	4	4	4

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, inter-cultural communication promotes mutual under-standing and helps to avoid diversity-specific barriers in professional development.

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

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.

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.

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.

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, 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.

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.

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 and commercial professions and highlighting future 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

hGears supports the junior athletics team of the SG Schramberg sports club in particular because of the great importance of sport in the development of children. hGears has strong roots in the region – around 90 % of employees live within a ten-kilometer 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. The SG Schramberg team trains twice a week and actively participates in competitions. In October 2022, hGears presented the children with new training jackets bearing the hGears logo during their last factory visit.

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. This area reports directly to the Chief Financial Officer of hGears AG and is also in direct communication with the Chair of the Supervisory Board.

Compliance is of central importance to hGears. Compliance includes adherence to legal requirements, voluntary commitments and internal company guidelines. Compliance 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 is 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 2022 – 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 2022 reporting period, as in previous years, no allegations were made known that hGears had violated any regulations under competition or antitrust law.

Sustainability as a component of risk management

Social-ecological risks are part of hGears' risk management system. The system is designed in such a way that risks can be identified and remedied at an early stage. 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 operational managers reporting to them are responsible for the risk management system. Risk management is supported by the internal control system (ICS).

The risk analysis has identified climate change as a relevant non-financial 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 at production facilities.

At the same time, this offers hGears new opportunities. hGears is a market leader for precision gear parts and axles in the future-oriented and fast-growing area of e-mobility applications, especially with e-mobility being heavily promoted due to climate change. hGears customers in this area currently include market leading producers of e-bike engines.. 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, virtual and live roadshows, 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 in accordance with Articles "Corporate Values" and "Corporate Governance" 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. Manufacture of low-CO_2 transport technologies (including low-CO_2 vehicles)

3.6. Manufacture of other low-CO_2 technologies

For fiscal 2022, 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	**134.9 m €**	**42.9 m €**	**–**		
e-Mobility		32.2 %	–		
e-Tools		0.0 %	–		
Conventional		0.0 %	–		
∑		32.2 %	–		
2022	**135.3 m €**	**92.9 m €**	**76.1 m €**		
e-Mobility		38.4 %	38.4 %	The audit of economic activities did not reveal any violation of EU objectives.	Compliance with minimum safeguards is ensured for all economic activities.
e-Tools		30.9 %	18.4 %		
Conventional		0.0 %	0.0 %		
∑		69.3 %	56.8 %		

* 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	**14.7 m €**	**5.2 m €**	**–**		
e-Mobility		35.4 %	–		
e-Tools		0.0 %	–		
Conventional		0.0 %	–		
∑		35.4 %	–		
2022	**16.6 m €**	**12.1 m €**	**10.6 m €**		
e-Mobility		62.7 %	62.7 %	The audit of economic activities did not reveal any violation of EU objectives.	Compliance with minimum safeguards is ensured for all economic activities.
e-Tools		9.9 %	1.0 %		
Conventional		0.0 %	0.0 %		
∑		72.6 %	63.7 %		

* 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.

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	**8.0 m €**	**1.6 m €**	**–**		
e-Mobility		19.5 %	–		
e-Tools		0.0 %	–		
Conventional		0.0 %	–		
∑		19.5 %	–		
2022	**7.0 m €**	**5.2 m €**	**4.5 m €**		
e-Mobility		53.8 %	53.8 %	The audit of economic activities did not reveal any violation of EU objectives.	Compliance with minimum safeguards is ensured for all economic activities.
e-Tools		19.7 %	9.9 %		
Conventional		0.0 %	0.0 %		
∑		73.5 %	63.7 %		

*Climate change mitigation, climate change adaptation. ** 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.

Taxonomy-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 only identified the environmental objective of climate change mitigation. 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: Manufacture of low-carbon technologies for transport", including low-CO_2 vehicles) and replacing internal combustion engines with electric motors ("3.6: Manufacture 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 compliant capital expenditure relates to assets associated with taxonomy-eligible and compliant economic activities, or is part of a plan to expand taxonomy-eligible and 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.

Group Management Report for the 2022 Fiscal Year

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 expected recovery of world economies following the pandemic years did not materialize in 2022. COVID-19 lasted longer than anticipated and only subsided during summer in Western countries, while China continued to impose severe restrictions until year-end 2022. This was not without consequences for worldwide production and ultimately global supply chains, which only started to recover in the second half of 2022. Furthermore, Russia's brutal invasion of Ukraine led to a sharp cut in Russian gas deliveries that pushed energy and raw material costs to record levels, not only in the Eurozone but also around the globe, resulting in a steep surgew in inflation. In summer 2022 central banks around the world started to increase interest rates to fight the inflation, which at the end of 2022 reached levels unseen since the early 1970s. hGears was able to deliver solid results despite this challenging environment. Again, the broad network of suppliers spanning all regions enabled the Company to benefit from its unique positioning as one of the leading suppliers for e-bikes in Europe. Due to the focus on the premium and luxury segments of the automotive industry, the Conventional business area proved highly resilient. Meanwhile, after exceptional demand in recent years, e-Tools had to digest a cooldown and inventory build-up, which also affected the targeted high-quality electric hand tools segment for professionals, especially towards the end of the year. hGears strategic focus remains on sustainable drive and mobility concepts and the management sees the Company very well positioned to participate in this growing environment. With highly motivated employees, a sound infrastructure and a strong balance sheet, hGears is well-equipped to look to the future with good confidence.

COMPANY FUNDAMENTALS

Business model

hGears AG ("hGears" or the "Company") is a global manufacturer of high-precision transmission parts and components with a focus on products for e-mobility.

The Company 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 supplies its products directly to original equipment manufacturers ("OEMs"), mainly in the electric power-tools and garden 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 products for e-bike transmission systems and powertrains for electric and hybrid vehicles. 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

The focus of this business area is on transmissions for various applications such as rolling shutters and systems for heating, ventilation and air conditioning, motorcycles, recreational vehicles, and parts for premium and luxury vehicles. 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.

The e-drive business areas (e-Mobility and e-Tools) accounted for 68.6 % of Group total revenues in 2022 (2021: 67.9 %), with e-Mobility being the largest business area at 38.0 % (2021: 35.2 %).

Share Capital

The Company successfully completed its IPO in 2021. Since May 21, 2021, hGears shares have been listed in the Prime Standard of the Regulated Market of the Frankfurt Stock Exchange. The public offering comprised 2,400,000 new shares from a capital increase against cash contributions, excluding the subscription rights of existing shareholders; 2,400,000 existing shares from the holdings of the selling shareholders; a further 1,000,000 existing shares from the holdings of the selling shareholders under an upsize option, and an additional 870,000 shares from the holdings of the selling shareholders for an over-allotment (greenshoe). The price range was EUR 23 to EUR 31, and a total of 6,670,000 shares were placed at a price of EUR 26 per share. 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. The placement volume, including the upsize and over-allotment option, totaled EUR 173 million, while the gross issue proceeds raised by hGears amounted to EUR 62 million. The financial funds raised were primarily for the Company's growth and expansion going forward, but were also used, in part, to repay shareholder loans (EUR 14.6 million).

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 premium precision transmission parts and 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 losses 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 transmission and components for e-bikes. According to hGears' own estimates and based on its in-depth market knowledge, almost every second e-bike sold 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 robust 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 2022, with a focus on increasing production capacity in the e-Mobility business area. This was done primarily by purchasing new machinery and equipment and expanding its highly qualified technical staff.

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 this 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 60 years of experience in advanced machined steel processing and state-of-the-art sinter metal production. Its research and development programs 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. In providing co-development expertise, hGears engineers also work closely together with customers. The added value related to these activities also support our pricing efforts and against this background hGears will consider expanding its engineering activities.

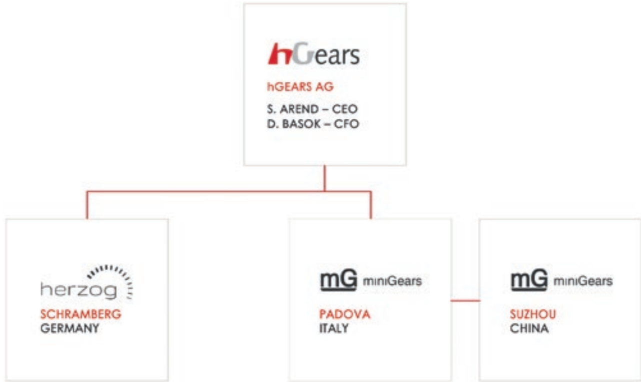
In fiscal year 2022, hGears employed about 46 full-time employees in research and development and engineering in the Advanced Engineering, Process Engineering and Application Engineering departments (2021: 48 FTEs). Thereby the number of employees in these departments remained almost unchanged after a 23% expansion in 2021.

The Company is leveraging the Process and Application Engineering expertise in e-drives to increase their range and performance and reduce costs at the same time.

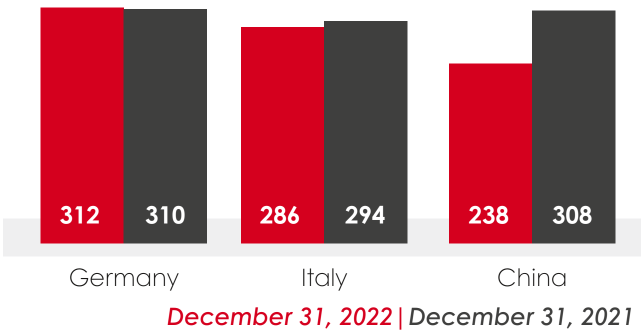
The current R&D activities are focused on developing additional production processes and expanding the Company's patent portfolio, particularly in the e-Mobility business area.

Locations and employees

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



As of December 31, 2022, hGears had 835 (2021: 912) employees (full-time equivalents, excluding members of the Management Board). The distribution of employees across the various locations was as follows:



Of these employees, 739 work as factory workers and 97 as administrators and managers.

In order to follow its strategic targets, hGears will continue to make appropriate investments in its team with a focus on highly skilled personnel, particularly CNC operators and engineers.

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.

Existing and potential customers typically approach hGears with requests for quotations. The Company also approaches existing and potential customers who are developing a project in which it may wish to participate.

hGears also takes part in several trade shows. Large orders or orders from new customers are negotiated at the Group level under the supervision of the Group Head of Business Development. Smaller orders are handled by the Head of Business Development of the respective business area or by the key account managers at the individual production sites. The majority of hGears' revenue is generated on an FCA (free carrier) basis, with delivery taking place at hGears' production site.

Key performance indicators for the hGears Group

Non-financial performance indicators

Employee turnover and health rates are collected as part of the non-financial metrics used to assess employee matters.

Environmental issues are also addressed through ISO 14001 and IATF 16949 certification at all three plants and ISO 50001 in Germany.

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 2022 amounted to kEUR 135,334 (2021: kEUR 134,914).

Adjusted EBITDA in fiscal year 2022 amounted to kEUR 15,283 (2021: kEUR 22,893).

The 2022 free cash flow totaled kEUR −8,337 (2021: kEUR 1,883).

Comparison of actual results vs. forecast

The burdens related to the COVID-19 pandemic and the steep increase in energy and raw material prices caused by the Russian invasion in Ukraine had an overall adverse impact on global economies and ultimately hGears Group's business evolution. Meanwhile a pronounced cooldown in the e-tools industry in the final quarter of the year also took its toll on the company's development and caused high inventory levels at customers'. On 4 October 2022 hGears' Management Board specified that total revenues for the full year 2022 will be in the range of EUR 134–138 million (2021: EUR 134.9 million; previous guidance: high single-digit growth). In 2022 hGears reached revenues of EUR 135.3 million, which is within the guided bandwidth.

Due to the Group's slower-than-anticipated revenue progression the operational leverage had not the expected positive effect on profitability, while higher costs that were not covered by our pass-through clauses had a negative effect on the adjusted EBITDA. On 4 October 2022 the Management Board provided a bandwidth for the adjusted EBITDA of EUR 14 – 17 million for the full year 2022 (2021: EUR 22.9 million; previous guidance: previous year's level). The achieved adjusted EBITDA of EUR 15.3 million is within the guided bandwidth, though remaining below the Management's strategic profitability goal.

The free cash flow reached EUR −8.3 million in 2022 in line with expectations and Company's updated guidance, after EUR 1.9 million in the previous year. The reason for the slightly higher negative amount compared to the previous guidance (mid-single digit negative amount) is a lower profitability, ongoing investments in new capacity for the ramp-up of new projects and a cautionary build-up of strategic inventories.

Overall assessment of the business development

Besides the challenges related to the COVID-19 pandemic, which persisted longer than expected in 2022, the hGears Group also had to deal with the economic consequences of Russia's invasion in the Ukraine, i.e. a steep increase in energy, raw materials and service costs. hGears Group successfully managed the demanding macroeconomic environment whilst expanding on the strategic growth path of its e-Mobility business area.

The hGears Group generated revenue of EUR 135.3 million in 2022 and thereby continued to strive towards its medium-term targets. The achieved revenues were the result of the continued focus on the e-mobility business, in line with the Group's strategic objective and builds on previous years' achievements. Thanks to Conventional's focus on the premium and luxury segments sales almost reached the previous year's level, while the e-Tools business area had to digest a certain slowdown.

The impact of higher raw materials and other operating expenses on adjusted EBITDA was only partially offset by one-off gains from fixed assets disposals and other operating income.

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 economic recovery in the second half of 2021 stalled in the first half of 2022 as the COVID-19 pandemic persisted longer than anticipated and as the consequences of Russia's invasion of Ukraine started to have a negative impact on global economies. The decline in Corona infections in the Western Hemisphere towards the summer of 2022 was welcomed by economies around the globe, however, Russia's invasion of Ukraine caused massive temporary commodity and energy price spikes (e. g. natural gas by approximately +300 % and electricity by up to about +500 %) in the course of 2022 from already elevated levels at the beginning of the year, which were a result of the economic recovery experienced in the second half of 2021. Meanwhile, in contrast to the Western world, where COVID-19-related restrictions were gradually loosened towards the summer of 2022, China maintained restrictive Corona policies, causing a prolonged disruption in global supply chains, not only for semiconductors but also for intermediate products and materials. This, together with sharp commodity and energy price increases, not only slowed global growth but also led to a steep increase in inflation, which reached levels not seen since the early 1970s. According to the International Monetary Fund (IMF), global consumer price inflation rose from 4.7 % in 2021 to 8.8 % in 2022 and should remain at an estimated 6.6 % in 2023. As a result, central banks around the globe cautiously began to tighten their monetary policies in the first half of the year, with more aggressive base rate hikes during and after the summer of 2022. The U.S. Federal Reserve raised its key interest rate for the first time in March 2022 by 25 bps and in subsequent meetings. However, it increased the pace of rate hikes, tightening once by 50 bps and then four times by 75 bps. In June, the ECB followed this course with a first rate hike of 50 bps, which was followed by two further tightening rounds of 75 bps. In December, the Fed and the ECB slowed their rate hikes to 50 bps. The mix of persisting supply chain constraints, soaring commodity prices, a sharp increase in inflation and ultimately aggressive tightening by central banks around the globe had an adverse impact on economic growth. According to the IMF (IMF update January 2023[1]), Global economic growth almost halved and

1 https://www.imf.org/-/media/Files/Publications/WEO/2023/Update/January/English/text.ashx

only reached 3.4% in 2022 after 6.2% in the previous year. After progressing 8.4% in the previous year, China realized a meagre 3% economic growth in 2022, mostly due to the Government's restrictive COVID-19 policies, which hampered activity until the end of the year. But the U.S. also only reached 2% after 5.9% in 2021, and the Euro area 3.5% in 2022 after 5.3% in the year before. After only reaching 2.6% in 2021, Germany's economic growth of 1.9% in 2022 was again very weak, reflecting the overall negative geopolitical and economic environment but also mirroring the ongoing global supply chain struggles, which had a severe adverse effect on the country's highly globalized industries.

Sector-specific environment

According to market intelligence provided by the consulting company Roland Berger, which is based on studies from Technavio and Conebi, e-bike sales in Europe are expected to grow at a CAGR of approximately 16% between 2022 and 2025, with unit sales reaching 9 million e-bikes by 2025.

A total of 5.8 million e-bikes were sold in Europe in 2022, according to management estimates, industry sources and consultant reports (Roland Berger), which translates to market growth in volume terms of approximately 9.4%. This is in line with Management's prediction of 5–10% market growth projected in the half-year report for 2022. The increase would probably have been higher if the COVID-19 pandemic had not caused production disruptions for our customers at the beginning of the year, while supply chain constraints only faded after the summer of 2022. The delays in the delivery of semiconductors, paired with the scarce availability of bicycle components such as e.g. brakes and derailleurs, had a cascading effect on bike manufacturers. Meanwhile, the reshoring trend in the bicycle industry, along with customers building up inventories in preparation for production reacceleration, had a slight cushioning effect in the third quarter of 2022. hGears delivered around 2.5 million components or component sets for e-bike motors, which means that almost every second e-bike sold in Europe contained the Company's parts. Thereby hGears was able to maintain its market share stable despite the challenging market conditions.

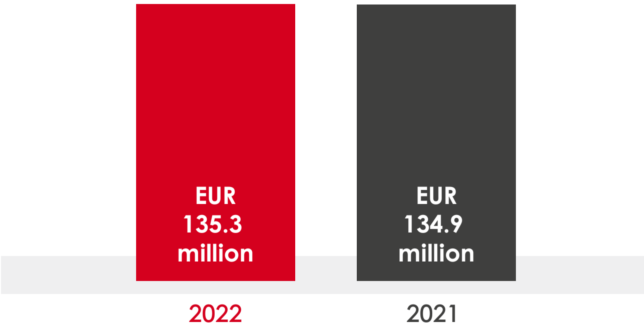
Based on market research by the European Automobile Manufacturers Association (ACEA[2]) European Union total passenger car registrations contracted by 4.6% in 2022, mainly due to the impact of component shortages in the first half of the year. But contrary to the overall EU car market trends, battery electric vehicles (BEV) continued to show dynamic growth, with registrations increasing by a strong 28% to about 1.1 million registrations in 2022, thereby representing a 12.1% share of total new EU car registrations. Meanwhile, hybrid electric vehicles' registrations increased by 8.6% to 2.1 million units in 2022 cars, and plug-in hybrid electric vehicles (PHEV) added 1.2% to 0.9 million in the same time period, thereby representing registration shares in 2022 of 22.6% and 9.4% respectively. Total electric vehicle registrations in the EU increased by 11.5% in 2022 to about 4.1 million units.

As stated above, total car registrations in the European Union contracted by 4.6% in 2022, according to ACEA[3], with diesel fuel cars dropping by 19.7% compared to the previous year to approximately 1.5 million registrations and petrol fuel cars declining by 12.8% year-over-year to about 3.4 million registrations. However, having a closer look reveals a rather inhomogeneous picture among segments in the sense that the small car, the middle-class car and the premium or luxury class car segments experienced different developments. Being the largest car manufacturer in Europe, represented with brands in all segments, the Volkswagen Group is a good example of this evolution: While the overall, i.e. all brands registrations declined by 5.2% in 2022, the middle-class and premium cars brand Audi added 5.3%, the luxury sports cars brand Porsche was up 7.0% and Others[4], which contains Bentley (high-end luxury cars) and Lamborghini (high-end sports cars), recorded a strong 21% increase.

2 https://www.acea.auto/files/20230201_PRPC-fuel_Q4-2022_FINAL-1.pdf
3 https://www.acea.auto/files/20230118_PCPR_2212_FINAL.pdf
4 Classification by ACEA

BUSINESS PERFORMANCE

Revenue



In 2022, hGears Group generated revenue of EUR 135.3 million, reflecting a slight increase compared to the previous year (2021 EUR 134.9 million). The increase in revenue is primarily attributed to existing customers, with new projects continuing to ramp up. Meanwhile, the Company successfully won two additional customers in the e-Mobility business area, and good prospects remain for further customer acquisitions in the 2023 fiscal year. hGears also secured a multi-year contract extension beyond 2024 with one of its major e-Mobility customers.

In the e-Mobility business area, revenue increased by 8.3% from EUR 47.5 million in 2021 to EUR 51.4 million in the reporting period. This positive performance supports the Company's strategic goal of expanding business activities and increasing hGears' market share in the e-mobility area. However, revenue in the business area fell short of the Group's expectations, especially in the first quarter of 2022, due to COVID-19 related delayed acceptance of deliveries, while global supply chain constraints continued to have a slowing effect on hGears customers' production in the course of the year.

In the e-Tools business area, revenue declined 6.3% year-on-year to EUR 41.4 million in 2022 (previous year: EUR 44.2 million). The negative economic and geopolitical environment took its toll on consumer confidence while rising interest rates had an adverse effect on building and construction. As a result, especially in the final quarter of 2022, demand for electric tools for craftsmen and gardening experienced a decline after robust demand and inventory building in the previous years.

In the Conventional business area, hGears generated revenue of EUR 41.1 million in 2022 compared to EUR 41.9 million in the previous year, reflecting a marginal 1.7% decrease. However, the business area's performance should be viewed in light of the automotive industry's slow recovery towards the end of 2022 after a pronounced slump predominantly caused by the semiconductor shortage. Total car registrations in the European Union fell by 4.6%, while diesel and petrol cars dropped 15.1%[5]. Contrary to overall car registrations, the development of the premium and luxury segments was positive, and hGears benefitted from its strategic focus on these segments.

At kEUR 98, other own work capitalized remained in 2022 at the previous year's level of kEUR 82.

Expenses

The steep increase in raw materials and consumables prices experienced in 2022 severely impacted the cost of raw materials and consumables used, which increased by 9.8% to a total of EUR 66.4 million (previous year: EUR 60.4 million). While the pass-through clauses, which are an integral part of hGears contracts with customers, protected the Group to a large extent from the steep increases, the costs not covered by the clauses, e.g. for services, tools and consumables, had a burdening effect.

Gross profit, defined as total output less material expenses, was EUR 69.8 million in 2022 compared to EUR 76.4 million in 2021, corresponding to a decrease of 8.6%. The gross margin (gross profit as a percentage of revenue) was 51.6%, down from 56.6% in the previous year. The decline in the gross margin was due to the dilutive effect of the pass-through clauses, while higher energy costs and inflation-driven costs not covered by the Group's pass-through clauses had a direct negative impact.

hGears has diversified and localized supply chains. Therefore, the production plants in Germany, Italy and China were able to secure raw materials at all times despite recent severe supply chain problems.

Personnel expenses amounted to EUR 42.4 million (previous year: EUR 42.3 million), corresponding to 31.3% of revenue, reflecting unchanged personnel expense ratio compared to the prior-year period (previous year: 31.3%).

Other operating expenses and other operating income totaled EUR 15.4 million in 2022 (previous year: EUR 15.1 million), or 11.4% of revenue (previous year: 11.2%). The increase of 0.2 percentage points resulted mainly from higher services and advisory costs, while maintenance costs decreased slightly.

5 https://www.acea.auto/files/20230118_PCPR_2212_FINAL.pdf

Adjusted EBITDA at the Group level amounted to EUR 15.3 million in the 2022 fiscal year (previous year: EUR 22.9 million). The adjusted EBITDA margin reached 11.3 % after 17.0 % in the previous year. Adjustments include extraordinary personnel costs (e. g. severance expenses, head-hunter fees for top management and one-off performance bonuses for employees) of EUR 1.3 million, one-off costs for special projects with consultants of EUR 0.9 million and again COVID-19 related expenses of 0.6 million. For further information, please refer to Note 3.10 Segment reporting in the notes to the consolidated financial statements.

The hGears Group generated an unadjusted EBITDA of EUR 12.0 million in 2022 (previous year: EUR 19.1 million), below the previous year's level. The unadjusted EBITDA margin fell from 14.1 % to 8.9 %, largely due to inflated raw material and energy costs, while overall inflationary pressures had a severe effect above all on expenses not covered by the Group's pass-through clauses. After already burdening earnings for the second half year 2021, changes in the organization and costs related to the stock market listing were charged for the full year in 2022, thereby causing incremental costs.

Depreciation, amortization and impairments in 2022 amounted to EUR 11.3 million and increased only slightly from EUR 10.6 million in the previous year, mainly on the back of higher ongoing investments in new production capacities.

As a result, Group's earnings before interest and taxes (EBIT) in 2022 deteriorated year-on-year from EUR 8.4 million to EUR 0.7 million. The EBIT margin reached 0.5 % after 6.2 % in the prior-year period. The Group's earnings before taxes (EBT) also fell in the reporting period from EUR 4.8 million in 2021 to EUR −0.7 million in 2022.

The overall Financial Result improved significantly from EUR −3.7 million in 2021 by EUR 2.3 million to EUR −1.4 million in 2022. Mainly caused by the refinancing of the external debt and discontinued shareholder loan.

Income and deferred taxes of EUR 0.2 million were incurred in the 2022 reporting year, following EUR 2.4 million in the previous year.

The net result for the period totaled EUR −0.8 million in 2022, compared with EUR 2.4 million in the previous year.

Return on revenue

The return on revenue (net result as a percentage of revenue) was −0.6 % in the reporting period, compared to 1.7 % in 2021.

Net assets

The Company's total assets remained virtually unchanged at EUR 157.0 million at the end of 2021 compared to EUR 156.4 million as of December 31, 2022.

Non-current assets totaled EUR 80.1 million at the end of 2022, which was 6.5 % higher than at the end of the fiscal year 2021 (EUR 75.2 million).

Current assets declined by 5.2 % to EUR 76.9 million as of the reporting date of 2022 compared to EUR 81.2 million in December 2021. The primary cause for this decrease is lower cash and cash equivalents of EUR 36.3 at year-end 2022 (December 31, 2021: EUR 47.2 million), as the Company used the funds for further investments. There was a slight increase in inventories to EUR 20.4 million compared to EUR 17.8 million at the end of 2021. The reason for the higher stock levels is the build-up of strategic inventories as a precautionary measure, given the difficult economic and geopolitical environment. Meanwhile, trade receivables remained almost unchanged at EUR 12.3 million in 2022 versus EUR 12.1 million in 2021.

hGears equity remained at the previous year's level and amounted to EUR 87.8 million in 2022 (December 31, 2021, EUR 88.1 million), and as a result, the equity ratio only changed marginally to 56.1 % at year-end 2022 from 56.7 % in the previous year. The equity ratio of more than 50 % clearly represents a certain safety margin in the current uncertain economic and geopolitical situation.

Non-current liabilities increased from EUR 28.3 million as of December 31, 2021, to EUR 31.2 million in the reporting period, reflecting a 10.2 % increase. The increase is the result of the refinancing signed at the end of 2021, which became effective in January 2022, resulting in an increase of the long-term portion of the senior bank loan by 37 % to EUR 19.7 million at very favorable terms.

At EUR 37.7 million, current liabilities were 4.4 % below the level of the previous year (December 31, 2021: EUR 39.4 million). This development is due to a significant decrease of the short-term bank loan of 94.3 % to EUR 0.4 million as of December 31, 2022 (December 31, 2021: EUR 7.0 million) due to a shift of debt to long-term liabilities at very favorable conditions. Trade and other payables and Other current financial liabilities increased to EUR 31.3 million (December 31, 2021: EUR 27.9 million), mainly related to a deliberate build-up of strategic inventories.

Financial position

On January 31, 2022 a credit agreement with a syndicate of banks for EUR 60 million became effective. The current credit agreement includes a EUR 15 million long-term loan and a EUR 45 million revolving credit facility. The agreement has a term of up to 5 years and extends the old EUR 32 million credit agreement by more than 3 years. The revolving credit facility shall be used for growth investments in line with future capacity utilization and ramp-up of new projects. Under the terms of the agreement, the refinancing significantly reduced the cost of debt (interest margin) by approximately 255 basis points from the previous level of around 3.50 % to around 0.95 %.

Cash flow

hGears recorded cash flow from operating activities of EUR 7.4 million in the 2022 fiscal year. The previous year's cash flow from operating activities amounted to EUR 10.1 million. The decrease is mainly due to a lower contribution from operations, partially offset by lower interest payments of EUR 5.0 million.

Compared to EUR 13.9 million in the previous year, cash flow for investing activities amounted to EUR 14.1 million in 2022 and were mainly due to spending on new equipment and costs related to projects to facilitate future growth.

The cash flow for financing activities reached EUR −4.2 million in 2022, after this position recorded an increase to EUR 27.2 million due to net proceeds of EUR 59.1 million from the IPO last year, despite the repayment of shareholder loans (EUR 10.5 million) and financial liabilities (EUR 18.9 million). In 2022 hGears recorded a net cash flow of EUR −10.9 million after EUR 23.4 million in the previous year due to the proceeds from the IPO.

Finally, cash and cash equivalents stand at a total of EUR 36.3 million (previous year: EUR 47.2 million), offering hGears Group full financial maneuverability.

Summary assessment of the Company's economic situation

Considering volatile macroeconomic conditions that persisted during 2022, the Management Board considers EUR 135.3 million in revenue a solid achievement within the guided range of EUR 134 –138 million.

In the following years, the Management Board will continue its strategic growth path, focusing on operational excellence, execution and deployment. Meanwhile, the Management Board is confident that hGears Group will generate growth in line with industry experts' estimates in an ongoing challenging geopolitical and economic environment.

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 December 31, 2022, there are undrawn credit lines in the amount of EUR 40.0 million.

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 on the Recommendations of the "Government Commission German Corporate Governance Code"

1. Since the last declaration of compliance dated 20 December 2021 hGears AG has complied with the recommendations of the "Government Commission on the German Corporate Governance Code", published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette on 20 March 2020, as amended on 16 December 2019 (**"Code 2019"**) with the exception of the following deviations:

- According to **recommendation D.5** of the Code 2019, 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.

- According to **recommendation D.1** of the Code 2019, the Supervisory Board shall adopt its own rules of procedure and shall publish these on the company's website. The rules of procedure for the Supervisory Board of hGears AG have been revised in June 2022 and adapted to the new legal framework, in particular the requirement to establish an audit committee and have since then been publish on the website.

- The Code 2019 in its section G. makes reference to the existence of a remuneration system within the meaning of section 87a of the German Stock Corporation Act (AktG) in the version applicable as of January 1, 2020. The Supervisory Board has in accordance with the transitional provision of section 26j of the Introductory Law to the German Stock Corporation Act (EGAktG) resolved on the formal remuneration system in accordance with section 87a of the German Stock Corporation Act (AktG) on 29 March 2022 and therefore by the end of the first ordinary general shareholders' meeting. Since then the **corresponding recommendations of section G** of the Code 2019 have been followed. The Supervisory Board complied with **recommendation G.1** when resolving on the remuneration system.

- 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 2019, except for **recommendation G.3**. According to recommendation G.3 of the Code 2019, 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.

2. On 28 April 2022, the "Government Commission on the German Corporate Governance Code" submitted a new version of the Code, which was published in the Federal Gazette (Bundesanzeiger) on 27 June 2022. hGears AG complies with all of the recommendations and will also comply with them in the future, with the exception of the following deviations:

- 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, 14 December 2022

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-2022_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 June 22, 2022, as well as the resolution adopted by the Annual General Meeting on June 22, 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 of the German Stock Corporation Act (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 articles of association of hGears AG, as well as from the 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.

  Through the integrated governance, risk and compliance approach, the Executive Board has devised and implemented a framework for the management of hGears to provide an appropriate and effective internal control and risk management system. The measures implemented within this framework are also geared to the effectiveness and appropriateness of the internal control and risk management system and are outlined in more detail in the risk and opportunity report. To establish the statutory framework, it is accompanied by independent oversight and audits, especially the audits conducted by the Internal Auditing function and its reports to the Management Board and the Audit Committee of the Supervisory Board.[6]

  From its examination of the internal control and risk management system and the reports of the Internal Auditing function, the Management Board is not aware of any circumstances that undermine the appropriateness and efficacy of these systems.[6]

- 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.

6 The disclosures in this paragraph are outside the scope of the audit of the management report as explained in the preliminary remark to this management report.

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 Pierluca Sartorello and Mr Daniel Basok to the Management Board on 8 April 2021 and Mr Sven Arend to the Management Board on 28 December 2022. The Supervisory Board appointed Mr Sven Arend as Chairman of the Management Board.

Working methods and composition of the Supervisory Board

The Supervisory Board supervises and advises the Management Board in its management of the Company´s business. At regular intervals, the Supervisory Board discusses business development and planning as well as 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 2022.

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

The Supervisory Board has not yet conducted an efficiency review to assess how effectively it as a whole and its committees perform their duties. An efficiency review will be carried out in the current financial year.

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 withoutdelay 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 June 2022 at the latest. With a proportion of women on the Supervisory Board of 20 %, the Company has already achieved its target figure. The Supervisory Board has determined that the target figure for the proportion of women on the Supervisory Board of at least 20 % will remain in place until 30 April 2025.

Women on the Management Board

In financial year 2022, no women were represented on the Management Board. This is in line with the target percentage of 0 %. The Supervisory Board is firmly convinced that it is in the interests of the Company to bind and retain the members of the Management Board, that meet the requirement profile, for the long term. The Supervisory Board does not consider a change in the composition of the Management Board or an increase solely for the purpose of increasing the proportion of women to be appropriate.

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 one employee 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 (Aktiengesetz – **"AktG"**), for members of the Supervisory Board appointed after July 1, 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 other than those described in the following:

Restrictions on the Company's voting rights or transfer of shares (Company subject to a lock-up period)

The Company has agreed with the underwriters that for a period of six months after the first day of trading of the shares on the Frankfurt Stock Exchange on May 21, 2021, it will not directly or indirectly, implement or propose a capital increase and for the consecutive period of another six months, not without the prior written consent of the underwriters. Shares for employee programs are excluded from this regulation.

Restrictions on voting rights or the transfer of shares for shareholders (Shareholders subject to a lock-up period)

Each of the selling shareholders has agreed with the underwriters that they will not, directly or indirectly, offer or sell shares of hGears AG, related derivatives or similar products for a period of six months after the first trading day of the shares on the Frankfurt Stock Exchange on May 21, 2021 and for the successive period of an additional six months not without the prior written consent of the sole global coordinator.

Restrictions on voting rights or the transfer of shares for the Management Board (Management Board subject to a lock-up period)

All members of the Management Board have agreed with the underwriters that they will not propose or implement a capital increase or directly or indirectly sell securities of hGears AG on the Frankfurt Stock Exchange for a period of twelve months after the first trading day on May 21, 2021. Shares for employee programs are excluded from this regulation.

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

Finatem III GmbH & Co. KG, Frankfurt am Main, Germany notified us on June 18, 2021, that its shareholding in the Company was 35.81 % of the voting rights. As of 31 December 2022 the shareholding in the Company amounts to 34.62 % of the voting rights.

Shares with special rights conferring powers of control

No special rights conferring powers of control apply to holders of shares.

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 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 of the 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 May 5, 2021 authorized the Management Board, subject to the approval of the Supervisory Board, to issue 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 toEUR 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 May 4, 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 March 31, 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 issued by one or more banks or companies determined by the Executive Board. 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 May 5, 2021.

The Company's share capital is conditionally increased by up to EUR 547,900.00 by issuing up to 547,900 no-par value bearer shares (Conditional Capital 2021/II). The Conditional Capital 2021/II 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 accor-dance with the authorization resolution of the Annual General Meeting on May 5, 2021. The conditional capital increase shall only be implemented to the extent that the holders of the stock options exercise their option rights and the Company does not grant any treasury shares to service the stock options. The new shares are entitled to profits 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 2021/II 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 2021/II.

The Company's share capital is conditionally increased by up to EUR 190,500.00 by issuing up to 190,500 no-par value bearer shares (Conditional Capital 2022/I). The Conditional Capital 2022/I 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 of June 22, 2022. The conditional capital increase shall only be implemented to the extent that the holders of the stock options exercise their rights and the Company does not grant 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 accordingly 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 the Conditional Capital 2022/I.

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
Increase input costs	high	–
Sales price increase to OEM	substantial	new
Recession	substantial	new
Supply chain disruption and pandemic	medium	–
Geopolitical risk	medium	new
IT availability and cybercrime	medium	–
Compliance	medium	–
Currency risks	medium	–
Country risks	medium	–
Sustainability risks and climate change	medium	–

With the exception of country risks, all risks have a low probability of occurrence (0% to 10%). The probability of occurrence of a recession is medium (up to 20%).

The risk categories mentioned in the table that are material to hGears are presented in more detail below.

Increased input costs

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.

Sales price increase to OEM

Customers who do not accept price increases to offset our cost increase have a direct negative impact on hGears' margins. Measures taken are the same as for increased input cost risk.

Recession occurrence

At the moment, the market is influenced by nonroutine events, such as the Russia-Ukraine war and its impact on energy and commodity prices, which have fed into higher inflation. Decreased consumer spending results in a decline in demand, which has a direct negative impact on hGears' margins.

Our close communication with customers aims at increasing our awareness of their demands.

Supply chain disruptions and pandemic

The risk of supply chain disruption for input materials and raw materials required by hGears is minimized by the measures taken, such as the use of local suppliers and consignment warehouses. If, for example, a customer can no longer produce due to the failure of electronic components in the supply chain, it will scale back its schedule lines and thus contribute to a loss of revenue for hGears, unless this revenue can be offset at a later date.

Geopolitical Risk

Geopolitical Risks between the USA, Europe and China cannot be ruled out. This could lead to supply chain interruptions, a shortage of raw materials and trading restrictions (import + export) and sanctions, which would have a direct negative impact on hGears' margins. As preventive measures hGears is evaluating alternative production options and local financing.

IT availability and cyber crime

Serious disruptions such as system failures, attacks on the hGears network, and loss or manipulation of data can lead to operational interruptions and, therefore, also affect customers. hGears continuously works on optimizing its IT landscape, both in conceptual and operational areas. In addition, threats to information security are increasing worldwide due to the rise in computer crime.

To minimize risks and detect dangers in a timely manner, hGears takes a number of technical and organizational measures. The essential components of the hGears Cyber-Security Strategy include the existing Cyber-Security insurance and the currently being implemented group-wide ISMS (Information Security Management System), which in turn forms the basis for the planned TISAX certification of hGears locations.

Additionally, hGears uses traditional topics such as Multi-factor-Authentification and Mobile-Device-Management, Device-Control and Device-Encryption, as well as network segmentation and network monitoring. Regularly conducted awareness training leads to continuous sensitization of employees to current security risks.

Compliance

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

Despite comprehensive precautions, hGears cannot completely rule out the possibility that individual employees may violate legal regulations, which could lead to the imposition of fines or penalties or the assertion of claims for damages. An existing Directors & Officers insurance policy protects hGears against claims for damages arising from compliance violations, among others. No compliance risks emerged during the reporting period.

Currency and financial risks

The international nature of hGears business activities results in numerous non-euro cash flows in various currencies, mainly USD and CNY. Currency risks arising from the supply of goods and services in foreign markets are managed centrally at the headquarters level using instruments such as netting. With central monitoring, currency balances are hedged with currency forwards (hedging).

In order to minimize the risk of default, the Group has appropriate measures in place for the collection and management of trade receivables. Among other things, the Group uses non-recourse factoring agreements to accelerate the collection of trade receivables. Considering the current first-class customer base, we do not see any significant risk-bearing elements. Liquidity risks are managed through financial planning. Ongoing risks are covered by monthly operating accounting. At the present time and on the basis of our current liquidity, we do not see any risks. To mitigate the potential impact of interest rate changes on the financial result, the Group can enter into variable-fixed interest rate swaps. In this way, the Group covers part of the nominal value of bank loans with variable interest rates.

Country risks

Political or regulatory changes, such as changes in export control regulations, embargo measures or customs regulations, may affect our business and adversely affect our financial position and results of operations.

Protectionist measures, trade wars or sanctions in the countries and regions in which hGears operates, particularly from China to the United States, may adversely affect hGears' operations. In addition, trade barriers or increased customs costs may increase production costs and consequently affect the competitiveness of hGears' products and negatively impact operating results.

For this reason, we continuously analyze the legal framework and the resulting opportunities and risks for hGears. In this case, hGears has emergency measures in preparation, which may consist, for example, of relocating production.

We have no direct impact from the Ukraine war so far as the Group has no customers or suppliers in Russia or Ukraine.

Sustainability risks and climate change

The effects of climate change are described in the sustainability report. The possible impact can be temporary short-term power cuts, as were experienced in China at the end of 2021. hGears has production capacity reserves and inventories to compensate for these cuts.

viii) Opportunities

Based on our development and production expertise and the continued assessment of the economic environment, we see further growth opportunities in the expanding e-mobility market. Through further productivity increases, capacity expansions and a streamlining of the product portfolio, we see an opportunity to insource the production of purchased goods again to create more value and increase our own performance capabilities.

ix) Assessment of the risk and opportunities situation

The risk and opportunities situation for hGears has changed in the past year compared to the previous year due to the recession occurrence risk, the geopolitical risk and the sales price increase to OEM risk. The greatest risks for the Group could potentially arise from input cost increases and the rejection of Sales price increases from OEMs.

In the 2022 fiscal year, regular risk reporting did not reveal any specific impairments to the net assets, financial position and results of operations that could jeopardize the continued existence of individual subsidiaries or the Group as a going concern.

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

Geopolitical pressures continue to weigh on global economies. While inflation looks to have peaked, many expect it to remain higher than usual for longer, and central banks continue to appear poised to raise base rates to tackle inflation further. This is the basis for many discussions among leading experts on whether a recession is avoidable or likely and mild. In its January 2022 forecast[7], the International Monetary Fund (IMF) is projecting global economic growth of 2.9 % in 2023 after reaching 3.4 % in 2022 and 6.2 % in 2021. According to the IMF, China's economic growth should recover to 5.2 % in 2023, while the USA is forecasted to achieve only 1.4 %, the eurozone a meager 0.7 %, and Germany a mere 0.1 %. Meanwhile, the IMF reckons that global inflation may reach 6.6 % in 2023 after 8.8 % in 2022 and 4.7 % in 2021. On the one hand, inflation seems to be fueled by the use of excess private savings generated during the pandemic to meet pent-up demand for goods and services; on the other hand, wage inflation appears to be slowing in some advanced economies and currently falling energy prices are likely to also have a dampening effect. Nevertheless, central banks are still far from reaching their target inflation rate of around 2 % and further interest rate hikes seem to be necessary, having an impact on economies around the world. Against this background, hGears' very solid balance sheet with an equity ratio of 56.1 % and cash and cash equivalents of EUR 36.3 million at year-end 2022 is very reassuring. A resurgence in the corona pandemic does not seem likely at present but cannot be ruled out in the event of a possible new virus variant. Sadly, Russia's invasion of Ukraine more than one year ago seems far from finding a peaceful end. The conflict has no direct impact on hGears' production but may continue to have an indirect effect, for example, in the form of volatile energy, raw material and intermediary product costs. Management is monitoring and evaluating the developments of the conflict very closely. Meanwhile, the Company's pass-through clauses for energy and raw material costs apply, and Management will continue to strive to recover higher costs that are not covered by pass-through clauses through price increases.

7 https://www.imf.org/-/media/Files/Publications/WEO/2023/Update/January/English/text.ashx

e-Bikes

The slower-than-assumed easing of the supply-chain constraints experienced in the e-bike industry in the second half of 2022 continued into 2023. The situation continues to normalize despite some bicycle-specific parts such as brakes, derailleurs, and pinion cassettes still seemingly scarce. The slow pace at which supply chains have eased, coupled with slightly decreasing demand in end markets, has resulted in some e-bike motor producers experiencing a temporary elevation in inventory levels. However, according to Management estimates, industry sources and consultant reports (Roland Berger), e-bike sales should reach 9 million units in 2025, translating into a CAGR of approximately 16 % between 2022 and 2025. Therefore, the mid-to-long-term growth trend for e-bikes is unabated, and the increasing applications for micromobility solutions, e. g. in the form of cargo bikes or electric light vehicles, will continue to support demand.

e-Cars

The positive trend for e-cars remains unabated, and according to management estimates, industry sources and consultant reports (Roland Berger), production of BEVs, PHEVs and HEVs should grow by approximately 35 % in 2023 to a total of 29.5 million units and reach 68.4 million units in 2029, translating into a CAGR of 25 % between 2022 and 2029. Notably, the European Union's decision that all new cars and vans sold in the EU as of 2035 should be CO_2-emissions free will probably fuel additional growth thereafter.

e-Tools

After a boom in the COVID-19 years, demand in the market for professional e-tools, which also benefitted of strong demand from DIY consumers, has cooled. However, demand is set to recover after a certain period of contraction as demand for renovation and refurbishing will continue to be supportive for the building and construction industry. Moreover, gardening should continue to benefit from a strong electrification trend, not least due to increasing regulation, with internal combustion engines identified as major polluters in this segment. According to management estimates, industry sources and consultant reports (Roland Berger), sales in the global e-tools market should reach a CAGR of 3 % between 2022 and 2025.

Conventional

As a result of increasing restrictions, such as fleet consumption regulations, automotive OEMs' focus has moved toward electrified platforms while the popularity of EVs continues to rise. Furthermore, the legal end for cars with internal combustion engines (ICEs) is now in sight, with the European Union deciding in February 2023 that all new cars and vans sold in the EU as of 2035 should be CO_2 emissions-free, which ultimately means the end for ICE car sales by 2035. However, demand for premium, luxury and super sportscars proved resilient. Moreover, the possibility to continue operating combustion engines beyond their legal end-of-sales date could support increased demand from aficionados.

Outlook

Financial performance indicators

Given the persisting and imponderable market challenges, including high inflation, rising base rates, slower-than-anticipated resolution of supply-chain constraints, geopolitical risks and high inventory levels amidst ongoing shifts in demand trends, hGears Management Board remains cautious with its outlook. For the fiscal year 2023, hGears expects to achieve revenues of between EUR 129 – 137 million.

Our positioning as a supplier of mission-critical components allows us to effectuate pass-on clauses in many of our customer contracts. At the same time, we will continue to compensate for inflationary pressures that are not covered by such clauses by increasing prices. However, price increases and our pass-through clauses will only partially protect profitability in the current uncertain economic environment. Against this background, the Management Board will prioritize its focus on operational excellence, execution and deployment whilst optimizing cost structures further. Ultimately, for 2023 the Management Board expects an adjusted EBITDA within the EUR 12 – 15 million range.

The operating business should generate a positive cash flow in 2023, comparable to the previous year. To create additional capacity for projects with the new customers, we will continue to make use of the financial resources, which is expected to result in negative free cash flow within a EUR 6 – 9 million range.

In the medium term, i.e. in the next two to five years, hGears is targeting strong growth mainly in the e-Mobility business area, albeit from a lower base, and expects Group revenues to reach approximately EUR 180 – 200 million. In line with this growth target, the e-Mobility business area is expected to account for approximately 55 % – 60 % of the Group's total revenue, in line with the Group's business expansion ambition and strategic focus.

Schramberg, March 28, 2023

Sven Arend Chairman of the Management Board	**Daniel Basok** Management Board Member	**Pierluca Sartorello** Management Board Member

Consolidated Financial Statements

hGears | the **heart** of your performance

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

in kEUR	Note	2022	2021
Revenues	3.1	135,334	134,914
Other capitalized own work	3.2	98	82
Changes in inventories	3.2	712	1,821
Total output		**136,144**	**136,817**
Other operating income	3.3	3,999	1,990
Impairment gains / losses from IFRS 9	4.4	6	102
Raw materials and consumables used	3.4	(66,361)	(60,430)
Personnel expenses	3.5	(42,362)	(42,285)
Depreciation, amortization and impairment	3.6	(11,274)	(10,626)
Other operating expenses	3.7	(19,432)	(17,118)
Profit / loss from operating activities		**720**	**8,450**
Finance income		3	2
Finance expenses		(1,380)	(3,695)
Financial result	**3.8**	**(1,377)**	**(3,693)**
Income before income taxes		**(657)**	**4,757**
Income and deferred taxes	3.9	(184)	(2,406)
Net result of the period		**(841)**	**2,351**
The result is attributable to:			
Result attribution to Shareholders		**(841)**	**2,351**
Basic / diluted earnings per share (EUR)	**3.11**	**(0.08)**	**0.33**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

in kEUR	2022	2021
Net result of the period	**(841)**	**2,351**
Other comprehensive income:		
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment benefit obligations	164	(40)
Tax effect	(39)	10
Stock option programme	446	637
Other comprehensive income that may be reclassified subsequently to profit or loss		
Gains / (Losses) on cash flow hedges	–	(14)
Tax effect	–	3
Currency translation adjustment	(243)	1,037
Total comprehensive income	**(513)**	**3,984**

*Exchange rate differences arising from the translation of mG miniGears (Suzhou) Co., Ltd., Suzhou

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of hGears AG, Schramberg

In kEUR	Note	December 31, 2022	December 31, 2021
Property, plant and equipment	4.1	75,798	71,063
Intangible assets	4.2	1,307	1,525
Other non-current assets	4.5	122	127
Deferred tax assets	3.9	2,848	2,486
Total non-current assets		**80,075**	**75,201**
Inventories	4.3	20,372	17,754
Trade receivables	4.4	12,298	12,148
Other receivables	4.5	872	453
Other current assets	4.5	6,116	3,403
Other current financial assets	4.5	1,006	178
Cash and cash equivalents	4.6	36,276	47,246
Total current assets		**76,940**	**81,182**
Total assets		**157,015**	**156,383**

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

in kEUR	Note	December 31, 2022	December 31, 2021
Share capital		10,400	10,400
Capital reserve		69,232	69,239
Other reserves		400	400
OCI		2,678	2,349
Retained earnings		6,276	3,925
Net result of the period		(841)	2,351
Total Equity	**4.14**	**88,145**	**88,664**
Lease liabilities	4.7	9,099	11,581
Borrowings	4.8	19,694	14,371
Deferred tax liabilities	3.9	530	132
Provisions	4.9	319	319
Employee benefit obligations	4.10	1,100	1,386
Trade and other payables	4.11	417	483
Total non-current liabilities		**31,159**	**28,272**
Lease liabilities	4.7	5,133	2,800
Borrowings	4.8	428	7,037
Provisions	4.9	564	496
Other current financial liabilities	4.12	242	10
Trade and other payables	4.11	30,972	27,843
Current tax liabilities	4.13	372	1,261
Total current liabilities		**37,711**	**39,447**
Total liabilities		**68,870**	**67,719**
Total equity and liabilities		**157,015**	**156,383**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of hGears AG, Schramberg for the years ended December 31

				OCI				
in kEUR	Share capital	Capital reserve	Other reserves	Currency translation	Cash Flow Hedge Reserve	Employee plan	Retained earnings	Total equity
Balance at January 1, 2021	**63**	**20,448**	**400**	**827**	**11**	**(121)**	**3,924**	**25,551**
Contributions of equity, net of transaction costs	10,337	48,791	–	–	–	–	–	**59,128**
Net result of the period	–	–	–	–	–	–	2,351	**2,351**
Other comprehensive income	–	–	–	1,038	(11)	606	–	**1,633**
Balance at December 31, 2021	**10,400**	**69,239**	**400**	**1,865**	**(0)**	**485**	**6,275**	**88,664**
Balance at January 1, 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 December 31, 2022	**10,400**	**69,232**	**400**	**1,622**	**–**	**1,055**	**5,434**	**88,145**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

of hGears AG, Schramberg for the years ended December 31

In kEUR	2022	2021
Profit / loss from operating activities	**720**	**8,450**
Depreciation, amortisation and impairment	11,274	10,626
Other non-cash items	793	47
Income tax payments	(2,357)	(568)
Provisions and others	(217)	(313)
Interest paid	(1,219)	(6,195)
Interest received	3	2
Change in inventories	(2,657)	(2,887)
Change in receivables	(235)	20
Change in liabilities	2,748	2,530
Change in other assets	(1,855)	(649)
Change in other liabilities	423	(914)
Net cash provided by (used in) operating activities	**7,421**	**10,149**
Cash flows provided by (used in) investing activities		
Payments for Property, plant and equipment and intangible assets	(12,923)	(14,191)
Loans granted	(1,000)	
Income from sales of fixed assets	(175)	287
Net cash provided by (used in) investing activities	**(14,098)**	**(13,904)**
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	20,128	133
Repayments of borrowings	(21,343)	(18,879)
Repayments leasing agreements	(2,978)	(2,731)
Repayments shareholder's loan	-	(10,466)
Proceed from issue of shares	-	62,400
Share issue transaction costs	(7)	(3,271)
Cash flows provided by (used in) financing activities	**(4,200)**	**27,186**
Net cash increase (decrease) in cash and cash equivalents	**(10,877)**	**23,431**
Cash and cash equivalents at the begining of the year	47,246	23,434
Effects of exchange rate changes on cash and cash equivalents	(93)	381
Closing Cash and cash equivalents	**36,277**	**47,246**

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

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 April 27, 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 Section 290 HGB in conjunction with section Section 315e HGB of the German Commercial Code.

The consolidated 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 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 December 31, 2022 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 March 29, 2023.

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 mG China, for which the functional currency is Renminbi (RMB).

Items that are classified "current" have a maturity within 12 months. All items with maturity over 12 months are classified as "non-current".

The consolidated financial statements have been prepared under the historical cost convention except for financial assets and liabilities measured at fair value through profit and loss. The consolidated statement of profit or loss is prepared based on the "Total cost method". The consolidated financial statements have been prepared on a going concern basis.

These consolidated financial statements cover the financial year from January 1, 2022 to December 31, 2022 (comparative annual period: January 1, 2021 to December 31, 2021).

In some tables showing breakdown of Profit and Loss and Balance Sheet items, individual amounts have been aggregated, differently compared to previous year in order to improve the clarity of presentation.

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.

Back in March 2020, the World Health Organization classified the COVID-19 outbreak as a global pandemic. The pandemic only subsided in summer 2022 in the Western World and many governmental restrictions remained in place until yearend 2022, above all in China. This had a slowing effect on the world economy overall in 2022, while disruptions in global supply chains persisted into the second half of the year. There was limited impact on hGears Group sales evolution, which did not lead, however, to any significant deterioration in its financial position or other adverse effects.

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.

At the end of February 2022, Russian military forces invaded Ukraine. As a result, European Union and United States of America imposed substantial financial sanctions on Russia, such as banning several Russian banks from the SWIFT system and extensive restrictions on trading and travel with Russia.

After initial assessment of the situation, hGears Group sees very limited direct impact as the Group has no material suppliers or customers neither in Russia nor in Ukraine. However, the war in Ukraine led to a sharp increase in raw material and energy prices and thereby has a negative impact on the world economy. Furthermore, rising commodity prices led to soaring inflation and central banks started to increase interest rates in summer 2022.

Currently a resulting recession does not seem to materialize, but consumer confidence suffered. Therefore, the war had an indirect negative impact on the hGears Group such as fluctuation of the orders from customers and higher service, raw materials and consumables costs, including energy.

2.1.1 IFRS issued, EU endorsed and adopted in the reporting period

New standards and interpretations to be applied in 2022 had no material impact on the Consolidated Financial Statements in the reporting year.

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

In May 2017, the IASB issued the standard IFRS 17 Insurance Contracts. IFRS 17 replaces the currently applicable IFRS 4. It establishes more transparency and comparability with regard to the recognition, measurement, presentation and disclosure of insurance contracts with the insurer. The application of IFRS 17 is mandatory for reporting periods beginning on or after 1 January 2023. Early adoption is permitted but hGears Group has not done so. The hGears Group currently does not expect any material impacts on the Group's profitability, liquidity and capital resources, and financial position due to the application of IFRS 17.

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 December 31, 2022, 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 2022 (*)
Herzog GmbH, Schramberg, Germany	100	kEUR 4,400	kEUR 1,022
mG miniGears S.p.A., Padova, Italy	100	kEUR 2,000	kEUR 461
mG miniGears (Suzhou) Co., Ltd., Suzhou, China	100	kRMB 49,487	kRMB 1,468

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

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

Herzog 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) 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 December 31, 2022 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 17 (Insurance Contracts; including Amendments to IFRS 17) (1)	endorsed	permitted	none
IFRS 17 (Amendment to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information) (1)	endorsed	permitted	none
IAS 1 (Amendments to IAS 1: Presentation of Financial Statements and IFRS Practice Statement) (1)	endorsed	permitted	none
IAS 8 (Amendments to IAS 8: Accounting policies – Changes in Accounting Estimates and Errors) (1)	endorsed	permitted	none
IAS 12 (Amendment to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction) (1)	endorsed	permitted	none
IFRS 16 (Amendment to IFRS 16 Lease Liability in a Sale and Leaseback) (2)	not endorsed	permitted	none
IAS 1 (Amendment to IAS 1 Classification of Liabilities as Current or Non-current including Deferral of Effective Date) (2)	not endorsed	permitted	none
IAS 1 (Amendment to IAS 1 Non-Current Liabilities with Covenants) (2)	not endorsed	permitted	none

(1) IASB/IFRS IC effective date 1 January 2023
(2) IASB/IFRS IC effective date 1 January 2024

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 programs,
- 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, Herzog GmbH and mG miniGears S.p.A. is Euro. The functional and reporting currency of mG miniGears (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	2022	2021
as of December 31	7.3582	7.1947
annual average rate	7.0788	7.6282

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 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.

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
Land and 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.

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.

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.

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 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 reduce; 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 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 miniGears companies). 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.

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 draw down 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 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 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.

The provision recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality fixed rate AA-corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other components of equity (other comprehensive income) in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

According to IAS 19, employee benefits to be paid out subsequent to the termination of the employment relationship and other long-term benefits (including the Provision for severance indemnity recognized by mG Italy) are subjected to actuarial valuations which have to take into account a series of variables (such as mortality, future salary and pension changes, the anticipated rate of inflation, etc.).

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 perio-dically 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.

Since 2021, hGears Group did not hold any equity instruments.

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. For 2020, to measure the ECL, trade receivables have been grouped based on shared risk characteristics (i.e. counterparty's industry). The expected loss rates are based on market data about the counterparties' ability to settle their obligation.

Starting from 2021, 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 section 2.5.7. 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 a 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

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).

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 2022 amount to kEUR 135,334 (2021: kEUR 134,914).

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

in kEUR	2022	2021
Sales of goods	133,956	133,519
Other	1,378	1,395
Total Revenues	**135,334**	**134,914**

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	2022	2021
e-Mobility	51,418	47,490
e-Tools	41,411	44,176
Conventional	41,127	41,853
Sales of goods	**133,956**	**133,519**

- **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 2022 increased due to market growth in e-bikes and electric and hybrid vehicles (2022: kEUR 51,418, 2021: kEUR 47,490).

The decrease in sales of goods in e-Tools business area is mainly due temporary higher inventories at our customers resulting in order cancellations in the second half of the year (2022: kEUR 41,411, 2021: kEUR 44,176).

Sales of goods in Conventional business area remained almost stable (2022: kEUR 41,127, 2021: kEUR 41,853).

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

in kEUR	2022	2021
EU area	97,198	96,671
USA	11,917	10,587
China	7,372	9,542
Rest of the world	17,475	16,719
Sales of Goods	**133,956**	**133,519**

Sales of goods in the EU area include sales in Germany for a total amount of kEUR 35,520 (2021: kEUR 34,579) and Hungary for a total amount of kEUR 42,935 (2021: 41,651).

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	2022	2021
Other capitalized own work	98	82
Changes in inventories	712	1,821
Total	**810**	**1,903**

3.3 Other operating income

The line item breaks down as follows:

in kEUR	2022	2021
Foreign currency exchange gains	2,795	1,262
Disposal of non-current assets	311	113
Reversal of provisions	104	145
Non-cash benefits to employees	235	145
Government grants	306	132
Refund from social contribution for employees	15	85
Other	233	108
Total	**3,999**	**1,990**

3.4 Raw materials and consumables used

The line item breaks down as follows:

in kEUR	2022	2021
Raw Materials less discounts received	(42,576)	(39,056)
Consumables used and energy	(17,368)	(15,026)
Outsourced manufacturing costs	(6,417)	(6,348)
Summe	**(66,361)**	**(60,430)**

3.5 Personnel expenses

The line item breaks down as follows:

in kEUR	2022	2021
Wages and salaries	(31,771)	(32,164)
Social security contributions	(7,298)	(6,828)
Temporary workers	(3,293)	(3,293)
Total	**(42,362)**	**(42,285)**

Wages and salaries include expenses for defined contribution pension plans in the amount of kEUR 2,121 in 2022 and kEUR 2,035 in 2021.

In 2022 the Group employed 882 people on average (2021: 871).

	2022	2021
Factory workers	700	722
Office workers and Managers	182	149
Total	**882**	**871**

As of December 31, 2022, the Group employed 838 FTEs, including the Management Board (December 31, 2021: 914).

	December 31, 2022	December 31, 2021
Factory workers	739	823
Office workers and Managers	99	91
Total	**838**	**914**

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 11,274 (2021: kEUR 10,626).

3.7 Other operating expenses

The line item breaks down as follows:

in kEUR	2022	2021
Maintenance, distribution and manufacturing expenses	(7,369)	(8,033)
Administration and marketing	(5,961)	(5,034)
Miscellaneous personnel expenses	(2,414)	(1,702)
Foreign currency exchange losses	(2,492)	(1,268)
Lease expenses	(814)	(622)
Losses from disposal of fixed assets	(101)	(211)
Other	(281)	(247)
Total	**(19,432)**	**(17,118)**

The table below shows the fees booked in 2022 and 2021 for the Auditing Company:

in kEUR	2022	2021
Auditors		
* Audit	(431)	(448)
* Other assurance services	–	(446)
* Other services	(49)	(23)
Total	**(480)**	**(917)**

The audit services include the audit of the annual and consolidated financial statements of hGears AG and Herzog GmbH. In addition, the audits of the subsidiaries included in the consolidated financial statements are included (2022: kEUR 129, 2021: kEUR 145).

The other services in 2022 included activities related to the audit of the consolidated financial statements by the Financial Market Authority.

3.8 Financial result

The line item breaks down as follows:

in kEUR	2022	2021
Interest expense on finance lease liabilities	(532)	(576)
Interest expenses for shareholder loans	–	(258)
Interest expenses banks loans and overdrafts	(510)	(1,357)
Other interest expenses and similar expenses	(338)	(1,504)
Financial expenses	**(1,380)**	**(3,695)**
Interest bank income	3	2
Financial income	**3**	**2**
Total	**(1,377)**	**(3,693)**

Other interest expenses and similar expenses include the scheduled amortization of transaction costs in relation to the loan in the amount of kEUR 157 (2021: kEUR 1,430). In addition, factoring interest in the amount of kEUR 173 is included (2021: kEUR 71).

For more information on leasing, we refer to sections 4.1, 4.7 and 5.

3.9 Income and deferred taxes

The line item breaks down as follows:

in kEUR	2022	2021
Current income taxes	(190)	(1,086)
Deferred income taxes	6	(1,320)
from temporary differences	(262)	(445)
from tax loss carry-forwards	268	(875)
Total taxes	**(184)**	**(2,406)**

Effective income taxes for 2022 include corporation tax, solidarity surcharges, trade tax and foreign income taxes paid totaling kEUR 190 (2021: kEUR 1,086).

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 % (2021: 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	2022	2021
Income before income taxes	**(654)**	**4,757**
Theoretical taxes income/(expenses)	191	(1,385)
Effective taxes income/(expenses)	(184)	(2,383)
Lower / (higher) tax burden related to:	**(375)**	**(998)**
Differences in foreign tax rates	(261)	21
Taxes not relating to the period	(12)	47
No-deductible expenses and tax free income	836	336
Taxes on dividends	(50)	(106)
Unused tax loss carry forwards	(943)	(1,346)
Others	54	51
Tax charge	**(375)**	**(998)**

The effective tax rate of the Group is 28.1 % (2021: 50.66 %).

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 2022**	**31 December 2021**
Employee benefit obligations	38	38
Finance lease liabilities	1,455	1,010
Intangible	48	31
Inventories	688	547
Other current financial liabilities	67	5
Other receivables	2	84
Property, plant and equipment	591	792
Provisions	155	131
Tax losses carry forward	2,377	2,109
Trade receivables	15	13
Borrowings	64	–
Non-current other liabilities	22	23
Trade and other payables	84	32
Other	59	211
Offsetting	(2,817)	(2,541)
Total	**2,848**	**2,486**

	Deferred tax liabilities	
in kEUR	**31 December 2022**	**31 December 2021**
Employee benefit obligations	17	(38)
Finance lease	52	52
Other current	–	1
Inventories	3	3
Property, plant and equipment	3,234	2,522
Provisions	–	4
Non-current other liabilities	3	–
Borrowings	33	129
Other	5	–
Offsetting	(2,817)	(2,541)
Total	**530**	**132**

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 2,377 (December 31, 2021: kEUR 2,109) 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 21,435 (December 31, 2021: kEUR 18,581) and unused tax losses for trade taxes (Tax rate: 13,3%) in the amount of kEUR 19,221 (December 31, 2021: kEUR 16,384).

In the period under review, tax effect of kEUR 49 (2021: kEUR 6) resulted from the re-measurement of the employees benefit obligation. These effects are recognised in other comprehensive income; the cumulative amount is kEUR 17 (December 31, 2021: kEUR −22kEUR)

No deferred tax liabilities were recognized on temporary differences in the carrying amounts of investments, as hGears AG can control the timing of the realization of the temporary differences and they will not reverse in the foreseeable future.

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	**2022**	**2021**
Revenues	**135,334**	**134,914**
Adjusted EBITDA (1)	**15,283**	**22,893**
One-off transaction costs	(3,289)	(3,817)
Depreciation, amortization and impairment	(11,274)	(10,626)
EBIT	**720**	**8,450**
Finance income	3	2
Finance expenses	(1,380)	(3,695)
EBT	**(657)**	**4,757**
Income and deferred taxes	(184)	(2,406)
Net result of the period	**(841)**	**2,351**

(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	**2022**	**2021**
Personnel costs (1)	1,336	1,447
One-off advisory fees	151	–
One-off special project cost	896	1,895
COVID adjustments (2)	574	328
Other	332	147
Total	**3,289**	**3,817**

(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	2022	2021
Return on revenues in % (1)	(0.6)	1.7
Free Cash Flow (2)	**(8,337)**	**1,883**

(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 December 31, 2022, this single most important customer represented accounts receivable with a carrying amount of kEUR 537 (December 31, 2021: kEUR 479) and revenues in 2022 in the amount of kEUR 42,841 (December 31, 2021: kEUR 41,614).

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 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	hGears		Schramberg / Germany		Padova / Italy		Suzhou / China		Reconciliation (1)		IFRS consolidated	
FY	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Additions	6	126	11,366	9,797	4,609	3,360	667	1,464	–	(44)	16,649	14,703
Carrying amounts	100	121	44,097	39,462	24,225	23,428	8,833	9,871	(150)	(293)	**77,105**	**72,588**

(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 December 31, 2022 is EUR −0.08 (December 31, 2021: EUR 0.33). 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 2022, amounting to 10,400,000 (2021: 6,928,527).

The 216,000 options granted on April 13, 2022 and the 190,500 options granted on August 3, 2022 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended December 31, 2022. These options could potentially dilute basic earnings per share starting from 2025.

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	December 31, 2022	December 31, 2021
Land and Buildings	12,369	11,949
Plants and Machinery	45,981	42,329
Tools and Dies	4,369	4,865
Other assets	5,276	5,945
Fixed assets under construction and down-payments	7,803	5,975
Total	**75,798**	**71,063**

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	December 31, 2022	December 31, 2021
Right-of-use Assets:		
Land and Buildings	10,690	10,426
Plants and Machinery	6,886	6,484
Other assets	356	431
Total	**17,932**	**17,341**

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

in kEUR	January 1, 2022	Addition	Disposal	Depreciation	Currency differences	December 31, 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	January 1, 2021	Addition	Disposal	Depreciation	Currency differences	December 31, 2021
Right-of-use Assets:						
Land and Buildings	11,608	-	-	(1,563)	381	10,426
Plants and Machinery	7,678	240	(863)	(571)	-	6,484
Other assets	366	372	-	(280)	(25)	431
Total	**19,652**	**612**	**(863)**	**(2,414)**	**356**	**17,341**

Additions to the right-of-use assets during the financial year 2022 were kEUR 3,139 (December 31, 2021: kEUR 612).

In 2022, application of IFRS 16 – Leases resulted in the recognition of kEUR 2,486 in depreciation and amortization (2021: kEUR 2,414) and interest payments for leasing kEUR 532 (2021: kEUR 576). As of December 31, 2022, lease liabilities amounted to kEUR 14,232 (December 31, 2021: kEUR 14,381).

For further information on leasing, we refer to sections 3.8, 4.7 and 5.

Fixed assets under construction and down-payments amounted to kEUR 7,803 and also include down-payments to suppliers for the acquisition of fixed assets (December 31, 2021: kEUR 5,975).

The amounts refer to:

- Machines (kEUR 7,537);
- Others (kEUR 266).

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.

4.2 Intangible assets

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

in kEUR	December 31, 2022	December 31, 2021
Software and licences	1,100	1,249
Brands and trademarks	2	2
Down-payments	157	213
Other	48	61
Total	**1,307**	**1,525**

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 149 (December 31, 2021: kEUR 213).

4.3 Inventories

The net value of the inventories as of December 31, 2022 is kEUR 20,372 (December 31, 2021: kEUR 17,754).

in kEUR	December 31, 2022	December 31, 2021
Raw materials, consumables and supplies	9,903	7,819
Finished goods and work in progress	15,415	14,779
Provisions for inventory	(4,946)	(4,844)
Total	**20,372**	**17,754**

The gross value of written-down inventories as of December 31, 2022 is kEUR 25,318 (December 31, 2021: kEUR 22,598).

Since July 1st the Group started to manage the spare parts as inventory. At the end of year the net amount is 261 kEUR.

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

in kEUR	
Balance as of December 31 2020	**(4,769)**
Addition	(714)
Reverse	359
Utilization	291
Other	(11)
Balance as of December 31 2021	**(4,844)**
Addition	(550)
Reverse	362
Utilization	85
Other	1
Balance as of December 31 2022	**(4,946)**

Depreciation of kEUR 550 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 362. 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 12,298 (December 31, 2021: kEUR 12,148).

The Group entered into in various supplier finance programs 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 8,128 as of the reporting date, are fully derecognized (December 31, 2021: kEUR 4,974).

Further trade receivables intended to be sold and amounting to kEUR 682 are not sold yet as of the reporting date (December 31, 2021: kEUR 630).

At December 31, 2022, provision for impairments amounted to kEUR 125 (December 31, 2021: kEUR 71).

4.5 Other current assets and non-current assets

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

in kEUR	December 31, 2022	December 31, 2021
Other receivables non-current	122	127
Total Non-Current	**122**	**127**

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

in kEUR	December 31, 2022	December 31, 2021
Other current assets	6,116	3,403
Total Non-Financial Assets	**6,116**	**3,403**
Other receivables current	872	453
Other financial assets current, gross	1,006	178
Total Financial Assets	**1,878**	**631**
Total Current	**7,994**	**4,034**

Other current financial assets include positive fair values from forward exchange contracts and to a granted loan (kEUR 1,000).

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

In kEUR	December 31, 2022	December 31, 2021
Receivables for energy costs	355	175
Other	329	25
Total Non-Financial Assets	**684**	**199**
Loan to employees	134	181
Supplier with debit balance	11	56
Suppliers premium	37	-
Other	6	16
Total Financial Assets	**188**	**254**
Total	**872**	**453**

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

in kEUR	December 31, 2022	December 31, 2021
VAT receivables	941	1,539
Other income tax receivables	4,304	1,114
Current prepaid operating expenses	871	750
Total	**6,116**	**3,403**

4.6 Cash and cash equivalents

At December 31, 2022, cash and cash equivalents amounted to kEUR 36,276 (December 31, 2021: kEUR 47,246). This position includes cash in hand in the amount of kEUR 8 (December 31, 2022: kEUR 7).

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 December 31, 2022.

4.7 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 14,232. Lease liabilities resulting from finance agreements in 2021 amounted to kEUR 14,381.

For more information on leasing, we refer to sections 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	December 31, 2022	December 31, 2021
Finance lease liabilities current	5,133	2,800
Finance lease liabilities non-current	9,099	11,581
Total	**14,232**	**14,381**

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	December 31, 2022	December 31, 2021
Gross finance lease liabilities – minimum lease payments:		
Less than 1 year	5,611	3,295
1 – 5 years	9,675	10,567
More than 5 years	312	2,044
Minimum lease payments	**15,598**	**15,906**

in kEUR	December 31, 2022	December 31, 2021
The present value of finance liabilities – minimum lease payments:		
Less than 1 year	5,133	2,800
1 – 5 years	8,789	9,620
More than 5 years	310	1,961
Net present value of minimum lease payments	**14,232**	**14,381**

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.

In kEUR	2022	2021
Expenses from short-term leases	606	491
Expenses from leases of low-value assets	174	122
Expenses from variable lease payments	34	8
Total	**814**	**622**

4.8 Borrowings

On December 21, 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 up to 5 years and replaced the old EUR 32 million credit agreement by more than 3 years.

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

On January 31, 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	December 31, 2022	December 31, 2021
Bank loan current	428	7,037
Bank loan no-current	19,694	14,371
Total	**20,122**	**21,408**

Please see in the table below the conditions of the borrowings:

Bank	Nominal Value (kEUR)	Date	Interest rates	Interest rates Cancellation conditions	Repayment/ Maturity	Transactioncosts (kEUR)
Arrangers	5,000	31.01.2022	0.95% + 6m EURIBOR	1)	Variable (till six months)	42
Arrangers	15,000	31.01.2022	0.95% + 6m EURIBOR	1)	Final maturity	125
Arrangers	40,000	31.01.2022	0.95% + 6m EURIBOR	1)	Variable (till six months)	334

The companies hGears AG, mG miniGears S.p.A. and Herzog 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 December 31, 2022, hGears Group had met all financial and non-financial covenants under its existing facility agreements.

For additional regarding covenants, see Note 6.1.

4.9 Provisions

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

in kEUR	December 31, 2022	December 31, 2021
Provision, current	564	496
Provision, non-current	319	319
Total	**883**	**815**

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 December 31, 2020	**269**	**120**	**619**	**1,008**
Addition	–	50	180	229
Release	–	(4)	(120)	(124)
Utilization	–	(46)	(254)	(300)
Balance as of December 31, 2021	**269**	**120**	**426**	**815**
Addition	–	114	159	273
Release	–	–	(10)	(10)
Utilization	–	(50)	(144)	(194)
Other	–	–	(2)	(2)
Balance as of December 31, 2022	**269**	**184**	**430**	**883**

The amounts considered in "Environmental provision", relate on the opinion of legal and professional experts.

The Company doesn't expect to utilize the accrued amount in 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. It's expected that the accrued amount of kEUR 134 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. It's expected that the accrued amount is utilized fully in the next 12 months.

4.10 Employee benefit obligations

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

Italian "Trattamento di Fine Rapporto" (TFR) benefit is a deferred compensation item established by Italian law. It is regulated 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. This amount is adjusted, later, 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 December 27, 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 January 1, 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 December 31, 2020	**1,503**
Actuarial Losses (profits) from experience	27
Actuarial Losses (profits) from changes in financial assumptions	13
Interest costs	1
Utilisation of TFR	(156)
Balance as of December 31, 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 December 31, 2022	**1,100**

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

	December 31, 2022	**December 31, 2021**
Economic summary		
Inflation rate	3.63 %	0.44 %
Discount rate	2.30 %	1.75 %
Annual rate of increase TFR	3.23 %	2.81 %
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 December 31, 2022	Pension plan December 31, 2021
Turnover rate	+1 %	1,120	1,383
Turnover rate	–1 %	1,111	1,406
Inflation rate	+0.25 %	1,127	1,410
Inflation rate	–0.25 %	1,104	1,377
Discount rate	+0.25 %	1,098	1,367
Discount rate	–0.25 %	1,134	1,421

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 2022	–
Duration (years)	7.2

Future estimated payments for defined benefit plans

Year	in kEUR
1	129
2	86
3	103
4	108
5	68

The total expense recognized in the current period in relation to the Group contributions was kEUR 2,121 during 2022 and kEUR 2,035 during 2021.

4.11 Trade and other payables

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

in kEUR	December 31, 2022	December 31, 2021
Trade payables	22,053	19,389
Current Non-Financial Liabilities	8,919	8,454
Total	**30,972**	**27,843**

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	December 31, 2022	December 31, 2021
Contract Liabilities	157	110
Other current liabilities	2,760	2,492
Employees liabilities	4,583	5,621
Current deferred operating expenses	1,419	231
Total Current Non-Financial Liabilities	**8,919**	**8,454**

Contractual liabilities as of December 31, 2021, resulted fully in revenues.

Other current liabilities breakdown is as follows:

in kEUR	December 31, 2022	December 31, 2021
Taxes and social contributions on wages	1,904	1,905
Auditor costs	453	265
Other	403	322
Total	**2,760**	**2,492**

Employees liabilities and taxes on wages mainly relate to payrolls and wages (also Management Board liabilities – for more information, please see Note 8.2.2) 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	December 31, 2022	December 31, 2021
Anniversary obligation	65	79
Trade payables	266	311
Employee liabilities	86	93
Total	**417**	**483**

4.12 Other current financial liabilities

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

in kEUR	December 31, 2022	December 31, 2021
Interest liabilities	4	5
Derivates liabilities	238	5
Total	**242**	**10**

4.13 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.

4.14 Equity

On April 8, 2021, the Company's share capital increased from kEUR 63 to kEUR 8,000 from company funds. On May 21, 2021 the share capital is increased due to the IPO to kEUR 10,400. At December 31, 2022 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, consulting and other third-party fees that are directly associated with in-process equity (kEUR 3,278, increased by kEUR 7 compared to last year). Due to the missing re-coverability of the tax advantages, no taxes were recognised in the equity.

Other reserve includes the legal reserve is booked in the subsidiary mG Italy and it 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 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 includes the result of the current period and the results of the previous years that are not still paid to the shareholders.

Authorized capital

By virtue of the Articles of Association, the Executive 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 March 31, 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 Executive 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 Executive 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 May 5, 2021, 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 May 4, 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 May 5, 2021, with the approval of the Supervisory Board, to conditionally increase the share capital of the Company by up to EUR 738,400.00 by issuing up to 738,400 no-par value bearer shares (Conditional Capital 2021/II). The Conditional Capital 2021/II 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 May 5, 2021. 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 Program 2021), the holders of the stock options exercise their rights, and the Company does not grant 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 2021/II 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 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 by EUR 190,500 by withdrawing 190,500 no-par value bearer shares the Conditional Capital 2021/II of the Company. 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.

To date, no use has been made of Conditional Capital 2021/II.

Conditional Capital 2022/I

The Management Board was authorized by the Annual General Meeting on June 22, 2022, with the approval of the Supervisory Board, to conditionally increase the share capital of the Company by up to EUR 190,500.00 by issuing up to 190,500 no-par value bearer shares (Conditional Capital 2022/I). The 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 June 22, 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 Program 2022), the holders of the stock options exercise their rights, and the Company does not grant 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.

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	December 31, 2021	Cash flows	Acquisition	Fair value changes	Foreign exchange movement	Other	December 31, 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

			Non-cash changes				
in kEUR	December 31, 2020	Cash flows	Acquisition	Fair value changes	Foreign exchange movement	Other	December 31, 2021
Finance lease liabilities	16.212	(3.307)	–	–	346	1.130	14.381
Borrowings	39.272	(20.111)	–	–	–	2.247	21.408
Shareholder loans	14.341	(14.599)	–	–	–	258	–
Other current financial liabilities	64	(51)	–	(8)	–	4	9

The paid interests in the cash flow statement include interests for factoring in an amount of kEUR 173 (2021: kEUR 71) and interest for leasing in an amount of kEUR 532 (2021: kEUR 576).

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 December 21, 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 March 31, June 30, September 30 and December 31 of each year.

As of December 31, 2022, 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 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 US dollars and in Euro (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/Euro and RMB/US Dollar exchange rates due to its Chinese subsidiary. The Group also has exposures to changes in US Dollar/Euro 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 December 31, 2022 and December 31, 2021 are summarized in the table below:

December 31, 2022

Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR
RMB/EUR	2	January 19, 2022	CMB	from January 30, 2023 to February 3, 2023	from 7.4226 to 7.4233	563	6
RMB/USD	2	January 19, 2022	CMB	from January 30, 2023 to February 3, 2023	from 6.4634 to 6.4638	3,761	(229)
EUR/USD	2	February 2, 2022 and May 17, 2022	Unicredit	from January 31, 2023 to February 28, 2023	from 1.079 to 1.159	220	(8)

December 31, 2021

Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR
RMB/EUR	2	November 26, 2020	SEB	from January 28, 2022 to February 25, 2022	from 8.1420 to 8.1636	339	42
RMB/USD	2	November 26, 2020	SEB	from January 28, 2022 to February 25, 2022	from 6.7629 to 6.7755	2,300	136
EUR/USD	2	January 31, 2022	Intesa	from January 31, 2022 to February 28, 2022	from 1.2325 to 1.2336	54	(4)

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	December 31, 2022			
	Equity		Profit for the period	
Exchange rate	10 %	(10 %)	10 %	(10 %)
RMB/Euro	–	–	109	(109)
RMB/U.S. Dollar	–	–	8	(8)

in kEUR	December 31, 2021			
	Equity		Profit for the period	
Exchange rate	10%	(10%)	10%	(10%)
RMB/Euro	–	–	126	(126)
RMB/U.S. Dollar	–	–	365	(316)

The effects of a ten percent increase/decrease in USD against Euro were as follows as of the balance sheet date:

in kEUR	December 31, 2022			
	Equity		Profit for the period	
Exchange rate	10%	(10%)	10%	(10%)
U.S. Dollar/Euro	–	–	(70)	124

in kEUR	December 31, 2021			
	Equity		Profit for the period	
Exchange rate	10%	(10%)	10%	(10%)
U.S. Dollar/Euro	–	–	(52)	83

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 December 31, 2022 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	December 31, 2022	
	Equity	Profit for the period
+200 bps	–	(400)
−200 bps	–	400

in kEUR	December 31, 2021	
	Equity	Profit for the period
+100 bps	–	–
−100 bps	–	–

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 December 31, 2022 due to the fact, that not all custo-mers 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	December 31, 2022		December 31, 2021	
	Gross	Provision	Gross	Provision
Amounts undue	10,924	(18)	10,497	(21)
Past due 0 – 30 days	1,070	(1)	1,471	(2)
Past due 31 – 60 days	286	(1)	138	–
Past due 61 – 90 days	53	–	24	–
More than 91 days	89	(105)	89	(48)
Total	**12,423**	**(125)**	**12,219**	**(71)**
Trade receivables, net	**12,298**		**12,148**	

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 December 31, 2022 and 2021.

in kEUR **December 31, 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	36,268
Credit risk rating class 2	–	–	–	–
Credit risk rating class 3	–	–	–	–
Total	**122**	**134**	**1,006**	**36,268**

in kEUR **December 31, 2021**	**Other non-current receivables (deposits)**	**Other current assets**	**Other current financial assets**	**Cash and cash equivalents (bank balances)**
Credit risk rating class 1	127	–	178	47,246
Credit risk rating class 2	–	–	–	–
Credit risk rating class 3	–	–	–	–
Total	**127**	**–**	**178**	**47,246**

For these financial assets the identified expected credit losses as of December 31, 2022, 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 2022 and 2021 respectively.

For FX Forwards the cash flows have been estimated using the spot FX rate applicable at the end of the reporting period 2022 and 2021 respectively.

in kEUR

Financial liability description	Carrying amount	December 31, 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**

in kEUR

Financial liability description	Carrying amount	December 31, 2021	< 1 year	1 – 5 years	> 5 years
Trade payables	19,389	19,389	19,389	–	–
Other payables	8,937	8,937	8,454	483	–
Derivatives (with gross settlement)	4	(4)			
Cashoutflow			(54)	–	–
Cashinflow			49	–	–
Borrowings	21,408	21,521			
Borrowings – capital portion			21,450	–	–
Interest expenses on Borrowings			71	–	–
Lease liabilities	14,381	15,906	3,295	10,567	2,044
Total	**64,119**	**65,749**	**52,655**	**11,050**	**2,044**

For further information on leasing, we refer to sections 3.8, 4.1, 4.5 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 December 31, 2022	Fair Value December 31, 2022
ASSET			
Non-current assets			
Other non-current assets	AC	122	122
Current assets			
Trade receivables			
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 with hedge accounting	n/a	–	
Derivatives without hedge accounting	FVPL	6	6
Cash and cash equivalents	AC	36,276	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)		**December 31, 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**

in kEUR	Classification IFRS 9	Carrying amount December 31, 2022	Fair Value December 31, 2022
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 with hedge accounting	n/a	–	–
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	–	–	–
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.

in kEUR	Classification IFRS 9	Carrying amount December 31, 2022	Fair Value December 31, 2021
ASSET			
Non-current assets			
Other non-current assets	AC	127	127
Current assets			
Trade receivables			
Trade receivables	AC	11,519	n/a*
Trade receivables subject to factoring	FVPL	630	630
Other receivables	AC	453	n/a*
Other current financial assets			
Derivatives with hedge accounting	n/a	–	–
Derivatives without hedge accounting	FVPL	178	178
Cash and cash equivalents	AC	47,246	n/a*
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	n/a	11,581	n/a
Borrowings	FLAC	14,371	–
Shareholder loan	FLAC	–	–
Current liabilities			
Finance lease liabilities	n/a	2,800	n/a
Borrowings	FLAC	7,037	21,501
Other current financial liabilities			
Derivatives without hedge accounting	FVPL	4	4
Accrued interest	FLAC	5	5
Trade and other payables			
Trade payables	FLAC	19,389	n/a*
Other payables	–	–	–
Other current non-financial payables	n/a	8,454	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)		December 31, 2021
Financial Assets measured at Amortized costs	AC	**59,344**
Financial Liabilities measured at Amortized Cost	FLAC	**40,802**
Financial Assets & Liabilities measured at Fair Value through Profit or Loss	FVPL	**812**

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	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Hedging of currency risk				
Forward exchange contracts	4,543	2,692	(232)	174
thereof positive fair value	563	2,639	6	178
thereof negative fair value	3,980	54	(238)	(4)
Hedging of interest rate risk				
Interest rate swaps	–	–	–	–
thereof positive fair value	–	–	–	–
thereof negative fair value	–	–	–	–

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 December 31, 2022 and as of December 31, 2021 there are no open hedge 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 December 31, 2022 and as of December 31, 2021 there are no open hedge 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
	December 31, 2022	December 31, 2022	December 31, 2022
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
	December 31, 2021	December 31, 2021	December 31, 2021
Hedging of Foreign Exchange Risks	–	(15)	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 December 31, 2020	**15**	**(4)**
Changes in fair value of hedging instruments recognized in OCI (effective portion)	–	(2)
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	(15)	6
Closing balance December 31, 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 December 31, 2022	**–**	**–**

Losses that were reclassified from other comprehensive income to profit or loss amounted to kEUR – (2021: kEUR 9).

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 December 31, 2022 and December 31, 2021, 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	**2022**	**2021**
Financial assets measured at Amortised cost	(496)	443
Financial liabilities measured at Amortised costs	(691)	(3,057)
Financial assets & liabilities at FVPL	(77)	(63)

Net gains/losses on financial assets at amortized cost include changes in gain and loss allowance from foreign exchange valuation.

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:

December 31, 2022

in kEUR	Financial assets AC	Financial liabilities AC
Interest income	3	–
Interest expense	–	(666)
Total	**3**	**(666)**

December 31, 2021

in kEUR	Financial assets AC	Financial liabilities AC
Interest income	2	–
Interest expense	–	(3,050)
Total	**2**	**(3,050)**

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	December 31, 2022	December 31, 2021
No later than 1 year	115	189
Later than 1 year and no later than 5 years	368	67
More than 5 years	136	–
Total	**619**	**256**

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 December 31, 2022, 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 December 31, 2022.

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:

- Accrued financial expenses: the total value for the financial year 2022 is equal to kEUR 0 (2021: kEUR 237);
- Revenues: the total value for the financial year 2022 is equal to kEUR 10 (2021: kEUR 1,179) and it 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:

- Accrued financial expenses: the total value for the financial year 2022 is equal to kEUR 0 (2021: kEUR 20);
- Revenues: the total value for the financial year 2022 is equal to kEUR 1 (2021: kEUR 131) and it is related to "Cost

Sharing and Indemnity Agreement". The income are posted in the line Other operating expenses;
- Salaries: kEUR 0 (2021: kEUR 35);
- Building rent: kEUR 442 (2021: 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 Board of Management as well as the embers of the Supervisory Board of hGears.

In the course of the conversion of the Company into a stock corporation, 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:

Management Board:
- Pierluca Sartorello (Chairman till 31 January 2023)
- Sven Arend (Chairman from 1 February 2023)
- Daniel Basok (CFO)

Supervisory Board

Name	Member since	Appointed until	Principal occupation	Other mandates
Prof. Volker Michael Stauch	April 27, 2021 (Chairman)	2026	Freelance consultant	Storopack Hans Reichenecker GmbH, Metzingen, Germany: Member of the Supervisory Board
Christophe Hemmerle	April 27, 2021 (Deputy Chairman)	2026	Managing Partner at Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main	
Daniel Michael Kartje	April 27, 2021	2026	Investment Director and Partner of Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main	
Christoph Mathias Seidler	April 27, 2021	2026	Entrepreneur	Enviolo Inc., Austin, USA/ Amsterdam, The Netherlands: Member of the Supervisory Board (till 31 March 2022)
Dr. Gabriele Fontane	April 27, 2021	2026	Lawyer and Partner of the law firm Oppenhoff	

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

in kEUR	2022	2021
hGears AG	197	137
mG Italy	75	70
Total	**272**	**207**

In addition, other operating expenses (legal fees) of kEUR 21 thousand (2021: kEUR 101) were incurred with members of the Supervisory Board in 2022.

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

in kEUR	2022	2021
Salaries and other short-term employee benefits	981	1,804
Share-based payments	349	565
Total	**1,330**	**2,369**

Salaries other short-term employee benefits in 2021 include an IPO bonus granted to a member of the management board.

The unpaid liabilities to the management board are shown below:

in kEUR	December 31, 2022	December 31, 2021
Payroll liabilities	304	645
Total	**304**	**645**

There are no long-term employee benefits for key management to report for 2022 and 2021.

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

Shares	December 31, 2022	December 31, 2021
Pierluca Sartorello	125,898	125,898
Daniel Basok	10,079	8,077
Management board	**135,977**	**133,975**
Volker Stauch	45,967	45,967
Christophe Hemmerle	5,769	5,769
Daniel Kartje	2,900	2,900
Mathias Seidler	11,538	11,538
Dr. Gabriele Fontane	3,846	3,846
Supervisory Board	**69,427**	**69,427**
Summe	**205,404**	**203,402**

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 2022 no additional loans were given to the management board member.

Additional information related to the managing directors as of December 31, 2022 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 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 June 22, 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.
Set out below are summaries of options granted under the plans:

	2022		2021	
	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	406,500	26.16	190,500
Exercised during the year	–	–	–	–
Forfeited during the year	–	–	–	–
As at December 31	**26.16**	**406,500**	**26.16**	**190,500**
Vested and exercisable at 31 December	–	–	–	–

The performance targets for the stock options granted in 2022 were not achieved. Therefore, these options expired on December 31, 2022.

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 December 31, 2022**	**Share options December 31, 2021**
June 4, 2021	December 31, 2021	26.16	–	190,500
April 13, 2022	December 31, 2022	26.16	216,000	–
August 3, 2022	December 31, 2022	26.16	190,500	–

The fair value of the options granted in fiscal year 2022 amounted to EUR 2.04 per option at the grant date April 13, 2022 and to EUR 0.03 for the options at the grant date August 3, 2022 (December 31, 2021: EUR 3.34). 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 December 31, 2022 include the following:

	SOP 2021 – 2 Tranche	SOP 2022
	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.	
Ausübungspreis	26,16	26,16
Gewährungszeitpunkt	13. April 2022	3. August 2022
Verfallsdatum	12. April 2028	2. August 2023
Aktienkurs zum Gewährungszeitpunkt:	17,90	13,00
Erwartete Kursvolatilität der Aktien des Unternehmens:	40 %	40 %
Erwarteter Dividendenertrag:	0 %	0 %
Risikoloser Zinssatz:	0 %	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.

The total expenses from the options issued under the employee option plan in the amount of EUR 446 thousand (2021: kEUR 637) were recognized in personnel expense.

8.4 WpHG notifications

The voting rights notifications are reflected in the annual financial statements for the fiscal year 2022 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

Effective from February 1, 2023 the Supervisory Board of hGears AG appointed Mr. Sven Arend as a member of the Management Board and as the Chairman of the Management Board (CEO) of hGears AG.

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 March 29, 2023.

Schramberg, 28 March 2023

Sven Arend
Chairman of the Management Board

Daniel Basok
Management Board Member

Pierluca Sartorello
Management Board Member

ANNEX 1 – FIXED ASSET MOVEMENT SCHEDULE TANGIBLE ASSETS

		Change occurred during the current year						
	December 31, 2021	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2022**
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)**	**186**	**–**	**(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**

		Change occurred during the current year						
	December 31, 2020	Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	December 31, 2021
Gross value	17,676	542	-	-	(169)	-	438	18,487
Provisions for amortization and depreciation	(4,647)	14	-	(1,763)	(7)	-	(135)	(6,538)
Land and Buildings	**13,029**	**556**	**-**	**(1,763)**	**(176)**	**-**	**303**	**11,949**
Gross value	119,300	6,171	(1,535)	-	1,603	-	808	126,347
Provisions for amortization and depreciation	(80,511)	-	1,531	(5,545)	1,230	(209)	(514)	(84,020)
Plants and Machinery	**38,789**	**6,171**	**(4)**	**(5,545)**	**2,833**	**(209)**	**294**	**42,329**
Gross value	17,248	832	(394)	-	248	-	71	18,005
Provisions for amortization and depreciation	(12,060)	-	177	(1,202)	8	-	(63)	(13,140)
Tools and Dies	**5,188**	**832**	**(217)**	**(1,202)**	**256**	**-**	**8**	**4,865**
Gross value	16,601	1,119	(267)	-	220	-	393	18,066
Provisions for amortization and depreciation	(10,875)	-	243	(1,363)	15	-	(141)	(12,123)
Other assets	**5,726**	**1,119**	**(24)**	**(1,363)**	**235**	**-**	**252**	**5,945**
Fixed assets under construction and down-payments	**3,466**	**5,510**	**-**	**-**	**(3,148)**	**-**	**147**	**5,975**
Property, plant and equipment	**66,198**	**14,188**	**(245)**	**(9,873)**	**-**	**(209)**	**1,004**	**71,063**

ANNEX 2 – FIXED ASSET MOVEMENT SCHEDULE INTANGIBLE ASSETS

		Change occurred during the current year						
	December 31, 2021	Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	December 31, 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**

	December 31, 2020	Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	December 31, 2021
Gross value	4,869	477	–	–	(68)	–	43	5,321
Provisions for amortization and depreciation	(3,507)	–	–	(527)	–	–	(40)	(4,072)
Software and licences	**1,363**	**477**	**–**	**(527)**	**(68)**	**–**	**3**	**1,249**
Gross value	1,560	2	–	–	–	–	–	1,562
Provisions for amortization and depreciation	(1,560)	–	–	(0)	–	–		(1,560)
Brands and trademarks	**–**	**2**	**–**	**(0)**	**–**	**–**	**–**	**2**
Intangible assets under construction and down-payments	**104**	**30**	**–**	**–**	**68**	**–**	**11**	**213**
Gross value	378	5	–	–	–	–	–	383
Provisions for amortization and depreciation	(303)	–	–	(18)	–	–	–	(322)
Other	**73**	**5**	**–**	**(18)**	**–**	**–**	**–**	**61**
Intangible assets	**1,541**	**514**	**–**	**(545)**	**–**	**–**	**14**	**1,525**

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, 28 March 2023
hGears AG
The Management Board

Sven Arend
Chairman of the Management Board

Daniel Basok
Member of the Management Board

Pierluca Sartorello
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 December 31, 2022, 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 January 1 to December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of hGears AG for the financial year from January 1 to December 31, 2022. 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 Commercial 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 December 31, 2022, and of its financial performance for the financial year from January 1 to December 31, 2022, 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 January 1 to December 31, 2022. 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 these key audit matters has been structured in each case 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 EUR 2,848 thousand 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 EUR 20,093 thousand 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, which we obtained prior to the date of our auditor's report

- all remaining parts of the annual report, which are expected to be made available to us after the date of the auditor's 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_2022-12-31-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 January 1 to December 31, 2022 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 audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

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 June 22, 2021. We were engaged by the supervisory board on December 23, 2022. We have been the group auditor of hGears AG, Schramberg, without interruption since the financial year 2014.

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, March 29, 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Marcus Nickel
Wirtschaftsprüfer
(German Public Auditor)

Dieter Joachim Böhm
Wirtschaftsprüfer
(German Public Auditor)

FINANCIAL CALENDAR 2023

30 March 2023	Publication annual financial report 2022
10 May 2023	Publication quarterly results Q1 2023
13 June 2023	Annual General Meeting (AGM)
9 August 2023	Publication half-yearly financial report 2023
8 November 2023	Publication quarterly results Q3 2023

IMPRINT

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 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. In the event of any deviations, the German version takes precedence. When persons are mentioned in this publication, this always refers to female, male and diverse (for example transsexual and intersexual) persons. For reasons of better readability and/or formal or technical reasons such as limited space or the better findability of web texts, not all variants are always mentioned.

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