Annual Report

2021

the **heart** of your performance

KEY FIGURES

in EUR million	2021	2020
Revenue	134.9	126.3
Gross profit	76.4	72.3
Gross margin in %	56.6	57.2
Adjusted EBITDA	22.9	22.7
Adjusted EBITDA margin in %	17.0	18.0
EBIT	8.4	8.8
Net result	2.4	6.7
Net return on revenues in %	1.7	5.3
Free cash flow	1.9	9.7
Net Debt	11.5	–32.1
Net debt / EBITDA	–0.5×	1.4×

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OUR STRATEGY

LEADING SUPPLIER OF HIGH-PRECISION GEARS AND GEAR COMPONENTS

hGears develops and manufactures high-precision gears and components with 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 the few companies that is able to offer both metal processing technologies worldwide.

FOCUS ON FASTGROWING E-MOBILITY

The group is a globally leading manufacturer for 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 2021 AT A GLANCE

€ 134.9 M

Revenue
FY 2021

€ 22.9 M

Adj. EBITDA
FY 2021

17.0 %

Adj. EBITDA margin
FY 2021

+7.5 %

Revenue growth in the business areas e-Mobility and e-Tools compared to the previous year

1958

HQ Germany
founded

#1

European market share
e-bike precision components

×3

Production sites
in Germany, Italy, China

871

Employees

To our shareholders

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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,

2021 was a very eventful year for hGears. We maneuvered between the COVID-19 pandemic, IPO, refinancing and continued growth in our e-Mobility, e-Tools and Conventional business areas. We would like to take this opportunity to thank all our employees in Germany, Italy and China who have accomplished great achievements in an eventful year and despite the ongoing adversities associated with the pandemic and have made a positive business development possible.

After a slowdown in the first half of 2021, COVID-19 became increasingly a challenge again in the second half of the year due to the renewed emergence of the pandemic with the Omicron variant. Not only did we have to protect our employees with a health concept, but we were also confronted with the consequences of supply bottlenecks at our customers. Due to production difficulties caused by material shortages and supply chain problems at our customers, we were unable to deliver promised and produced transmissions and transmission parts as agreed at the end of the year, which was reflected in our sales and earnings as well as in our inventories. In an adverse environment, however, we succeeded in increasing the Group's sales by 6.9 % in 2021. We were able to improve adjusted EBITDA to EUR 22.9 million, despite higher costs in connection with our expansion path, for example for additional personnel. Our investments will have a positive impact over the next 12–24 months. Our figures already show now that our primary strategic focus on e-mobility is right and pays off. We were able to win seven new customers in 2021 and will continue to broaden our customer base in the current year. We are therefore sticking to our medium-term outlook, which promises sales of EUR 250 million, of which EUR 150 million is expected to come from our activities in the field of e-mobility.

hGears has been on the stock market since May 2021. The listing in the Prime Standard of the Frankfurt Stock Exchange represents an important milestone in the company's history. The share was positively received by the capital market and there is still great interest in our equity story. In addition, at the end of 2021, we were able to refinance parts of our debt capital on very favorable terms, also because we can convert one third of the new

From left to right: Pierluca Sartorello (CEO), Daniel Basok (CFO) loan agreement of a total of EUR 60 million into a state approved ESG loan due to our contribution to environmental protection and sustainability. The gross proceeds of EUR 62 million from the IPO and the refinanced debt capital enable us to drive forward the planned expansion of the Group.

Due to a sustainable growth strategy with a focus on e-mobility and because we have a very solid balance sheet, we can continuously invest in qualified personnel as well as in additional production facilities and efficiency improvements. The expansion of our capacities is well on track and extends into the current year 2022 as planned. Thereby, we are creating the best conditions to benefit from the general electrification trend in craftsmen and gardening tools, and above all we are reaffirming our leading position in the strong growing e-mobility business. On the one hand, this development is driven by a new environmental and climate awareness, which is reflected in an increasing demand for sustainable solutions. On the other hand, however, the current sharp rise in fossil fuel prices will also accelerate the move away from conventional combustion engines. Both trends will result in a higher demand for environmentally friendly solutions that go far beyond the previously primary recreational benefits, such as electric micromobility for an increasingly urbanizing world.

Such developments will remain growth drivers for our products in the coming decades. As a supplier, we not only have a clear pioneering role, but also a very strong market position. In 2021, roughly every second e-bike produced in Europe contained parts from hGears. We are continuously involved in new projects, not only as manufacturer, but also as partners and experts in the R&D process. Against this background, we are very confident that we will not only be able to well achieve the medium-term targets we have set but will also generate high growth with attractive margins in addition.

The prerequisite for this positive development is, however, that there is no further escalation of the current geopolitical tensions caused by Russia's war against Ukraine. We have no customers or suppliers in either country. Because of pass-through clauses, we can largely protect ourselves from indirect consequences such as e. g. higher energy and commodity prices and the associated inflationary tendencies.

We hope for an easing of the situation and peace – especially for the people directly affected by the war. At the same time, we are confident that even in a tense situation, we will be able to achieve a good result – thanks to the support and help of you, our employees, shareholders, customers, suppliers, and all the people behind our company. Therefore, once again our sincere and heartfelt thank-you.

Schramberg, 29 March 2022

Management Board,

Pierluca Sartorello, CEO
(Chairman of the Management Board)

Daniel Basok, CFO
(Management Board Member)

REPORT OF THE SUPERVISORY BOARD

hGears AG was established on 27 April 2021 by way of a change of legal form of the limited liability company "hGears Holding GmbH", Schramberg (Local Court of Stuttgart, HRB 737541) in accordance with sections 190 et seq. of the German Transformation Act. Since 21 May 2021, the shares of the Company have been admitted to trading on the Regulated Market (*Prime Standard*) of the Frankfurt Stock Exchange.

The constitution of the stock corporation under the German Stock Corporation Act makes a strict distinction between the management and the supervision of the management. While the management of the company is the exclusive responsibility of the management board, the supervisory board supervises the management of the management board and advises it on all matters of importance to the company. In its function as a supervisory body and guided by the principles of responsible and good corporate governance, the Supervisory Board, following its constitution on 8 April 2021, has in the further financial year 2021 unreservedly performed the duties imposed upon it by law, the Articles of Association and the Rules of Procedure. It regularly and carefully monitored 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 2021, no conflicts of interest of Supervisory Board members arose which must be disclosed to the Supervisory Board without delay and about which the Annual General Meeting must be informed.

The Supervisory Board held six meetings in the financial year 2021. In addition, ten 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

Of central importance for the deliberations of the Supervisory Board in the 2021 financial year was the preparation and implementation of the Company's IPO.

In its constituent meeting on 8 April 2021, the Supervisory Board elected a Chairman and Deputy Chairman, appointed the current members of the Management Board and issued Rules of Procedure for the Supervisory Board and the Management Board.

The subject of the Supervisory Board meeting on 22 April 2021 was in particular the presentation of the audited annual financial statements 2020 as well as the current business development. The Supervisory Board also unanimously resolved to propose to the Annual General Meeting PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as statutory auditors for the 2021 financial year.

In a resolution passed by telephone on 4 May 2021, the Supervisory Board unanimously approved the conclusion of the service contracts with the Management Board members.

In connection with the Company's IPO, the Supervisory Board, by means of a resolution passed by telephone on 6 May 2021, unanimously gave its consent to the resolutions of the Management Board of 6 May 2021, in particular on the determination of the price range for the public offering of the new shares to be issued, the conclusion of the underwriting agreement with the underwriting banks, the listing of the

Company's shares and the approval of the securities prospectus for the Company's IPO.

By telephone resolution on 17 May 2021, the Supervisory Board unanimously approved the Management Board resolutions of 17 May 2021 on the determination of the placement price for the new shares to be issued in the Company's IPO and on the conclusion of the pricing agreement. By way of a further resolution passed by telephone on the same day, the Supervisory Board gave its consent to the Management Board resolutions of 17 May 2021 on the determination of the number of new shares to be issued in the course of the IPO, the conclusion of the volume fixing agreement and the securitisation of the new shares in a global certificate.

In a resolution passed by telephone on 2 June 2021, the Supervisory Board unanimously approved the 2021 share option programme for the Management Board of the Company on the basis of an authorisation granted by the Annual General Meeting on 5 May 2021. The Chairman of the Supervisory Board was also authorised to execute the corresponding share option agreements with the members of the Management Board. Furthermore, the Supervisory Board unanimously passed a resolution on the conclusion of the remuneration agreement (LTI) to the Management Board service contracts with the Management Board members.

On 4 June 2021, the Supervisory Board passed a unanimous resolution on the issue of share option rights to the members of the Management Board of the Company in the context of the share option programme 2021 and on the approval of the Management Board resolutions on the establishment of the share option programme 2021 for the executives and on the issue of share option rights to executives in the context of the share option programme 2021 by means of a telephone resolution.

The subject of the Supervisory Board meeting on 8 June 2021 was, among other things, investor relations and public relations in the post IPO period. The Supervisory Board also discussed the cooperation with the Management Board and the rules of procedure for the Management Board.

In the meeting on 21 July 2021, the Management Board reported to the Supervisory Board on the business development until June 2021 and on the forecast for 2021. Another subject of the meeting was to inform the Supervisory Board about the growth strategy of the Company and the Group. The Chairman of the Management Board informed the Supervisory Board about the current developments at mG miniGears (Suzhou) Co. Ltd. (China). In the further course of the meeting, the Supervisory Board discussed corporate communications, the targets for the Management Board for 2021 and the proposal to appoint Mr Daniel Basok as managing director at subsidiaries. Mr Daniel Kartje was excused from the meeting.

At the meeting on 21 October 2022, the Management Board presented the current business developments to the Supervisory Board and gave an overview of the project pipeline. In addition, the Management Board informed the Supervisory Board about a possible refinancing. The Supervisory Board unanimously approved the appointment of Mr Daniel Basok as managing director of mG miniGears SpA. In the further meeting, the external advisor PwC informed the Supervisory Board about the corporate governance requirements of the Company after the stock exchange listing, in particular the formation of an audit committee as of 1 January 2022. The Supervisory Board also set targets for the participation of women in the Management Board and Supervisory Board pursuant to section 111 para. 5 sentence 1 of the German Stock Corporation Act, which are to be met by 30 June 2022, by unanimous resolution.

By resolution passed by circulation on 5 November 2021, the Supervisory Board unanimously approved the dismissal of a managing director of Herzog GmbH and the ordinary termination of his managing director service contract. The Supervisory Board also unanimously waived the preparation of the management report and the disclosure of the annual financial statements of Herzog GmbH.

At the meeting on 7 December 2021, the Management Board presented the current business developments to the Supervisory Board and gave an outlook on the key financial figures for the financial year 2021. The Management Board also presented the business plan for the financial years 2022-2026 in the course of the further meeting. The Supervisory Board then unanimously passed a resolution approving the budget for the financial year 2022. Other topics of the Supervisory Board's deliberations were new projects, personnel developments in the area of investor relations, refinancing and measures in connection with the Covid-19 pandemic.

By circular resolution of 7 December 2021, the Supervisory Board unanimously established an Audit Committee with effect from 1 January 2022 and elected Mr Christophe Hemmerle and Mr Daniel Kartje as its members.

On 20 December 2021, the members of the Supervisory Board unanimously adopted a resolution to approve the declaration of compliance by circular resolution.

On 20 December 2021, the Supervisory Board unanimously adopted a further resolution by circular resolution on the approval of the conclusion of a loan agreement with various syndicate banks and the assumption of guarantee obligations.

Attendance at Supervisory Board Meetings

The attendance at meetings of the members of the Supervisory Board who were in office in the financial year 2021 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	6/6	100 %
Christophe Hemmerle	6/6	100 %
Christoph Matthias Seidler	6/6	100 %
Dr. Gabriele Fontane	6/6	100 %
Daniel Michael Kartje	5/6	83,3 %

Committees

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.

Corporate Governance

In 2021, 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 20 December 2021.

Changes in the Management Board and Supervisory Board

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.

There were no changes in the composition of the Management Board and Supervisory Board during the reporting period.

Annual and Consolidated Financial Statements

PricewaterhouseCoopers GmbH Wirtschaftsprüfungs-gesellschaft, Frankfurt am Main, audited the annual financial statements of hGears AG and the consolidated financial statements as at 31 December 2021, as well as the management report and the group management report, and issued an unqualified audit opinion.

The aforementioned financial statement documents, the auditor's report, the consolidated non-financial pursuant to section 315b of the German Commercial Code (HGB) and the Management Board's proposal for the appropriation of the balance sheet profit 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 2022 and in the meeting of the Supervisory Board on 29 March 2022. At both 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, the Management Board's proposal for the appropriation of the balance sheet profit as well as the separate consolidated non-financial statement, pursuant to section 315b of the German Commercial Code (HGB), the Supervisory Board determined that it had no objections and approved the result of the audit of the annual financial statements and the consolidated financial statements, the management report and the group management report by the external auditor. The Supervisory Board approved the annual financial statements and the consolidated financial statements for the financial year 2021 prepared by the Management Board. The annual financial statements are thus adopted. The Supervisory Board also approved the consolidated non-financial statement pursuant to section 315b of the German Commercial Code (HGB). 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, without which the positive development of the company in the financial year 2021 would not have been possible.

Schramberg, 29 March 2022

Prof. Volker Michael Stauch
Chairman

HGEARS AND CAPITAL MARKETS

Key data hGears stock 2021

Number of shares as of 31 December 2021	10,400,000 shares
Share capital as of 31 December 2021	EUR 10,400,000.00
Share price as of 31 December 2021	EUR 21.80
Market capitalization as of 31 December 2021	EUR 226.7 million
Share price high 2021	EUR 27.10
Share price low 2021	EUR 18.50
EPS 2021	EUR 0.33

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

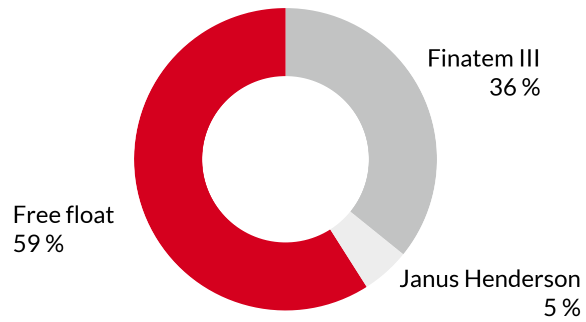
In a volatile environment and despite a resurgence of the COVID-19 pandemic, overall global equity markets experienced a good year 2021 with only few exceptions. The leading German DAX large caps index added 15.8% in 2021, while the broader European Euro Stoxx 50 increased by 21%. However, the evolution among economic sectors was anything but homogenous and the differences were quite significant. As in previous years, the shares of the information technology sector were major winners in the year under review, while the performance of stocks in the manufacturing industries was mixed. Reasons for this evolution was a general fear of a stalling of the consumer demand overall, a general lack in the availability of semiconductors and constraints in the global supply chains, above all towards the end of the year 2021. Obviously, all three reasons were more or less the result of the COVID-19 pandemic. While the SDAX Index, which contains small and medium-sized German companies, only added 11.2%, the subindex DAX Auto Parts & Equipment declined by 8.8% in 2021. The shares of hGears reached a high of EUR 27.10 on 25 May 2021, while the trough was EUR 18.50 on 19 October 2021. An average 12,905 shares were traded per day. At yearend, the share price of hGears stood at EUR 21.80, reflecting a share price performance of hGears of –16.2% in 2021.

Following the IPO, two equity analysts actively cover the company. The financial models they use result in specific price targets that lead to recommendations that are published in reports and updates. As of 31 December 2021, their recommendations and Target Price were as follow:

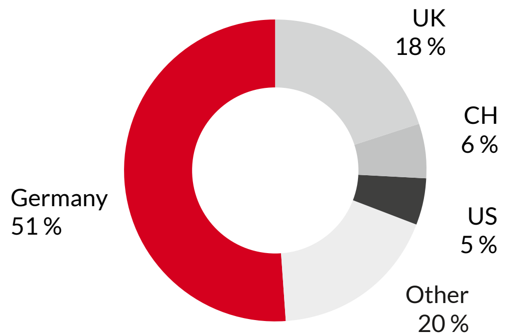
Bank	Target price EUR	Recommendation
Hauck & Aufhäuser	31	Buy
ABN Amro – Oddo BHF	33	Buy

Due to the price potential, both analysts issued a Buy recommendation on the stock. In due course, the number of analysts will be increased to three, which should be beneficial for the stock's visibility and liquidity on the financial market. Furthermore, in order to intensify the communication with investors and analysts, hGears hired an Investor Relations Manager in early 2022, who will provide regular capital market communication and enable even more virtual and physical meetings going forward.

Shareholder structure 2021



Shareholders by region 2021



The shareholder structure has not changed significantly since the IPO, which means that the former majority owner Finatem III has remained hGears' largest shareholder.

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hGears | the **heart** of your performance

NON-FINANCIAL CONSOLIDATED STATEMENT PURSUANT TO SECTION 315B HGB

"Enabling outstanding solutions for a better world"
Innovation and growth have always characterized our entrepreneurial DNA. Together with our other values of unity – "one hGears," integrity, diversity, and consciousness for tomorrow – "sustainability," we have built a strong foundation for contributing to a better world.

- One hGears: Anything is possible when we work together!
- Integrity matters: We are honest and transparent!
- We are diverse: We empower everyone!
- Passion for growth: Development is in our DNA!
- Driven by innovation: Our curiosity creates opportunities!
- Dedicated to sustainability: Whatever we do, we do for tomorrow!

The COVID-19 pandemic has shown how quickly changes with a major social impact are possible and how important it is for companies to be agile and adaptable. hGears operates in the innovative, fast-growing e-mobility market. Mobility is among those sectors undergoing one of the most transformational technological shifts. The COVID-19 pandemic highlighted the immense potential of cycling because, while public transport was used less in many cities, the use of bicycles increased enormously – and the urban growth potential is very high.[1] In any case, electric vehicles are a key disruptive force in the mobility market.[2]

- The number of registrations of electric and hybrid vehicles has increased significantly due to increasing urbanization and growing demand for micromobility solutions and higher legal requirements for emission reduction.
- The European market for e-bikes and EHVs (Electric & Hybrid Vehicles) is forecast to grow by 43 % and 22 % per year, respectively, from 2020 until 2025[3].

Due to the strategic decision to focus on fast-growing, sustainable end markets, such as e-mobility, hGears has turned out to be one of the winners of this structural change. We seize the right emerging opportunities and adapt our business and operating models swiftly. As winners of this change, we want to give back not only to our investors, but to all the people who come into contact with us or are affected by our business.

Making the rapid growth of the mobility market sustainable to all stakeholders – both from a production and a distribution perspective – is a challenge for us. But we love challenges and since hGears is known for our "we can do it" attitude, we take responsibility for our results. We intend to tackle all of the tasks this involves in the areas of governance, people and planet as ambitiously as the achievement of the best product performance. *We walk the talk.*

As a supplier of first-class precision gears and components for e-mobility applications, we see our main task in supporting the shift to clean mobility, and we look forward to accompanying our many customers on this journey. However, a "green" business model does not automatically make a company sustainable. That is why, just one year after hGears' IPO, we set ourselves the goal of producing a Non-Financial Report in which we show our stakeholders, based on a broad data basis, our ongoing developments towards becoming an even more sustainable and responsible company.

Our journey towards sustainability has only begun, but right from the start, we want to meet the high standards of the World Economic Forum (WEF) and the Global Reporting Initiative (GRI), and also make our contribution to the Sustainable Development Goals (SDGs), wherever we can. We will selectively apply the recommendations of the WEF, the GRI, and the SDGs as far as reasonably possible.

The Sustainability Accounting Standards Board (SASB) has defined the following material topics for hGears' industry: energy management, employee health and safety, product lifecycle management and business ethics. Improving performance in these areas has a strong positive impact on the overall ESG rating of the company, however, even more importantly, it will contribute to the world we live in. hGears' sustainability strategy therefore focuses on these metrics.

Principles of Governance

Enabling Corporate Responsibility

In this fast-changing world, our core values remain firm. We show that growth and sustainability do not have to be opposites. We bring these dimensions together through unity, diversity, integrity, and innovation.

Sustainability is part of our business model, one of our core values, and permeates all our corporate actions – from corporate governance to our employees and all stakeholders who interact with us. To achieve this ambitious goal, sustainability is promoted by the Management Board. The

1 https://www.zukunftsinstitut.de/dossier/megatrend-mobilitaet/
2 https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/02/mobility-2030-transforming-the-mobility-landscape.pdf
3 IHS Markit, March 2021; Cycle Industries Europe, CONEBI and ECF

CEO and the CFO are ultimately responsible for the successful implementation of our sustainability strategy. The Supervisory Board oversees the implementation of our sustainability strategy and has also reviewed the disclosures in this report.

Our conduct as a company throughout the Group is based on three main guidelines:

- The Code of Ethics contains a set of ethical principles and values that characterize the company's policy and determine the behavior of the recipients. The Code is available on the hGears website www.hgears.com under the "company" tab.
- Furthermore, we have drawn up policies on various topics in which we define the attitude and approach of hGears, which we will also publish on our website www.hgears.com under the "company" tab in the first half of 2022.
- Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Supervisory Board and the Management Board have issued a Declaration of Conformity with the "German Corporate Governance Code" to define the responsibilities and selection criteria for the Management Board. The Group's Declaration of Conformity can be found on the hGears website www.hgears.com under the "Corporate Governance" tab in the "Investor Relations" section.

Enabling integrity through compliance with regulations

hGears respects the integrity of marketplaces and fair competition, and strictly prohibits non-competitive behavior. In the years 2019, 2020, and 2021, hGears did not record any monetary losses that occurred as a result of legal proceedings associated with anti-competitive behavior regulations.

Since compliant behavior is a top priority for hGears, it is important that we learn of potential misconduct and are able to remedy it. Any concerns about unlawful behavior and lack of organizational integrity should be raised without fear of retaliation. To keep the barrier to raising such complaints low, a whistleblower mechanism will be implemented in the course of 2022.

Enabling fair competition

We believe in fair competition, and corruption and bribery harm fair competition. At hGears, bribery and corruption, including inappropriate/improper payment, special favors, extortion or kickbacks are fully prohibited. The company strives to avoid bribery and corruption at all its operations and adheres to all applicable national laws in Italy, Germany and China. hGears takes a zero-tolerance approach to bribery and corruption. The company is committed to carrying out all of its business honestly and with integrity. This means that hGears does not receive, give, or promise anything of value for the purpose of gaining an improper advantage. Engaging in bribery or corruption, as well as supporting it indirectly, can lead to substantial fines, dismissal, and imprisonment. Any violations of hGears' anti-bribery and corruption standards are treated seriously, and can lead to disciplinary measures, including a demotion, reprimand, forfeiture of bonuses, suspension and/or dismissal. Our employees will be able to find more details on our zero-tolerance approach to bribery and corruption in our bribery and corruption policy, which will be published on our website in the first half of 2022. In principle, compliance violations can lead to significant fines, loss of reputation, claims for damages or other penalties. hGears mitigates these risks with its Code of Ethics and the guidelines for action contained therein. For more information, please access the risk report. Our Code of Ethics also addresses in detail hGears' stance and necessary approach to intellectual property as well as export controls and economic sanctions.

Enabling our stakeholders

We already maintain a dialogue with selected stakeholder groups, including employees, investors, analysts and other business partners. In the future, however, we would like to involve yet other groups, such as industry experts, universities or the scientific community. Since we strive to comply fully with

One hGears: Anything is possible when we work together!

the standards of GRI, a materiality analysis is planned to take place in the near future. Materiality, according to GRI, addresses those topics that have a direct or indirect impact on an organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders, and society at large. By identifying and prioritizing material topics together with a multi-perspective stakeholder approach, we will be able to meet our objective of shared value to an even greater extent in the future.

We already hold conference calls on all quarterly results and participate in one-on-one meetings as well as conferences where we exchange ideas with a group of select, primarily financial stakeholders. In fact, we participated in more than 100 one-on-one meetings and 5 conferences in 2021.

Enabling sustainability as part of our risk management

Socio-ecological risks are part of our risk management system. hGears' risk management system is designed in such a way that risks can be identified at an early stage and that countermeasures can be taken. This is explained in more detail in the Opportunity and Risk Report section of the Annual Report. In the Group, the Management Board and their subordinate operating managers are responsible for the risk management system. Risk management is supported by the internal control system (ICS).

The risk analysis identified climate change as a relevant non-financial risk for hGears. Climate change is a powerful transformative force that will alter the world as we know it. Key climate change-related risks arise from changing market conditions, disruptions to supply chains due to extreme weather events, increased costs of energy and supplies, and the impact of more significant changes in temperatures and weather on manufacturing facilities. This changing environment opens a wide range of opportunities for us. We are recognizing and seizing these opportunities through our range of products and services.

Planet

Climate change has been described as the most serious challenge facing the world today. Despite increasing efforts of countries and companies, there is a long way to go in the race to net-zero, decarbonization, and tackling the devastating effects of climate change. In this process, some sectors are being disrupted with new markets emerging, while other sectors are converging or disappearing entirely.[4]

We are diverse: We empower everyone!

By the time of the Paris Climate Agreement, global temperatures were projected to rise by 3.6 °C to 4.2 °C by the end of the 21st century – a development that would have had catastrophic consequences for the ecosystem. At current emission levels, global warming of 2.7 °C to 3.1 °C is projected. However, the Paris Climate Agreement target is well below 2 °C. This means that emission reduction efforts will have to be stepped up considerably. A total of 21% of 2016 global greenhouse gas emissions was attributable to energy usage in industrial production processes.[5] Reducing greenhouse gas emissions from industrial companies is therefore critical in terms of countering climate change.[6]

Achieving the 2 °C target is a major challenge for our society. We are aware of our great responsibility to improve resource and energy efficiency and see it as our duty to constantly work on improving our environmental performance.

Turning risks into opportunities

"A new economic model is developing and we do not yet know its final shape, we only know it will necessarily be a model of circular economy based on new and extraordinary technologies. We will embrace this adventure with an open mind and heart giving our contribution of knowledge and passion."

Pierluca Sartorello – hGears CEO

Climate change has accelerated innovation in mobility solutions, among which e-mobility plays a key role. Here we want to enable outstanding solutions to shape a better world.

hGears is the market leader in the future-oriented and fast-growing field of e-mobility applications. In the field of precision gear parts and components for the e-bike end market, we are proud to be the global market leader. Our strengths are innovations and co-development capabilities and best in class product quality that is reflected in long-term relationships with blue chip customers.

Over the past few years, we have been able to significantly expand our sales of products that reduce emissions. For example, our sales in the areas of e-Mobility (e-bikes and EHV) and e-Tools (professional power tools and gardening tools) increased from EUR 70.0 million in 2019 to EUR 85.3 million in 2020 and EUR 91.7 million in 2021.

e-Mobility is the area of the business in which hGears will generate the highest growth in the years to come. The company is aware of its responsibility as an industrial Group. Currently, our complete focus is on enabling a shift towards e-mobility through our products. In the future, we will also gradually convert our conventional business to e-Mobility, and the next product generations will already be converted to electric and hybrid vehicles (EHV). We are confident that, due to the strategic decision to focus on components for e-mobility, we will benefit from the change in mobility habits instigated by

4 https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/02/mobility-2030-transforming-the-mobility-landscape.pdf
5 https://ourworldindata.org/emissions-by-sector
6 https://globalchallenges.org/global-risks/climate-change/

climate change. We are also feeling the first effects of climate change, which are described in the risk report. However, these have only been temporary and short-term thus far. We therefore do not expect any major business risks arising from climate change in the medium term.

Driven by innovation: Our curiosity creates opportunities!

Energy and greenhouse gas emissions

The Earth Overshoot Day, also known as Ecological Debt Day, fell on July 29 in 2021. It marks the day in a given year when the annual resources are used up. That means, in 2021, we used as many resources as 1.74 earth units would provide, but we only have 1 planet earth. Therefore, we understand it as our duty not only to reduce our emissions, but to also reduce our resource usage.

As part of our increasing awareness and investments in recent years, we were able to decrease our Scope 1 CO_2 emissions in Schramberg, Germany, and Padova, Italy, by more than 17% from 19,807.78 t in 2019 to 16,330.35 t in 2021. Sadly enough, due to an information restriction imposed in PRC, we were unable to calculate our exact CO_2 emissions at our plant in Suzhou, China.

We can currently only provide data on our indirect CO_2 emissions for our plant in Schramberg, but plan to extend this to the entire Group in the future. The respective values can be found in table 2. The Scope 2 CO_2 emissions in Schramberg declined significantly by 47.81% from 2019 to 2021. Scope 3 CO_2 emissions were reduced by 1.61% in the same period. Besides these CO_2 emissions, we do not produce any other greenhouse gases at all our plants.

	Scope1 CO_2 emissions [t]	Scope2 CO_2 emissions [t]	Scope3 CO_2 emissions [t]
2019	808.75	4,823.98	8,062.56
2020	859.33	4,130.52	8,254.49
2021	587.63	2,517.59	7,933.12

Table 1: Scope1 – Scope3 emissions at our Schramberg plant in Germany

One of the initiatives through which we intend to reduce our CO_2 emissions is the introduction of fully electric heat treatment in Schramberg in the fall of 2021. This facility uses electricity instead of gas and therefore helps to reduce emissions.

Our energy consumption in terms of sales declined from 298.90 MWh/EUR million in 2019 to 287.58 MWh/EUR million in 2020 and 279.90 MWh/ EUR million in 2021.

Energy usage kWh/EUR million	
2019	298.90
2020	287.58
2021	279.90

Table 2: Energy usage in relation to revenues

Due to a lack of data, we can currently only present the share of renewable energies in our electricity consumption for our plant in Schramberg. Here we increased our share of energy from renewable sources from 37.94% in 2019 to 47.59% in 2020 and to 52.97% in 2021. The global certification ISO 50001 Energy Management System helps the production plants with their efforts to establish an energy management system and use their energy more efficiently and effectively. We will provide more detailed information on our approach to energy efficiency for our employees in our Energy Efficiency Policy, which will be published on our website in the first half of 2022.

As we believe there is no other way to keep our planet green, going forward, we also want to generate our own electricity through renewable sources wherever possible. One first step in this direction is the installation of solar power panels at our site in Suzhou in 2022 that will enable us to cover 20% of this site's energy requirements in the future.

Clean growth

Since all our products are composed of steel and some of aluminum as well, they are all recyclable. We are thus contributing to a circular economy, while improving our own environmental performance from year to year.

hGears is committed to constantly improving its management of all waste and reducing waste to minimize its adverse impact on the environment. We were able to reduce the waste we produce in relation to sales from 46.86 t/EUR million in 2019 to 43.76 t/EUR million in 2020 and 44.20 t/EUR million for 2021. Of that waste, a large share, 83.67% to be exact, was recycled or used for other purposes, an increase of 1.76 percentage points. The total amount of hazardous waste from manufacturing in relation to sales was kept relatively stable, at 10.27 t/EUR million in 2019 and 10.01 t/EUR million in

2021. Pursuant to ISO 14001, we keep close records of the production and processing of all waste.

	Waste t/EUR million	Hazardous waste t/EUR million	Recyclability %
2019	46.86	10.27	81.91
2020	43.76	9.14	82.85
2021	44.20	10.01	83.67

Table 3: Production of (hazardous) waste linked to revenues as well as recyclability of the waste

hGears' production sites are certified according to IATF 16949 (quality management) and ISO 14001 (environmental management). Environmental management helps us to plan and control our impact on the environment during the production and distribution of goods.

Our growth needs to be sustainable. A look at the ratio of emissions to revenues shows an increase in resource utilization in most areas (table 2).

One initiative with which we are significantly reducing the volume of waste is the plants for recycling metal residues in Schramberg and Padova. We have also been implementing dry manufacturing processes for years wherever possible. To the extent possible, we are switching from oils and lubricants to air for cooling the metals during cutting. This allows us to process the resulting residues for recycling in our plant in an energy-efficient manner.

Environmental management

We also pay close attention to environmental standards when selecting suppliers. In accordance with ISO 14001, we consider the environmental performance and practices of suppliers to make our supply chain as environmentally efficient as possible. e-mobility is not possible without raw materials. A large share of the raw materials required for e-mobility components come from developing and emerging countries, and the sustainability of the supply chain is critical. As users of materials, such as graphite, tungsten, vanadium and cobalt, we are well aware of the sustainability risks in the supply chain. We are working to diversify suppliers to reduce our dependency and are also expanding stockpiling material to reduce the share of critical materials. Moreover, we are developing alternative materials to replace critical materials.

People

United in diversity

Our differences do not divide us, they enrich us. We believe in the individual as much as we believe in the team. With our positive view of mankind and our values, we create an environment for our employees in which they can develop and contribute to the company's success. Our employees in Italy, Germany, and China are united by a common company culture. We are also committed to human rights, diversity, and equal opportunities as well as occupational health and safety.

Enabling a healthy and safe working environment

Not only are our products and business models changing, so is the way we work. To enable and embrace this change, our employees need to be healthy, feel safe and be prepared to manage change. We believe in a corporate culture where people have equal opportunities regardless of nationality, gender, age, or faith. For us, "thinking about tomorrow today" implies offering employees opportunities and actively shaping their future. As a result, we as a team are prepared for all the challenges that await us.

Employee health and safety is a top priority for hGears. The company is committed to ensuring a safe, healthy, adequately

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

protected and productive work environment and to spread and consolidate a culture of safety. All employees are required to perform their tasks safely and promptly report any conditions that could pose a risk to health, safety or the environment. Regarding health and safety management systems, hGears obtained the ISO 45001-2018 certificate in December 2019 at its site in Padova. We also work on obtaining the ISO 45001-2018 certificate at our sites in Schramberg and Suzhou by 2024.

hGears has obtained the ISO 9001:2015 certificate for its quality management at all its business sites. The certificate was issued in March 2019 at its site in Schramberg and in July 2021 at its sites in Suzhou and Padova. Furthermore, hGears has a dedicated safety commission. Its main task is to develop, update, and implement safety standards and preventive measures to avoid workplace accidents. The safety commission supports and coordinates regular risk assessments, training courses, safety briefings and on-site inspections at the company's various sites. In addition, the safety commission also serves as an active forum for questions or issues related to the topic of workplace safety. The commission's members regularly analyze the current status quo of hGears' health and safety activities and report on progress in this area to the CEO.

We work under strict hygiene standards so that our teams can feel safe at all times, including throughout the COVID-19 pandemic. Against the backdrop of the COVID-19 pandemic, hGears implemented a risk mitigation plan that included massive testing in case of a positive case at the plants, temperature and green pass control before entering the plant, internal reviews of canteen and shift management, as well as coffee break regulation. We also set up a COVID-19 committee involving the unions. In our health and safety policy, which will be published on our website in the first half of 2022, we provide our employees with more detailed information regarding health and safety in the workplace.

Achieving our goals as a team

In 2021, an average of 871 permanent employees were on the payroll; this represents an increase of 8 people compared to the previous year (2020: 863; 2019: 883). In the period under review, 315 permanent employees were on the payroll in Schramberg, 296 in Padova, and 260 in Suzhou (2020: 328/321/214; 2019: 328/331/224). 21.4 % of our permanent employees were women in 2021 (2020: 23.8 %; 2019: 23.0 %). In light of the fact that diversity is one of our core values, we are striving to increase the share of women among our employees in general and at the first and second management level. In Schramberg, 13.0 % of the managers at the first and second management level were female in 2021, compared to 12.8 % in 2020 and 8.7 % in 2019. For Suzhou, this number was at 28.0 % in 2021, up from 25.0 % in both 2020 and 2019. In Padova, the share of women at the first and second management level was at 12.5 % in 2021 (2020: 13.3 %; 2019: 13.3 %).

	Average permanent employees	Number of employees in Schramberg	Number of employees in Padova	Number of employees in Suzhou	Total nationalities within hGears
2019	883	328	331	224	23
2020	863	328	321	214	23
2021	871	315	296	260	26

Table 4: Number of total average permanent employees, also split up to show the different sites.

	Percentage of female employees [%]	Females at the first and second management levels [%]		
		Schramberg	Padova	Suzhou
2019	23.0	8.7	13.3	25.0
2020	23.9	12.8	13.3	25.0
2021	21.5	13.0	12.5	28.0

Table 5: Percentage of female employees and percentage of women at the management level

	Number of new employees	Share of women in hired employees [%]	Turnover rate [%]
2019	211	13.3	5.0
2020	217	18.4	3.4
2021	255	30.6	5.1

Table 6: Number of new employees, share of hired women and turnover rate

hGears hired a total of 255 new employees in 2021, 78 women and 177 men, at its three business locations (2020: 217 in total, 40 women and 177 men; 2019: 211 in total, 28 women and 183 men). The share of women that were hired has increased steadily over the past three years, from 13.3 % in 2019 to 18.4 % in 2020 and 30.6 % in 2021. Our company-wide turnover rate was at 5.1 % in 2021, compared to 3.4 % in 2020 and 5.0 % in 2019.

Our employees receive a competitive salary in line with the market. Remuneration is based on position, responsibility and tasks, not on personal characteristics such as gender or origin.

In addition to the fixed base salary, variable, performance-related salary components are intended to incentivize motivation. The level of compensation is reviewed regularly and adjusted, if necessary, as part of personal development discussions. To ensure fair compensation, we use a salary benchmark tool.

With our sites in three different countries, hGears is internationally positioned. We also want to live internationality through a diverse workforce. In 2021, we had employees with more than 26 different nationalities, compared to 23 in both 2020 and 2019. Our work culture enables equal opportunities

Passion for growth: Development is in our DNA!

regardless of gender, age, origin, sexual orientation, disability, or other discriminatory characteristics. We educate our employees about the issues of diversity and inclusion to simultaneously reduce prejudice and build intercultural awareness. More information for employees can be found in our diversity and opportunity policy, which will be published on our website in the first half of 2022.

In order to make work in our factories more attractive and accessible to women in particular, we have launched several initiatives in recent years. For example, we have purchased machines to help with the lifting of heavy objects, which also makes this work possible for women.

Our entire recruitment process is non-discriminatory and diversity-oriented.

Enabling progress through training

hGears focuses on dedicated training specifically developed for young workers who are entering the job market. This provides them with the opportunity to develop technical skills and become skilled workers. In 2022, we launched a leadership training program for managers and key personnel, especially between Italy and Germany. In Italy, Germany, and China, hGears collaborates with Enactus, an international organization that promotes the next generation of young entrepreneurs, and pays particular attention to social and environmental issues with regard to several projects. For example, hGears supported the Italian National Competition and also participated as a judge in the German National Competition held by Enactus.

Through practice-oriented training, we want to satisfy the increasingly demanding markets and meet the more complex requirements in terms of technology and innovation. We established the "Lean Academy" to train our employees in "5S", a basic method for safe, clean, and efficient workplace practices. As part of our equal opportunities and diversity approach, we focus on training all of our employees. We were able to increase the average training hours per employee to 22.4 in 2021 compared to 15.3 in 2020, when the number dropped due to COVID-19. We also provided 22.4 training hours per employee in 2019. The average cost of training company-wide was EUR 747 per employee in 2021 (2020: EUR 518 per employee; 2019: EUR 534 per employee).

Compliance with social & environmental standards in the supply chain

Our supply chain mainly includes companies that deliver cut metal and powder metal. With the Modern Slavery and Human Trafficking Statement, hGears has an up-to-date anti-slavery policy within the company and regularly reviews suppliers for reliability and compliance. To ensure that our suppliers comply with minimum labor standards and are not involved in child labor or slavery, we ask them to confirm that they do not employ anyone under the age of 16. More detailed information on our approach to freedom of association, modern slavery and child labor as well as the respective due-diligence process can be found in the Code of Ethics on our website.

Human Rights

At hGears, we recognize our responsibility to respect and promote universal human rights. We consider respect for universal human rights as our duty and as a fundamental contribution of our company to society. At the same time, we believe that respect for human rights and the promotion of a respectful corporate culture contribute significantly to the sustainable success of our company and help to mitigate corporate risks. We strive not to exploit employees, but to let them grow into valuable members of our company through mutual respect and appreciation. This applies to all of our subsidiaries, our corporate sites, and generally wherever hGears operates – even beyond the laws that apply there. In our Code of Ethics which can be found on our website, we provide more detailed information on our approach to human rights as well as the respective due diligence process.

EU-TAXONOMY

The aim of the EU Taxonomy is to encourage investment flows to companies engaged in environmentally sustainable activities. In this way, the EU Taxonomy is intended to assist in the implementation of the European Green Deal. The first environmental targets "Climate Change Mitigation" and "Climate Change Adaptation" were deposited with criteria in the EU legislation in mid-2021.

The reporting obligation pursuant to Article 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council requires the disclosure of the share of our revenue, capital expenditures and operating expenses that are taxonomy-eligible for financial year 2021. Taxonomy-eligible refers to the environmental objectives of "climate protection" and "adaptation to climate change" currently being developed in the EU Taxonomy. Activities of hGears that are not currently covered by the EU Taxonomy are reported on a flat rate basis as not taxonomy-eligible. Starting in reporting year 2022, we will also report which sum and which share of our economic activities are taxonomy-aligned.

In order to assess the eligibility for the Taxonomy, we first reviewed all of our activities. In accordance with Commission Delegated Regulation (EU) 2021/2139, we have identified the following activities to which hGears contributes:

- Manufacture of other low-carbon technologies
- Manufacture of low carbon technologies for transport

The Delegated Act on the implementation of reporting requirements did not enter into effect until December 2021. Only since this date is it clear what information must be published within the framework of the EU Taxonomy. And since hGears had gone public only a few months earlier in May 2021, we had little time to establish the complex structures that need to be put in place to record taxonomy-eligible economic activities in our sub-framework. However, since we find the regulations of the EU Taxonomy useful and support them with our full conviction, we have endeavored to present approximate values, initially for the area of e-bikes.

The activities in the e-bike area have been classified as eligible because we are developing solutions for the emission-free mobility of the future. We thus make a direct contribution to the "Manufacture of low carbon technologies for transport."

From 2023 on, we will also successively evaluate the areas e-Tools and EHVs and present corresponding figures that document our high commitment and our willingness to perform in the area of sustainability.

The assessment of our revenue on taxonomy eligibility was based on the revenues defined and reported in the Consolidated Financial Statements of hGears AG. For the year 2021, we only take the revenue of our e-bike activities into account. Based on this consideration, the share of taxonomy-eligible revenues in 2021 was 31.8 % of total revenue. For the reporting period, only the investments (CAPEX) made for the e-bike activities are regarded as taxonomy-eligible, i.e. the share of taxonomy-eligible investments in the total investments reported in the Consolidated Financial Statements amounted to 35.4 %. Operating expenses include non-capitalized research and development costs, which are not reported in this form in the Consolidated Financial Statements. Since our new projects almost exclusively concern products that support environmental protection and sustainability, we consider our research and development costs (OPEX) to be taxonomy eligible. Thus, taxonomy-eligible operating expenses in 2021 amount to 2.8 % of total operating expenses.

Integrity matters: We are honest and transparent!

	Total	Taxonomy-eligible million	[%]	Not taxonomy-eligible [EUR million]	[%]
Revenue	134.9	42.9	31.8	92.0	68.2
Capital expenditure	14.7	5.2	35.4	9.5	64.6
Operating expenses	57.3	1.6	2.8	55.7	97.2

Table 7: Revenue, capital expenditures and operating expenses in 2021

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hGears | the **heart** of your performance

1. OVERVIEW

The global economy in 2021 continued to be affected by the ups and downs of the COVID-19 pandemic. After restrictions were eased towards the end of spring, the summer saw a renewed tightening, which was not without consequences for the global economy. In this environment, the service industry was able to recover to a large extent, but companies in the manufacturing industry had to contend with a pandemic-induced shortage of intermediate products and, above all, semiconductors. There were also significant bottlenecks and delays in global supply chains. hGears was able to perform well in this environment. The Company's broad network of suppliers spanning all regions enabled it to benefit significantly from its strategic positioning as one of the leading suppliers for e-bikes in Europe. hGears Conventional automotive business, which primarily supplies the premium and luxury segments, was little affected by the influences mentioned. The Company's solid performance was also supported by a shift in consumer demand towards high-quality electric hand tools for professionals. The share of our business where we supply conventional drives, in contrast, is declining in favor of sustainable drive and mobility concepts, which is in line with our strategy. The management of hGears sees itself very strongly positioned in the prospering e-mobility environment and thereby well equipped for the future.

2. COMPANY FUNDAMENTALS

2.1 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 function-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) and electric and gardening equipment. The mission-critical components are essential for the proper functioning of the end product and must meet high 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") in the electric 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 battery-powered (e-drive) cordless electric and garden tools. 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 tools, 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 non-engine-related precision 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. Automotive and industrial applications are not part of hGears' primary strategic focus.

The e-drives business areas (e-Mobility and e-Tools) accounted for 68 % of Group revenue in 2021, with e-Mobility being the largest business area at 35 % of Group sales.

2.2 Capital increases and IPO

On April 8, 2021, the capital stock of hGears Holding GmbH was increased from kEUR 63 to kEUR 8,000 from Company funds.

On April 8, 2021, a resolution was made on changing the legal form of hGears Holding GmbH from a limited liability company to a stock corporation. The entry in the commercial register was made on April 27, 2021. Since then, the company has been operating under the name hGears AG.

The Company successfully completed its IPO in the 2021 fiscal year, and 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 as of January 1, 2021, 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 are to be used primarily for the Company's growth and expansion going forward, but were also used, in part, to repay shareholder loans (EUR 14.6 million).

2.3 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 based on its in-depth market knowledge and decades of experience, roughly every second e-bike sold on the European continent in 2021 contained components manufactured by hGears.

hGears' organic growth strategy remains focused on expanding its customer base. This includes transitioning customers from the Conventional business area to the e-Mobility business area, as well as expanding the range of products and solutions for existing customers in the area of e-mobility. In 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. Already last year, hGears succeeded in concluding several prototyping agreements and is currently in talks with both existing and new customers to embark on further development projects.

To pave the way for further growth, hGears will invest heavily with a focus on increasing production capacity in the e-Mobility business area. This will be done primarily by purchasing new machinery and equipment and expanding its highly qualified technical staff.

Co-development

In order 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.

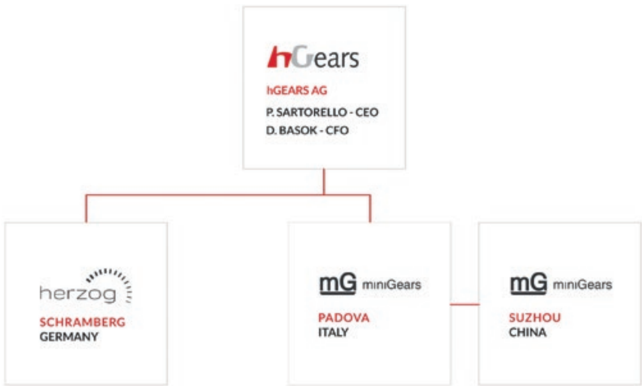
In fiscal year 2021, hGears employed approximately 48 full-time employees in research and development and engineering in the Advanced Engineering, Process Engineering and Application Engineering departments. This number represents an increase of 23 % compared to December 31, 2020.

As announced at the time of the IPO, hGears will use a portion of the IPO proceeds to further expand its R&D activities. The Company's goal is to leverage the production engineering expertise in e-drives to increase their range and performance and reduce costs at the same time. As part of this investment, hGears has appointed a new Chief Technical Officer who will be primarily responsible for further enhancing technical competencies and tools, executing the Company's R&D programs, and implementing a structured patent management policy to protect hGears' intellectual property.

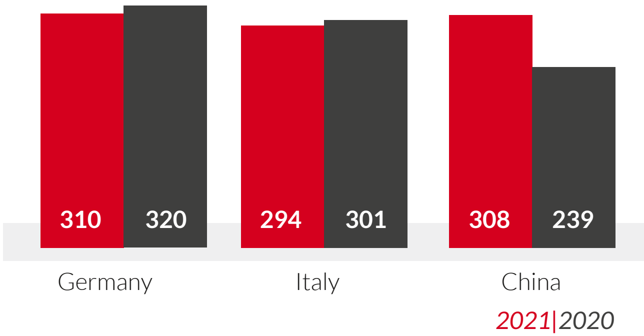
The current R&D activities are focused on developing additional production processes and expanding the Company's patent portfolio, particularly in the e-Mobility business area.

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 2021, hGears had 912 (2020: 860) employees (full-time equivalents, excluding members of the Management Board). The distribution of employees across the various locations was as follows:



Of these employees, 823 work as factory workers and 89 as administrators and managers.

hGears plans to continue to invest in its team and anticipates that future workforce growth will focus on additional highly skilled technical personnel, particularly CNC machine 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 revenue, 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.

2.4 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 addressed through ISO 14001 and IATF 16949 certification at all three plants and ISO 50001 in Germany.

Financial performance indicators

Revenue, 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.

Revenue comprises revenue from the sale of goods and other revenue.

Adjusted EBITDA represents earnings before interest, taxes, depreciation, amortization and management adjustments.

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 2021 amounted to kEUR 134,914 (2020: kEUR 126,260).

Adjusted EBITDA in fiscal year 2021 amounted to kEUR 22,893 (2020: kEUR 22,679).

Free cash flow totaled EUR 1.9 million (2020: EUR 9.7 million).

Comparison of actual results vs. forecast

Despite the continued challenging macroeconomic environment, the hGears Group achieved the planned strong single-digit revenue growth in 2021, for total revenue of EUR 134.9 million, compared to EUR 126.3 million in the previous year.

Adjusted EBITDA of EUR 22.9 million in 2021 was slightly better than the EUR 22.7 million in the previous year but below the expectations of the Management Board. This performance was a result of the deteriorating macroeconomic backdrop that persisted in the second half of the year. The return on revenue of 1.7 % was not in line with expectations, even after taking into consideration that last year's level of 5.3 % was supported in part by deferred tax effects.

Free cash flow reached EUR 1.9 million in 2021, remaining below expectations and the previous year's level of EUR 9.7 million, primarily as a result of the change in strategic cash and investment planning that has taken place since the IPO. Examples of this are the higher investments made in production facilities to implement the new projects and the repayment of interest on shareholder loans to reduce interest expenses.

Overall assessment of business development

Looking back on another challenging year in 2021, which was marked by a resurgence in the COVID-19 pandemic, higher energy and material costs and supply bottlenecks at customers, hGears was not only able to successfully manage the volatile macroeconomic environment but also the strong growth in its e-Mobility business area.

The hGears Group generated revenue of EUR 134.9 million, in line with the Group's medium-term growth targets. The continued focus on the e-Mobility business area was consistent with the Group's strategic objective and builds on the previous year's achievements.

The supply chain-induced slowdown in the e-Mobility business area led to a slight change in the product mix, accompanied by a build-up in inventory, and resulted in higher material expenses in production.

The impact of slightly higher operating expenses (mainly related to IPO consulting costs) on EBITDA was more than offset by the relatively smaller increase in personnel costs. Both cost items benefited from the investments in automation made in recent years as well as from the better absorption of fixed costs provided by economies of scale.

2.5 Non-financial statement

Sustainability and sustainable action are integral, 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. For the first time, we are integrating our separate non-financial Group report (ESG Report) into the hGears 2021 Annual Report, in accordance with § 315b (3) of the German Commercial Code (HGB). The report is available on the hGears website (at https://hgears.com/site/wp-content/uploads/Sustainability-Report-EN.pdf).

3. ANNUAL REPORT

3.1 Economic environment

The global economy continued to recover from the consequences of the COVID-19 pandemic in 2021. According to the latest estimates of the International Monetary Fund (IMF Update January 2022), global economic growth reached 5.9 % in 2021, after declining 3.1 % in 2020. Seasonal weather factors managed to bring down the number of infections towards the end of the spring, strongly supported by the growing availability of approved vaccines since the beginning of the year. The easing of the pandemic not only allowed for a gradual loosening of social restrictions, but also to a certain normalization in business life. These trends were also reflected in the economic pickup in the second quarter. However, as the manufacturing sector became confronted with supply bottlenecks – especially for semiconductors – coupled with difficulties in global supply chains and a slowdown in growth in China, the global economy started to slow again in the early second half of the year. The pace of infections due to the pandemic also accelerated again towards the end of the summer, evidenced by sharp rises in incidence figures in some regions. This led to a renewed tightening of restrictions around the world in the fall, continuing into the winter. Economic activity was able to recover in the third quarter alongside an improvement in global supply chains but was then confronted with pandemic-related hurdles again, especially affecting Christmas business in the final quarter. There was also the US Congress refusal of stimulus programs put forth by the US President, continued subdued growth in China and energy prices that were having an increasingly burdensome effect. Oil prices rose from around USD 50 per barrel at the beginning of the year to, at times, over USD 85. These increases also led to massive price increases for natural gas and, consequently, other energy prices. Coupled with the ongoing problems in supply chains, scarce intermediate products and capacity bottlenecks due to the pandemic, the development in oil prices has led to a return of inflation, which is likely to remain an issue, at least temporarily. According to the IMF, economic growth in 2021 reached 8.1 % in China, 5.6 % in the USA and 5.2 % in the eurozone, but development in Germany remained relatively subdued at 2.7 %. The cause of Germany's weak performance is presumably the fact that German industrial companies are heavily dependent on intermediate products, such as semiconductors, and were also severely affected due to their associated strong reliance on global supply chains.

3.2 Sector-specific environment

According to a study by Cycling Industries Europe, e-bike sales in Europe are expected to grow at a CAGR of approximately 23 % between 2019 and 2025, with sales of over 12.5 million e-bikes expected by 2025.

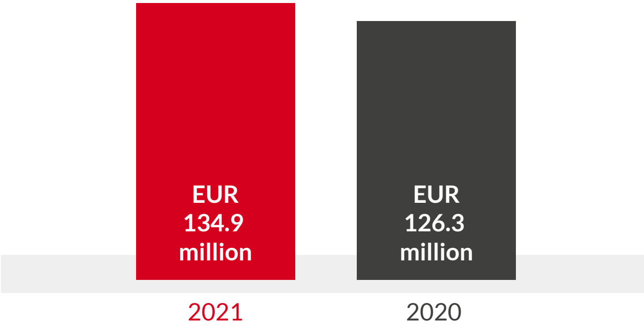
Of the total 4.6 million e-bikes sold in Europe in 2020, around two million contained components from hGears. In 2021, the Company estimates that it was even able to slightly increase its market share of the 5.3 million e-bikes expected to be sold in 2021. Estimates are based on the expertise and broad market knowledge of hGears' sales and business development professionals, who have years of experience in the e-bike product segment. In the opinion of hGears, the sales numbers for e-bikes in 2021 reflect a slight and only temporary slowdown in the industry's growth path to around 15 %. This is a result of delivery delays for semiconductors and intermediate products at not only the Company's customers who produce e-bike motors but also at the bike manufacturers themselves. hGears' assessment is in line with the statements recently made by other industry experts at a virtual panel discussion hosted by the international financial services provider Baird[1] at the end of January 2022.

The market for electric vehicles is expected to continue to show dynamic growth in the years ahead. According to a January 2022 publication by Schmidt Automotive Research, 1.2 million new battery-powered cars were registered in 2021, representing around 11 % of all new cars registered in Western Europe. This follows a market share for BEVs of 6.7 % in 2020. At the same time, plug-in hybrid vehicles represented a share of around 21 % of new cars registered in Western Europe, with 2.2 million registrations, corresponding to an increase of 66 % compared to the increase of 64 % for battery electric vehicles.

1 https://kvgo.com/baird-vehicle-tech-mobility/electric-bike-panel

4. BUSINESS PERFORMANCE

Revenue



In full-year 2021, hGears generated revenue of EUR 134.9 million (previous year: EUR 126.3 million), corresponding to a year-on-year increase of 6.9 %. This growth was primarily driven by an expansion in order volume from existing customers. In addition, the Company gained seven new customers – five in the e-Mobility segment – and there are good prospects for further customer acquisitions in the current 2022 fiscal year.

In the e-Mobility business area, revenue increased 3.5 % from EUR 45.9 million in 2020 to EUR 47.5 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 our expectations, especially in the fourth quarter of 2021, due to delayed acceptance of our deliveries, which turned out to be a consequence of the problems customers are having with global supply chains.

In the e-Tools business area, revenue increased 12.2 % year-on-year to EUR 44.2 million in 2021 (previous year: EUR 39.4 million). This double-digit growth exceeded expectations and is primarily attributable to higher order volumes which are resulting from an overall increase in demand for quality coupled with a strong demand from DIY enthusiasts for professional high-quality tools.

In the Conventional business area, hGears generated revenue of EUR 41.9 million in full-year 2021 compared to EUR 40.2 million in the previous full year, amounting to a 4.2 % increase. The positive performance in this area resulted from catch-up effects, especially in the first half of the year, following delays in the previous year and the fact that the impact of the semiconductor shortage had less of an effect on the Company's parts for the upper mid-range and luxury segments of the automotive industry.

At kEUR 82, other own work capitalized remained at the previous year's level of kEUR 80.

Expenses

The increase in revenue and inventories led to higher material expenses in 2021, leading to a total of EUR 60.4 million (previous year: EUR 53.8 million), which corresponds to an increase of 12.3 %.

Gross profit, defined as total output less material expenses was EUR 76.4 million in 2021 compared to EUR 72.3 million in 2020, corresponding to an increase of 5.7 %. The gross margin (gross profit as a percentage of revenue) was 56.6 %, down from 57.2 % in the previous year. The slight decline in the gross margin was mainly due to the lower share of revenue from the e-Mobility business area.

Thanks to pass-through clauses, rising raw material costs had a minor impact on the Company's absolute earnings. It is important to bear in mind however that pass-through clauses have a dilutive effect on the Group's gross margin as well as other profit margins. hGears has several suppliers in all regions surrounding the production plants in Germany, Italy and China, who were able to secure raw materials at all times despite last year's general supply chain problems.

Personnel expenses amounted to EUR 42.3 million (previous year: EUR 39.2 million), corresponding to 31.3 % of revenue, and a slight increase in the personnel expense ratio compared to the prior-year period (previous year: 31.1 %).

Other operating expenses and income totaled EUR 15.0 million in 2021 (previous year: EUR 13.7 million), or 11.1 % of revenue (previous year: 10.9 %). The increase of 0.2 percentage points resulted mainly from one-off expenses related to the IPO.

Adjusted EBITDA at Group level amounted to EUR 22.9 million in the twelve-month period of the 2021 fiscal year (previous year: EUR 22.7 million), which was slightly higher than in the previous year. The adjusted EBITDA margin reached 17.0 % after 18.0 % in the previous year. Adjustments include IPO-related one-off costs of EUR 1.1 million and stock option programs of EUR 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 unadjusted EBITDA of EUR 19.1 million in 2021 (previous year: EUR 19.3 million), remaining marginally below the previous year's level. The unadjusted EBITDA margin fell from 15.3 % to 14.1 % as a result of hiring the necessary personnel in sales and engineering for newly acquired customers. Changes in the organization following the stock market listing also caused additional costs. The IPO and the successful refinancing of our debt capital resulted in burdens from one-time consulting costs. Acceptance delays in the e-Mobility area also had a negative effect in the final quarter of 2021.

Depreciation, amortization and impairments in 2021 amounted to EUR 10.6 million and was unchanged from EUR 10.6 million in the previous year.

Group earnings before interest and taxes (EBIT) in 2021 deteriorated slightly year-on-year from EUR 8.8 million to EUR 8.4 million. The EBIT margin reached 6.3 % after 7.0 % in the prior-year period. The Group's earnings before taxes (EBT) also fell slightly in the reporting period from EUR 5.9 million in 2020 to EUR 4.8 million.

Income and deferred taxes of EUR 2.4 million were incurred in the reporting year, following income tax benefits of EUR 0.8 million in the previous year due to the capitalization of deferred taxes on loss carryforwards.

The net result for the period totaled EUR 2.4 million in 2021, compared with EUR 6.7 million in the previous year.

Return on revenue

The return on revenue (net result as a percentage of revenue) reached 1.7 % in the reporting period, compared to 5.3 % in 2020. However, in viewing this comparison, it is important to bear in mind that the previous year's net result had benefited significantly from special tax items.

Net assets

The Company's total assets increased by 25.3 % from EUR 124.9 million at the end of 2020 to EUR 156.4 million as of December 31, 2021.

Non-current assets totaled EUR 75.2 million at the end of 2021, which was slightly higher than at the end of fiscal year 2020 (EUR 71.8 million).

Current assets increased by 53 % to EUR 81.2 million as of the reporting date compared to December 2020 (December 31, 2020: EUR 53.1 million). The primary cause for this sharp increase is the rise in cash and cash equivalents, which more than doubled to EUR 47.3 million due to the IPO in May 2021 (December 31, 2020: EUR 23.4 million). There was also an increase in inventories and trade receivables to EUR 17.8 million (December 31, 2020: EUR 14.6 million) and EUR 12.1 million (December 31, 2020: EUR 11.6 million), respectively, compared to the end of 2020. This increase was not only a consequence of the delayed deliveries in the fourth quarter of 2021 but also reflects a deliberate build-up of raw material inventories in anticipation of strong demand in the first half of 2022.

hGears' equity also increased significantly as a direct result of the IPO and amounted to EUR 88.7 million in 2021 (December 31, 2020: EUR 25.6 million). The equity ratio reached 56.7 % (December 31, 2020: 20.5 %).

Non-current liabilities decreased from EUR 51.3 million as of December 31, 2020 to EUR 28.3 million in the reporting period, amounting to a reduction of 44.9 %. The decrease resulted largely from the full repayment of shareholder loans in the course of the IPO and the repayment of a long-term loan in the amount of EUR 8 million as part of the amended financing agreement with the banks.

At EUR 39.4 million, current liabilities were 17.8 % below the level of the previous year (December 31, 2020: EUR 48.0 million). This development includes a significant decrease in current financial liabilities of 61.5 % to EUR 7.0 million as of December 31, 2021 (December 31, 2020: EUR 18.3 million). Trade payables increased to EUR 27.8 million (December 31, 2020: EUR 25.4 million). This increase is mainly due to the deliberate build-up of inventories.

Financial position

On December 21, 2021, hGears announced the signing of 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 long-term loan and a EUR 45 million revolving credit facility. The agreement has a term of up to 5 years and extends the current EUR 32 million credit agreement by more than 3 years. On January 31, 2022, the terms of the credit agreement were fulfilled and thus the agreement became effective. The new agreement is used to refinance the Group's existing debt of EUR 20 million, which was originally scheduled to mature in September 2023. The revolving credit facility will 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 will significantly reduce the cost of debt by approximately 255 basis points from the current level of around 3.50 % to roughly 0.95 % per annum. The Group can convert up to EUR 15 million of the new credit agreement into a favorable government-approved ESG loan during 2022.

Cash flow

hGears recorded cash flow from operating activities of EUR 10.1 million in the 2021 fiscal year. In the previous year, cash flow from operating activities amounted to EUR 17.3 million. The decrease is mainly due to the one-time repayment of accrued interest on shareholder loans (EUR 4.1 million), an increase in current financial assets in connection with refinancing, and a decrease in provisions for employees.

Cash flow from investing activities amounted to EUR 13.9 million from January to December 2021, compared to EUR 8.0 million in the same period of the previous year, and is related to the start-up of new production facilities and projects to facilitate future growth.

After a decrease of EUR 3.4 million in full-year 2020, cash flow from financing activities increased to EUR 27.2 million due to net proceeds of EUR 59.1 million from the IPO, despite the repayment of shareholder loans (EUR 10.5 million) and financial liabilities (EUR 18.9 million). Consequently, net cash flow also increased significantly to EUR 23.4 million compared to EUR 5.8 million in 2020.

As a result of the above, cash and cash equivalents increased to a total of EUR 47.2 million (previous year: EUR 23.4 million).

4.1 Summary assessment of the Company's economic situation

The Management Board considers the revenue growth of 6.9 % to EUR 134.9 million in fiscal year 2021 as in line with expectations.

Moreover, the Management Board is confident that the Company will continue its positive development in 2022 and confirms its medium-term guidance, provided that there is no renewed tightening of measures to contain the COVID-19 pandemic or any impact from the Ukraine conflict that would affect production for hGears or its customers.

4.2 Principles and objectives of financial management

Default risk

In order to minimize 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, 2021, there are undrawn credit lines in the amount of EUR 3.0 million.

5. CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289F AND § 315D OF THE GERMAN COMMERCIAL CODE (HGB)

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

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

The shares of hGears AG were admitted for trading on the stock exchange on May 21, 2021. Since that date, hGears AG has been a listed stock corporation and subject to the recommendations of the "Government Commission on the German Corporate Governance Code" as amended on December 16, 2019 ("Code"), published by the German Federal Ministry of Justice and Consumer Protection in the official section of the German Federal Gazette on March 20, 2020.

The recommendations of the Code have been complied with by hGears AG since May 21, 2021 and will be complied with in the future with the exception of the following deviations:

- According to Recommendation D.5 of the Code, the Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives who nominate suitable candidates to the Supervisory Board for its election proposals to the Annual General 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 Annual General 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, the Supervisory Board shall adopt rules of procedure and make them available on the Company's website. The Rules of Procedure for the Supervisory Board of hGears AG are currently being revised and adapted to the new legal framework, specifically with respect to the requirement to establish an audit committee. Once the revision has been completed, the Company will publish the Rules of Procedure for the Supervisory Board on its website.

- Recommendation G. of the Code refers to the existence of a remuneration system as defined by § 87a AktG in the version applicable from January 1, 2020. The Supervisory Board has not yet adopted a formal remuneration system pursuant to § 87a AktG and therefore the corresponding recommendations of Recommendation G of the Code have not yet been followed. In accordance with the transitional provision of § 26 j of the Introductory Act to the Stock Corporation Act (EGAktG), the Supervisory Board will resolve on the remuneration system by the end of the first Annual General Meeting. The Supervisory Board intends to follow Recommendation G.1 when adopting the resolution on the remuneration system.

- The remuneration of the members of the Management Board regulated in the currently applicable employment contracts complies with the recommendations of Recommendation G. of the Code with the exception of Recommendation G.3. According to Recommendation G.3 of the Code, the Supervisory Board shall use a suitable peer group of other companies, the composition of which it shall disclose, to assess whether the specific total remuneration of the members of the Management Board is customary in comparison to other companies. The peer group comparison is to be applied with caution to avoid an automatic upward trend in remuneration. The Supervisory Board has not determined a suitable peer group because it is of the opinion that, based on the Company's size and business model, there are currently no comparable companies that could serve as a peer group for the purposes of assessing management remuneration. The Supervisory Board does however consider the individual remuneration of the members of the Management Board to be more than appropriate, particularly in view of the level of Management Board remuneration in other listed companies.

Schramberg, December 20, 2021

hGears AG

The Management Board The Supervisory Board

The current Declaration of Compliance can be accessed from hGears AG website at https://ir.hgears.com/corporate-governance/declaration-of-compliance/.

Remuneration system and remuneration of the members of the Management Board

On the website of hGears AG (at https://ir.hgears.com/corporate-governance/remuneration-reports/), the remuneration system for the members of the Management Board pursuant to § 87a (1) and (2) sentence 1 AktG, which will be submitted to the Annual General Meeting on June 22, 2022 for approval, as well as the resolution to be adopted by the Annual General Meeting on June 22, 2022 pursuant to § 113 (3) AktG on the remuneration of the members of the Supervisory Board will be made publicly available. In addition, the remuneration report and the auditor's report pursuant to § 162 AktG will also be made publicly available on the website of hGears AG (at https://ir.hgears.com/corporate-governance/remuneration-reports/).

Corporate constitution

hGears AG was formed on April 27, 2021 through a form-changing conversion of the limited liability Company "hGears Holding GmbH", Schramberg (Stuttgart Local Court, HRB 737541) pursuant to §§ 190 et seq. of the German Transformation Act (UmwG).

The designation "hGears Group" comprises hGears AG and its Group companies. hGears AG is a stock corporation according to the German Stock Corporation Act (Aktiengesetz) with its registered office in Schramberg, Germany. It has three governing bodies: the Management Board, the Supervisory Board and the Annual General Meeting. Their tasks and powers are derived mainly from the German Stock Corporation Act and the Articles of Association of hGears AG, as well as from the Company's rules of procedure.

Corporate governance

hGears AG has a dual management system, in accordance with the legal requirements. This assigns the management of the Company to the Management Board and the supervision of the Company to the Supervisory Board. The two bodies are strictly separate from one another in terms of their members and competencies.

Corporate management and control of the hGears Group are aligned with high, generally accepted standards. The corporate governance principles are anchored in all of the Company's segments and determine the action framework for strategic decisions and business policy measures.

The Management Board and Supervisory Board closely follow the ongoing corporate governance discussion and systematically act in accordance with best practices. The Company's understanding of responsible corporate governance is based on the following principles:

- The Management Board and Supervisory Board work together in a spirit of trust for the benefit of the Company. The Supervisory Board exercises its control function efficiently and independently.
- The management of the Company is directed at all times in the best interests of the shareholders.
- A suitable and effective internal control and risk management system is in place.
- Observing and complying with legal and regulatory requirements and internal guidelines is a top priority.
- Prompt and transparent communication, both internally and externally, is ensured.

Working practices and composition of the Management Board

The Management Board manages the Company under its own responsibility.

As the management body, the Management Board is bound to the interests of the Company and committed to sustainably increasing the value of the Company. The members of the Management Board are jointly responsible for the overall 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 statements 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 adhered to and works towards their observance by the Group companies (compliance).

The Company is legally represented by two members of the Management Board, or alternatively, by one member of the Management Board together with an authorized signatory (Prokurist).

The Rules of Procedure of the Management Board determine the work of the Management Board more specifically. In detail, the rules concern

- the schedule of responsibilities, which specifies which business areas are to be managed by the respective Management Board member at his or her own responsibility,

- the decisions to be taken by the full Management Board,
- the special duties of the chairperson of the Management Board,
- transactions requiring the approval of the Supervisory Board,
- the regular, timely and comprehensive provision of information to the Supervisory Board, and
- regulations concerning meetings and resolutions.

The Management Board and 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, financial position, results of operations and compliance that are relevant to the Company as a whole, as well as about business risks, and discusses the status of strategy implementation with it at regular intervals. The members of the Management Board also attend the meetings of the Supervisory Board in an advisory capacity unless, in individual cases, the Supervisory Board or its chairperson decides otherwise.

In accordance with the Company's Articles of Association, the Management Board may consist of one or more persons. On April 8, 2021, the Supervisory Board appointed Mr. Pierluca Sartorello and Mr. Daniel Basok to the Management Board. Mr. Pierluca Sartorello was appointed Chairman of the Management Board.

Working practices and composition of the Supervisory Board

The Supervisory Board monitors and advises the Management Board in its management activities. At regular intervals, the Supervisory Board discusses business development and planning as well as the strategy and its implementation. It reviews the annual financial statements and consolidated financial statements, the management report of hGears AG and the Group and the proposal for the appropriation of net retained profits. It adopts the annual financial statements of hGears AG and approves the consolidated financial statements, based on the results of the preliminary review conducted by the Audit Committee and taking into account the auditor's reports. The Supervisory Board decides on the Management Board's proposal for the appropriation of net retained profits and the Supervisory Board's report to the Annual General Meeting. The Supervisory Board is also responsible for appointing the members of the Management Board and determining their areas of responsibility. The Supervisory Board decides on the remuneration system for the members of the Management Board and sets the specific remuneration in accordance with the system. It sets the targets for variable remuneration and the respective total remuneration for the individual Management Board members and reviews the appropriateness of the total remuneration as well as the Management Board remuneration system on a regular basis. Material Management Board decisions, such as those regarding major acquisitions, divestments, investments in property, plant and equipment, and financial measures, are subject to the approval of the Supervisory Board.

The Supervisory Board comprehensively fulfills all tasks arising from the legal framework, the Articles of Association and the German Corporate Governance Code (GCGC).

Details of the Supervisory Board's work are provided in the Report of the Supervisory Board for the 2021 fiscal year.

In accordance with § 8.1 of the Articles of Association, the Supervisory Board consists of five persons who are elected by the Annual 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

Audit Committee

The Supervisory Board formed an Audit Committee with effect from January 1, 2022.

The main task of the Audit Committee is to oversee the accounting and the accounting process. It is responsible for preparing the audits of the annual and consolidated financial statements and the management report of hGears AG and the hGears Group, as well as the review of the Management Board's proposal for the appropriation of net retained profits by the Supervisory Board. On the basis of the auditor's report regarding the audit of the financial statements, the Audit Committee 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 review. It monitors the effectiveness of the internal control system, the risk management system and the internal audit system. The Audit Committee deals with the monitoring of the Company's compliance with legal provisions, official regulations and internal Company guidelines. It prepares the Supervisory Board's proposal to the Annual 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
- Daniel Michael Kartje

Management and control of the Group companies

The Group's associated companies are corporations whose legal forms differ depending on their location. The companies are managed by a management board or a comparable institution. The respective shareholders' meeting decides on the guidelines of the corporate strategy as well as on major investment and business decisions.

In principle, the approval of the Group Management Board is required for all major business decisions at the level of the associated companies.

Transparency and accounting

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

hGears exchanges information with shareholders regularly and provides shareholders information on an equal basis. All new facts are made available immediately via press releases and ad hoc announcements, annual and interim financial reports, and presentations at analysts' and investors' conferences. The information can be viewed and downloaded from our website, as can the financial calendar and information about the Annual General Meeting.

The Company also publishes information on directors' dealings and voting rights notifications, as well as all information subject to disclosure requirements under Company law.

The annual consolidated financial statements and the consolidated half-year financial statements are prepared by the Management Board. They are based on 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 annual financial statements of hGears AG relevant for the dividend payment are prepared in accordance with the provisions of the German Commercial Code (HGB).

Commitment to promote the participation of women in executive positions in accordance with §§ 76 (4) and 111 (5) 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 August 12, 2021 (the "Second Management Positions Act"), stipulates that companies listed on the stock exchange, such as hGears AG, shall set their own targets for gender representation on the supervisory board, management board and subordinate executive levels, along with target achievement deadlines.

Women on the Supervisory Board

According to § 8.1 of the Articles of Association, the Supervisory Board of hGears AG shall consist of five members who are elected by the Annual 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 June 30, 2022 at the latest. Since April 8, 2021, Dr. Gabriele Fontane has been a member of the Supervisory Board, resulting in the proportion of women on the Company's Supervisory Board of 20%.

Women on the Management Board

In fiscal year 2021, there were no women on the Management Board, which was in line with the set target of 0%. The Supervisory Board firmly believes that it is in the Company's interest to form a lasting bond with the members of the Management Board who meet the requirements profile and retain them in the Company. 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 quota of women to be appropriate.

Women in the first and second executive levels

The determination of target figures for the proportion of women in the first and second executive levels below the Management Board of hGears AG in accordance with § 76 (4) AktG was not necessary, as hGears AG, as a pure holding Company, has only one employee and, consequently, no executive levels exist below the Management Board.

Diversity concept for the Management Board

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

- The members of the Management Board shall complement each other in terms of their expertise and knowledge. In

particular, the Management Board as a whole shall 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.
- Board members shall have diverse educational and/or professional backgrounds.
- The composition of the Management Board shall appropriately reflect the internationality of the Company.
- The Management Board as a whole should possess many years of management experience.
- Initial appointments of Management Board members shall 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 shall not extend beyond the age of 70.

The aim of this diversity concept is to compose 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, to ensure that the Management Board, as the management body, can steer and manage the Company in the best way possible.

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 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, exhibit 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.

Objectives for the composition of the Supervisory Board, competence profile, diversity concept Requirements for the composition of the Supervisory Board

Competence profile

The Supervisory Board as a whole shall have the competences considered essential for the activities and business of the hGears Group. The Supervisory Board shall be composed in such a way as to ensure the qualified control and advice of the Management Board by the Supervisory Board. In this regard, 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. Specifically, this shall include knowledge and experience

- in the management of an internationally operating, capital market-oriented company;
- in the fields of e-mobility, e-tools, automotive and industrial applications;
- in the areas of procurement, production and sales;
- in the key markets in which the hGears Group operates;
- in finance, law and business administration;
- in the areas of governance, compliance and risk management.

In addition, in view of the requirements of § 100 (5) 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 members of the Supervisory Board as a whole must be familiar with the sector in which the Company operates. In accordance with § 107 (4) sentence 3 AktG, the requirements of § 100 (5) AktG apply mutatis mutandis to the Audit Committee.

The chairperson 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 and independent of the audit of the financial statements.

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

Independence and potential conflicts of interest

In accordance with the recommendations of the German Corporate Governance Code (GCGC), the Supervisory Board shall include what the shareholder representatives on the Supervisory Board consider an appropriate number of independent members. Material conflicts of interest that are not merely temporary shall be avoided.

The chairperson of the Supervisory Board, the chairperson of the Audit Committee and the chairperson of the committee dealing with Management Board remuneration shall be independent of the Company and the Management Board.

Members of the Supervisory Board shall not exercise any executive or advisory functions for significant competitors of the Company and shall not have a personal relationship with a significant competitor.

The Supervisory Board shall not include more than two former members of the Management Board.

Diversity

With regard to diversity, for its composition, the Supervisory Board shall take into account various professional and international experience and, particularly, the appropriate participation of women and men. The Supervisory Board shall comprise at least 20 % women and at least 20 % men.

Industries and international expertise

At least one member of the Supervisory Board should have several years of international professional experience. It would be desirable for at least one member of the Supervisory Board to have knowledge of international e-mobility.

Requirements for individual members of the Supervisory Board

General requirement profile

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

When making election proposals to the Annual General Meeting, particular attention shall be paid to the candidate's personality, integrity, readiness, and independence. Supervisory Board members shall comply with the limitation of Supervisory Board mandates in accordance with the Rules of Procedure for the Supervisory Board and the recommended limitation of Supervisory Board mandates in accordance with Recommendation C.4 of the GCGC.

Time availability

Each member of the Supervisory Board shall ensure that he or she is able to devote the expected amount of time required to properly exercise the mandate. The following shall be taken into account:

- At least four ordinary meetings of the Supervisory Board are held each year, each of which requires appropriate time for preparation.
- Sufficient time must be allowed for the review of the annual and consolidated financial statements.
- Membership on one or more committees results in further time commitments.
- Additional extraordinary Supervisory Board or committee meetings may be required to deal with special situations or issues.

Age limit

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

Standard term of appointment on the Supervisory Board

As a rule, Supervisory Board members should not serve on the Supervisory Board for more than 15 years, or three terms of office.

Proposals for election by the Supervisory Board to the Annual General Meeting should take these objectives into account and, at the same time, strive to reflect the competence profile for the Supervisory Board as a whole.

Status of implementation

In its current composition, the Supervisory Board fulfills all requirements of the competence profile for the entire body and the individual members, particularly the requirements pertaining to professional and personal qualifications and on the knowledge, skills and experience essential for hGears as well as internationality.

Taking into account the ownership structure, the Supervisory Board consists of what it considers to be an appropriate number of independent members.

Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting, which is customarily held in the first six months of the fiscal year. Among others, the Annual General Meeting resolves on the appropriation of net retained profits, the ratification of the actions of the members of the Management Board and Supervisory Board, and the election of the auditor. Amendments to the Articles of Association and measures to change share capital are resolved by the Annual General Meeting and implemented by the Management Board.

6. INFORMATION ON SUBSCRIBED CAPITAL

Information on subscribed capital and disclosure of possible takeover obstacles (§289a and 315a HGB)

The share capital amounts to EUR 10,400,000.00 and is divided into 10,400,000 no-par value bearer shares. Each share grants one vote at the Annual General Meeting. The Management Board is not aware of any restrictions affecting voting rights or the transfer of shares other than those described in the following descriptions.

Restrictions affecting voting rights or the transfer of shares (lock-up)

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, 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 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. 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: as of June 18, 2021, last voting rights notification stated a share of 35.81 % of the voting rights.

No special rights conferring control apply to holders of shares.

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

The appointment and dismissal of members of the Management Board are based on §§ 84 and 85 AktG in conjunction with § 6 of the Articles of Association. Pursuant to § 179 AktG in conjunction with § 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 majority of at least three-quarters of the share capital represented at the time the resolution is adopted.

The Management Board was authorized by the Annual General Meeting on May 5, 2021 to acquire treasury shares representing a total of up to EUR 1,040,000.00 of the share capital until May 4, 2026.

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/I).

hGears AG has entered into the following material agreement, which contains provisions in the event of a change of control: Unused credit line agreements provide for an extraordinary right of termination by the lenders.

There are no agreements with members of the Management Board or senior employees on compensation in the event of a change of control.

7. RISKS AND OPPORTUNITIES REPORT

i) Risks and opportunities

As a Company with production in Germany, Italy and China, hGears is exposed to risks associated with our 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. § 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 companies 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

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 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 starting in 2022.

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 lead 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. 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 is assessed as medium from EUR 0.5 million and as high from EUR 2.5 million:

Risks (net)	Extent of damage	Change from previous year
Increase in cost of materials	High	Increased
Supply chain disruption and pandemic	Medium	Increased
Compliance	Medium	–
IT availability and cybercrime	Medium	–
Country risks	Medium	–
Currency risks	Medium	–
Sustainability risks and climate change	Medium	Increased

With the exception of country risks, all risks have a low probability of occurrence (0 % to 10 %). The probability of occurrence of the country risks is high (20 % to 50 %).

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

Cost of materials

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 are secured with suppliers for the respective current year and can be taken into account for the next contract period with customers.

Supply chain disruptions & the 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 is no longer able to 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.

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.

IT availability and cyber crime

Serious disruptions such as system failures, attacks on the hGears network, and the loss or manipulation of data can result in business interruptions. hGears is constantly working on optimizing the IT environment in both the conceptual and operational areas. In addition, threats to information security are increasing due to the global rise in computer crime. To minimize risks, hGears takes a number of measures, including so-called network segmentation, employee training, and monitoring of networks and information systems, for example, by means of firewalls and virus scanners. Cyber security insurance is in place as a safeguard.

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 currently assess the direct impact on our business activities in connection with Russia's war against Ukraine as low.

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 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, not even from the continuing pandemic situation. 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.

Sustainability risks and climate change

The effects of climate change are described in the sustainability report. The first glimpse of the impact were temporary short-term power cuts in China at the end of 2021. hGears has production capacity reserves and inventories to easily compensate for these cuts.

viii) Opportunities

Based on our development and production expertise and the continued positive 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, thereby, 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 ongoing pandemic and the resulting impact on raw material availability. The greatest risks for the Group could potentially arise from material cost increases and supply chain disruptions.

In the 2021 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.

8. OUTLOOK REPORT

8.1 Overall economy

Following a strong recovery in the global economy in 2021, also supported by baseline effects, the International Monetary Fund (IMF) in its January 2022 forecast is projecting global economic growth of 4.4 % in 2022. According to the IMF, China should grow by just 4.8 % in 2022, the USA 4 %, the eurozone 3.9 % and, finally, Germany by 3.8 %. The actions of the central banks in the current fiscal year will probably play a decisive role. In view of the global inflation rate, which the IMF in its January update estimates at 3.9 % for 2022 (after 3.1 % in 2021 and 0.7 % in 2020), more decisive monetary policy action by the central banks cannot be ruled out, which could have an impact on economic development on economies around the globe. A resurgence in the COVID-19 pandemic does not seem likely at present but cannot be ruled out in the event of a possible new virus variant. The shattering events surrounding the war initiated by Russia against Ukraine have no direct impact on hGears' production but could still have an indirect effect, for example, in the form of higher energy costs. Once again, the Company's pass-through clauses for energy and raw material costs will apply. Nevertheless, management is monitoring and evaluating the developments of the conflict very closely. In the Company's view, a possible deterioration in the consumer climate and a resulting slowdown in demand would likely be offset by accelerated demand for e-mobility in response to massively increased prices for fossil fuels.

e-Bikes

We are already seeing clear signs that the temporary bottlenecks in the e-bike industry will be eliminated in the course of 2022 and anticipate a renewed acceleration in sales among e-bike manufacturers. The European Commission's proposal to extend the VAT reduction on products supporting the fight against climate change to e-bikes should also help in the medium term. Thus, there is nothing standing in the way of reducing the minimum tax rate from 15 % to 5 %, which should additionally boost demand for e-bikes after its implementation in the EU member states.

e-Cars

According to a 2021 study by IHS Markit, sales of electric and hybrid vehicles in Europe are expected to grow at an average annual rate (CAGR – compound annual growth rate) of about 43 % between 2018 and 2025. An October 2021 study by LMC

Automotive also predicts that battery and plug-in hybrid vehicle production will reach a CAGR of 44 % from 2020 to 2023, while production of the two categories combined should grow by 42 % in 2022.

8.2 Outlook

Financial performance indicators

For fiscal year 2022, hGears expects high single-digit year-on-year revenue growth at the Group level as a result of an expansion in the order volume with existing customers and additional business with new customers. The Company's assumption is also based on the fact that the orders from seven new customers acquired in 2021 are expected to contribute significantly to revenue and earnings in 2022 and the years thereafter. Specifically, the Company anticipates a further increase in the share of revenue of the e-Mobility and e-Tools business areas in 2022, while revenue in the Conventional business area is likely to remain at the previous year's level. Behind these foreseeable developments is also the expectation that further customers will switch from the Conventional business area to the e-Mobility business area in the medium term, as the strategic focus generally shifts to combustion-free, electric drive applications.

We expect the macroeconomic environment to remain volatile in 2022. The war in Ukraine, the still uncertain situation regarding the COVID-19 pandemic, and continuing bottlenecks in global supply chains are some reasons for increasing inflationary pressure. However, our positioning as a supplier of function-critical components allows us to largely compensate for this by implementing pass-on clauses in many of our customer contracts. This largely protects our earnings in absolute terms, but we cannot rule out a negative impact on adjusted EBITDA margin in the short term. In this context, we will additionally drive operational excellence at our plants and operations to achieve further efficiency gains and optimize our cost structures. As a result, we expect adjusted EBITDA in fiscal 2022 to be on a par with the prior year and the positive impact of operating leverage to be strongly noticeable in the next 12-24 months.

The operating business should generate a positive cash flow in 2022, comparable to the previous year. To create additional capacity for projects with the new customers, we will also make use of the financial resources from our IPO, which is expected to result in negative free cash flow in the mid-single digits. We are thereby delivering on our promise and driving forward the expansion of hGears to achieve our medium-term goals.

In the medium term, i. e. in the next three to five years, hGears is targeting strong growth in product revenue in the e-Mobility business area to approximately EUR 150 million. In addition, the Company is targeting strong growth in total revenue to approximately EUR 250 million over the same period as part of its growth strategy. In line with these growth targets, hGears is aiming for revenue in the e-Mobility business area to account for approximately 60 % of hGears' total revenue.

Schramberg, March 18, 2022

Pierluca Sartorello
(Chairman of the
Management Board)

Daniel Basok
(Member of the
Management Board)

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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	2021	2020
Revenues	3.1	134,914	126,260
Other capitalized own work	3.2	82	80
Changes in inventories	3.2	1,821	(319)
Total output		**136,817**	**126,021**
Other operating income	3.3	1,990	1,772
Impairment gains/losses from IFRS 9	4.4	102	–
Raw materials and consumables used	3.4	(60,430)	(53,765)
Personnel expenses	3.5	(42,285)	(39,205)
Depreciation, amortization and impairment	3.6	(10,626)	(10,551)
Other operating expenses	3.7	(17,118)	(15,479)
Profit / loss from operating activities		**8,450**	**8,793**
Finance income		2	6
Finance expenses		(3,695)	(2,920)
Financial result	**3.8**	**(3,693)**	**(2,914)**
Income before income taxes		**4,757**	**5,879**
Income and deferred taxes	3.9	(2,406)	834
Net result of the period		2,351	6,713
The result is attributable to:			
Shareholders		**2,351**	**6,713**
Basic/diluted earnings per share (Euro)	**3.11**	**0.33**	**107.44**

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	2021	2020
Net result of the period	**2,351**	**6,713**
Other comprehensive income:		
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment benefit obligations	(41)	(14)
Tax effect	10	3
Stock option program	637	–
Other comprehensive income that may be reclassified subsequently to profit or loss		
Gains/(Losses) on cash flow hedges	(14)	(15)
Tax effect	3	3
Currency translation adjustment	1,038	(280)
Total comprehensive income	**3,984**	**6,410**

*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, 2021	December 31, 2020
Property, plant and equipment	4.1	71,063	66,198
Intangible assets	4.2	1,525	1,541
Other non-current assets	4.5	127	125
Deferred tax assets	3.9	2,486	3,925
Total non-current assets		**75,201**	**71,789**
Inventories	4.3	17,754	14,555
Trade receivables	4.4	12,148	11,647
Other receivables	4.5	453	738
Other current assets	4.5	3,403	2,487
Other current financial assets	4.5	178	203
Cash and cash equivalents	4.6	47,246	23,434
Total current assets		**81,182**	**53,064**
Total assets		**156,383**	**124,853**

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

in kEUR	Note	December 31, 2021	December 31, 2020
Share capital		10,400	63
Capital reserve		69,239	20,448
Other reserves		400	400
OCI		2,349	716
Retained earnings		3,925	(2,789)
Net result of the period		2,351	6,713
Total Equity	**4.15**	**88,664**	**25,551**
Lease liabilities	4.7	11,581	13,440
Borrowings	4.8	14,371	20,999
Shareholder loans	4.9	–	14,341
Deferred tax liabilities	3.9	132	284
Provisions	4.10	319	319
Employee benefit obligations	4.11	1,386	1,503
Trade and other payables	4.12	483	428
Total non-current liabilities		**28,272**	**51,314**
Lease liabilities	4.7	2,800	2,772
Borrowings	4.8	7,037	18,273
Provisions	4.10	496	689
Other current financial liabilities	4.13	10	64
Trade and other payables	4.12	27,843	25,396
Current tax liabilities	4.14	1,261	794
Total current liabilities		**39,447**	**47,988**
Total liabilities		**67,719**	**99,302**
Total equity and liabilities		**156,383**	**124,853**

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, 2020	**63**	**20,448**	**400**	**1,107**	**23**	**(110)**	**(2,789)**	**19,140**
Capital increase	–	–	–		–	–	6,713	**6,713**
Other comprehensive income	–	–	–	(280)	(12)	(11)		**(303)**
Balance at December 31, 2020	**63**	**20,448**	**400**	**827**	**11**	**(121)**	**3,924**	**25,551**
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**

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	2021	2020
Profit / loss from operating activities	**8,450**	**8,793**
Depreciation, amortisation and impairment	10,626	10,551
Other non-cash items	47	303
Income tax proceeds/payment	(568)	(590)
Provisions and others	(313)	344
Interest paid	(6,195)	(2,633)
Interest received	2	6
Change in inventories	(2,887)	1,720
Change in receivables	20	1,358
Change in liabilities	2,530	(3,925)
Change in other assets	(649)	631
Change in other liabilities	(914)	710
Net cash provided by (used in) operating activities	**10,149**	**17,269**
Cash flows provided by (used in) investing activities		
Payments for Property, plant and equipment and intangible assets	(14,191)	(8,029)
Income from sales of fixed assets	287	–
Net cash provided by (used in) investing activities	**(13,904)**	**(8,029)**
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	133	16,338
Repayments of borrowings	(18,879)	(16,398)
Repayments leasing agreements	(2,731)	(3,336)
Repayments shareholder's loan	(10,466)	–
Proceed from issue of shares	62,400	–
Share issue transaction costs	(3,271)	–
Cash flows provided by (used in) financing activities	**27,186**	**(3,396)**
Net cash increase (decrease) in cash and cash equivalents	**23,431**	**5,844**
Cash and cash equivalents at the begining of the year	23,434	17,703
Effects of exchange rate changes on cash and cash equivalents	381	(113)
Closing Cash and cash equivalents	**47,246**	**23,434**

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 290 in conjunction with section 315e of the German Commercial Code (HGB).

The consolidated financial statements consist of the financial statements of hGears AG, its subsidiaries: 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.

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

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

The consolidated financial statements can be viewed on www.bundesanzeiger.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, 2021 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 § 315e of the German Commercial Code "HGB", were released by the Management Board for issue by the Supervisory Board on March 29, 2022.

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, 2021 to December 31, 2021 (comparative annual period: January 1, 2020 to December 31, 2020).

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

In March 2020, the World Health Organization classified the COVID-19 outbreak as a global pandemic. In 2021 economic expansion is still slowed by high COVID-19 infection figures and the measures taken to contain them in many countries. Nevertheless, in 2021 hGears Group has not suffered from any significant decrease in sales, nor any significant deterioration in its financial position or other adverse effects. For additional information see note 3.10.

At the time the consolidated financial statements were prepared, the underlying assumptions and estimates were still subject to the uncertainties of the effects of the COVID-19 pandemic. All significant risks in connection with COVID-19 known at the time the consolidated financial statements were prepared and affecting the assets and liabilities recognized as of December 31, 2021 were taken into account.

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

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

Standards to be applied as of 1 January 2021	Adopted by the European Union	Early adoption	Impact on hGears Group
Deferral of effective date of IFRS 9 (Amendments to IFRS 4)	Endorsed	permitted	none
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16)	Endorsed	permitted	none

The Group did not opt for early adoption of new standards, interpretations or amendments that have been issued but have not entered into force yet.

2.2 Basis of Consolidation

The consolidated financial statements for the Group include the accounts and results of hGears Holding GmbH ("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, 2021, the financial statements of the following subsidiaries of hGears Holding GmbH are included in the consolidated financial statements by means of full consolidation:

Subsidiary	Percentage of ownership %	Subscribed capital	Result of FY 2021(*)
Herzog GmbH, Schramberg	100	kEUR 4,400	kEUR 5,536
mG miniGears S.p.A., Padova	100	kEUR 2,000	kEUR 3,426
mG miniGears (Suzhou) Co., Ltd., Suzhou	100	kRMB 49,487	kRMB 5,686

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

According to paragraph 2 of the Control Agreement ("*Beherrschungsvertrag*") between hGears Holding GmbH 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*").

Starting from financial year 2020 Herzog GmbH is exempt from the obligation 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 in December 31, 2020 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.

Description	Endorsed at the reporting date	Date of entry into force of the standard	Impact on hGears Group
Standards			
IFRS 17 – Insurance Contracts (issued on 18 May 2017), including Amendments to IFRS 17 (issued on 25 June 2020)	Not yet endorsed	1 January 2023	none
Amendments			
Annual Improvements to IFRS Standards (2018–2020 Cycle)	Not yet endorsed	1 January 2022	none
Amendments to IFRS 3 – definition of a business	Not yet endorsed	1 January 2022	none
Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Noncurrent and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020, respectively)	Not yet endorsed	1 January 2023	none
Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (issued on 12 February 2021)	Not yet endorsed	1 January 2023	none

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 Holding GmbH, 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	2021	2020
as of December 31	7.1947	8.0225
annual average rate	7.6282	7.8747

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 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 significant 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 Holding GmbH (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. 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 periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Management Board establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

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

2.6.14 Financial instruments

2.6.14.1 Recognition and derecognition

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

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

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

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

2.6.14.2 Financial assets

Financial assets include primarily trade receivables, receivables from banks, 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.

  Most of the non-derivative financial assets of hGears fall into this category since both criteria are met.

- 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.

  hGears Group does not hold financial instruments that fall into this category.

- 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. Trade receivables subject to a factoring program fall under the business model "hold to sell" and hence into this category. Depending on the timing of the sales there might be circumstances under which trade receivables are outstanding at the end of the year that were not yet sold. Furthermore, derivative financial assets not designated as hedging instruments were outstanding as of December 31, 2021.

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.

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

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

2.6.15 Government Grants

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 2021 amount to kEUR 134,914 (2020: kEUR 126,260).

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

in kEUR	2021	2020
Sales of goods	133,519	125,498
Other	1,395	762
Total Revenues	**134,914**	**126,260**

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	2021	2020
e-Mobility	47,490	45,885
e-Tools	44,176	39,379
Conventional	41,853	40,234
Sales of goods	**133,519**	**125,498**

- 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 2021 increased due to steady increase in sales of products for e-bikes and electric and hybrid vehicles (2021: kEUR 47,490, 2020: kEUR 45,885).

The increase in sales of goods in e-Tools business area in absolutely value is mainly due to higher global demand (2021: kEUR 44,176, 2020: kEUR 39,379).

The increase of sales of goods in e-Mobility and e-Tools (2021: kEUR 91,666, 2020: kEUR 85,264) fully reflects the Group growth strategy to be worldwide best in class manufacturer for precision gears and components in e-Drive applications.

Sales of goods in Conventional business area increased due to recovery from slow-down related to Covid-19 (2021: kEUR 41,853, 2020: kEUR 40,234).

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

in kEUR	2021	2020
EU area	96,671	95,085
USA	10,587	8,430
China	9,542	8,327
Rest of the world	16,719	13,656
Sales of Goods	**133,519**	**125,498**

Sales of goods in the EU area include sales in Germany for a total amount of kEUR 34,579 (2020: kEUR 35,247) and Hungary for a total amount of kEUR 41,651 (2020: 40,638).

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	2021	2020
Other capitalized own work	82	80
Changes in inventories	1,821	(319)
Total	**1,903**	**(239)**

3.3 Other operating income

The line item breaks down as follows:

in kEUR	2021	2020
Foreign currency exchange gains	1,262	1,185
Income from the disposal of non-current assets	113	66
Reversal of previous year accrual	141	194
Income for damages from supplier	9	11
Recharge to employees of car fees	145	163
Income from social institute for employees	85	–
Refund from Insurance	10	73
Miscellaneous grants	132	–
Other	93	80
Total	**1,990**	**1,772**

3.4 Raw materials and consumables used

The line item breaks down as follows:

in kEUR	2021	2020
Raw Materials	(39,697)	(34,577)
Trade goods	(527)	(82)
Supplies	(2,134)	(2,114)
Energy costs for production	(4,887)	(4,615)
Tools	(7,037)	(6,824)
Inbound freight	(441)	(398)
Discounts	641	750
Outsourced manufacturing costs	(6,348)	(5,905)
Summe	**(60,430)**	**(53,765)**

3.5 Personnel expenses

The line item breaks down as follows:

in kEUR	2021	2020
Wages and salaries	(32,164)	(30,241)
Social security contributions	(6,828)	(6,399)
Temporary workers	(3,293)	(2,565)
Total	**(42,285)**	**(39,205)**

In 2020, the use of short-timework in Germany led to claims for the reimbursement of social-security contributions, which are recognized as reduction of the Personnel expenses, according to IAS 20 (kEUR 130). No reimbursement of social-security contributions were incurred in 2021.

In 2021 the Group employed 873 people on average, including the Management Board (2020: 864) measured in full time equivalents ('FTE').

	2021	2020
Factory workers	722	716
Office workers	151	148
Total	**873**	**864**

As of December 31, 2021, the Group employed 914 FTEs, including the Management Board (December 31, 2020: 862).

	December 31, 2021	December 31, 2020
Factory workers	823	779
Office workers and Managers	91	83
Total	**914**	**862**

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 10,626 (December 31, 2020: kEUR 10,551).

3.7 Other operating expenses

The line item breaks down as follows:

in kEUR	2021	2020
Training/Clothing/Various Employees Costs	(1,500)	(1,386)
Travel and Entertainment costs	(203)	(118)
Office expenses / telephone and postal charges	(288)	(285)
Factory facility costs	(957)	(834)
Insurance premiums	(508)	(505)
Maintenance costs	(5,519)	(5,498)
Outbound freight	(1,350)	(913)
Operating lease expenses	(622)	(563)
Banking fees	(113)	(164)
IT expenses	(808)	(819)
Advisory and other fees	(2,818)	(1,500)
Warranties	(24)	(442)
Other Taxes	(153)	(161)
Foreign currency exchange losses	(1,268)	(1,428)
Losses from disposal of fixed assets	(211)	(134)
Other operating expenses	(776)	(729)
Total	**(17,118)**	**(15,479)**

Displayed below the details of the line Other operating expenses:

in kEUR	2021	2020
Other vehicles cost	(53)	(44)
Fuel costs for cars	(130)	(104)
Cost from previous years	(20)	(36)
Advertising and communications	(183)	(97)
Research and development costs	(52)	(23)
Quality costs	(14)	(7)
Membership fee	(61)	(51)
Industrial services	(170)	(166)
Accrual for bad debt	–	(79)
Accrual for provision for risk	(50)	(50)
Fine on taxes	–	(5)
Other	(43)	(67)
Total	**(776)**	**(729)**

The table below shows the fees booked in 2021and 2020 for the Auditing Company:

In TEUR	2021	2020
Auditors		
** Audit*	*(448)*	*(274)*
** Other assurance services*	*(446)*	*(8)*
** Other services*	*(23)*	*–*
Total	**(917)**	**(282)**

The audit services include the audit of the annual and consolidated financial statements of hGears AG, Herzog GmbH and the review of the half-year financial statements. In addition, the audits of the subsidiaries included in the consolidated financial statements are included (2021: kEUR 145, 2020: kEUR 106).

The other certification assurance services include expenses for the issuance of the comfort letter in connection with the IPO and business audits (of which included by subsidiaries included in the audit of the consolidated financial statements: 2021: kEUR 11, 2020: kEUR 0).

The other services relate to other economic advice on compensation in management positions.

3.8 Financial result

The line item breaks down as follows:

in kEUR	2021	2020
Interest expense on finance lease liabilities	(576)	(674)
Interest expenses for shareholder loans	(258)	(682)
Interest expenses banks loans and overdrafts	(1.357)	(1.830)
Other interest expenses and similar expenses	(1.504)	266
Financial expenses	**(3.695)**	**(2.920)**
Interest bank income	2	3
Other interest income and similar income	–	3
Financial income	**2**	**6**
Total	**(3.693)**	**(2.914)**

Other interest expenses and similar expenses include the scheduled amortization of transaction costs in relation to the loan in the amount of kEUR 1,430 (2020: kEUR -220). In 2020 this line also includes the reduction of amortized cost in the amount of kEUR 589 in connection with adjustments to the credit margins made in 2020 and the early repayment of a facility (see Note 4.8). In addition, factoring interest in the amount of kEUR 71 is included (2020: kEUR 103).

3.9 Income and deferred taxes

The line item breaks down as follows:

in kEUR	2021	2020
Current income taxes	(1,086)	(1,240)
Deferred income taxes	(1,320)	2,074
from temporary differences	(445)	239
from tax loss carry-forwards	(875)	1,835
Total taxes	**(2,406)**	**834**

Effective income taxes for 2021 include corporation tax, solidarity surcharges, trade tax and foreign income taxes paid totaling kEUR 1,086 (2020: kEUR 1,240).

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 % (2020: 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	2021	2020
Income before income taxes	**4,757**	**5,879**
Theoretical taxes income/(expenses)	(1,385)	(1,712)
Effective taxes income/(expenses)	(2,406)	834
Lower (higher) tax burden related to:	**(1,021)**	**2,546**
Previously unrecognized tax losses, recouped	–	*120*
Deferred taxes on tax losses carry forwards	*162*	*2,912*
Temporary differences	*(48)*	*281*
Differences in foreign tax rates	*390*	*(159)*
Taxes not relating to the period	*47*	*66*
No-deductible expenses	*(246)*	*(123)*
Taxes on dividends	*(31)*	*(35)*
Unused tax losses carry forwards	*(1,346)*	*(502)*
Others	*52*	*(14)*
Tax effect	**(1,021)**	**2,546**

The effective tax rate of the Group is 50.6 % (2019: –14.2 %).

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 2021	31 December 2020
Trade receivables	–	–
Employee benefit obligations	38	38
Finance lease liabilities	1,010	1,173
Intangible	31	67
Inventories	547	556
Other current financial liabilities	5	5
Other receivables	84	118
Property, plant and equipment	792	822
Provisions	131	131
Tax losses carry forward	2,109	2,985
Trade receivables	13	16
Borrowings	0	1
Non-current other liabilities	23	46
Other current liabilities	32	176
Other	212	193
Offsetting	(2,541)	(2,402)
Total	**2,486**	**3,925**

	Deferred tax liabilities	
in kEUR	31 December 2021	31 December 2020
Employee benefit obligations	(38)	(19)
Finance lease	52	38
Other current financial	-	5
Other current	1	1
Inventories	3	10
Property, plant and equipment	2,522	2,374
Provisions	4	7
Borrowings	129	270
Offsetting	(2,541)	(2,402)
Total	**132**	**284**

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 2,109 (December 31, 2020: kEUR 2,985) have been recognized for tax loss carry forwards.

There are unused tax losses in the Group for corporate income and trade taxes in an amount of kEUR 17,624 (December 31, 2020: kEUR 11,019).

In 2021 deferred taxes of kEUR 6 (2020: kEUR 6) have been recognized within the other comprehensive income.

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	2021	2020
Revenues	**134,914**	**126,260**
Adjusted EBITDA[1]	**22,893**	**22,679**
One-off transaction costs	(3,817)	(3,335)
Depreciation, amortization and impairment	(10,626)	(10,551)
EBIT	**8,450**	**8,793**
Finance income	2	6
Finance expenses	(3,695)	(2,920)
EBT	**4,757**	**5,879**
Income and deferred taxes	(2,406)	834
Net result of the period	**2,351**	**6,713**

(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 leaded to material effects in a reporting year.

The following table is the breakdown of One-off transaction costs:

in kEUR	IFRS consolidated	
FY	2021	2020
Personnel costs[1]	1,447	2,395
One-off advisory fees	–	384
One-off special project cost[2]	1,895	(393)
COVID adjustments[2]	328	739
Other	147	210
Total	**3,817**	**3,335**

(1) it includes additional bonuses for employees and accruals for severance costs
(2) it includes also costs related to IPO which cannot be capitalized (428 kEUR)
(3) 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 TEUR	IFRS consolidated	
FY	2021	2020
Return on revenues in %[1]	1.7	5.3
Free Cash Flow[2]	**1,883**	**9,694**

(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, 2021, this single most important customer represented accounts receivable with a carrying amount of kEUR 479 (December 31, 2020: kEUR 1,141) and revenues in 2021 in the amount of kEUR 41,614 (December 31, 2020: kEUR 40,511).

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	Schramberg		Padova		Suzhou		Reconciliation(1)		IFRS consolidated	
FY	2021	2020	2021	2020	2021	2020	2021	2020	**2021**	**2020**
Additions	9,923	6,240	3,360	3,320	1,464	702	(44)	–	**14,703**	**10,262**
Carrying amounts	39,583	35,248	23,428	24,078	9,871	8,805	(293)	(392)	**72,588**	**67,739**

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

3.11 Earnings Per Share

The basic earnings per share as of December 31, 2021 is EUR 0.33 (December 31, 2020: EUR 107.44). 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 2021, amounting to 6,928,527 (2020: 62,500).

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

4. NOTES TO THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

4.1 Property, plant and equipment

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

in kEUR	December 31, 2021	December 31, 2020
Land and Buildings	11,949	13,029
Plants and Machinery	42,329	38,789
Tools and Dies	4,865	5,188
Other assets	5,945	5,726
Fixed assets under construction and down-payments	5,975	3,466
Total	**71,063**	**66,198**

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, 2021	December 31, 2020
Right-of-use Assets:		
Land and Buildings	10,426	11,608
Plants and Machinery	6,484	7,678
Other assets	431	366
Total	**17,341**	**19,652**

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

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**

in kEUR	January 1, 2020	Addition	Disposal	Depreciation	Currency differences	December 31, 2020
Right-of-use Assets:						
Land and Buildings	13,405	–	(147)	(1,578)	(72)	11,608
Plants and Machinery	5,330	2,629	(24)	(808)	551	7,678
Other assets	475	137	–	(246)	–	366
Total	**19,210**	**2,766**	**(171)**	**(2,632)**	**479**	**19,652**

Additions to the right-of-use assets during the financial year 2021 were kEUR 612 (December 31, 2020: kEUR 2,766).

In 2021, application of IFRS 16 – Leases resulted in the recognition of kEUR 2,414 in depreciation and amortization (2020: kEUR 2,632) and interest payments for leasing kEUR 576 (2020: kEUR 674). As of December 31, 2021, lease liabilities amounted to kEUR 14,381 (December 31, 2020: kEUR 16,212).

Fixed assets under construction and down-payments amounted to kEUR 5,975 and also include down-payments to suppliers for the acquisition of fixed assets (December 31, 2020: kEUR 3,466).

The amounts refer to:

- Machines (kEUR 5.755);
- Others (kEUR 220).

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, 2021	December 31, 2020
Software and licences	1,249	1,363
Brands and trademarks	2	0
Down-payments	213	104
Other	61	74
Total	**1,525**	**1,541**

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 213 (December 31, 2020: kEUR 104).

4.3 Inventories

The net value of the inventories as of December 31, 2021 is kEUR 17,754 (December 31, 2020: kEUR 14,555).

in kEUR	December 31, 2021	December 31, 2020
Raw materials, consumables and supplies	7,819	6,533
Finished goods and work in progress	14,779	12,791
Provisions for inventory	(4,844)	(4,769)
Total	**17,754**	**14,555**

The gross value of written-down inventories as of December 31, 2021 is kEUR 22,598 (December 31, 2020: kEUR 19,324).

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

in kEUR	
Balance as of December 31 2019	**(4,993)**
Addition	(327)
Reverse	533
Utilization	13
Other	5
Balance as of December 31 2020	**(4,769)**
Addition	(714)
Reverse	359
Utilization	291
Other	(11)
Balance as of December 31 2021	**(4,844)**

Depreciation of kEUR 714 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 359. The utilization mainly refers to the scrapping in the Italian subsidiary.

4.4 Trade receivables

The carrying amounts of the trade receivables approximate to their fair values. Current trade receivables are non-interest bearing.

in kEUR	December 31, 2021	December 31, 2020
Trade receivables, gross	12,219	11,873
Loss allowances for expected credit losses	(71)	(226)
Total	**12,148**	**11,647**

Movements in the Group's loss allowance for expected credit losses of trade receivables are as follows:

in kEUR	
Balance as of December 31, 2019	**(147)**
Addition	(79)
Balance as of December 31, 2020	**(226)**
Release	167
Other	(12)
Balance as of December 31, 2021	**(71)**

The Group entered into in various supplier finance programs of our customers.. Under these arrangements, Herzog, mG China and mG Italy have sold trade receivables to the customers bank. 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 companies have not retained any risk, trade receivables amounting to kEUR 4,974 as of the reporting date, are derecognized in their entirety (December 31, 2020: kEUR 3,528). Further trade receivables intended to be sold and amounting to kEUR 630 are not yet sold as of the reporting date (December 31, 2020: kEUR 1,348).

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, 2021	December 31, 2020
Other receivables non-current	127	125
Total Non-Current	**127**	**125**

The Item 'Other non-current assets' includes financial assets in form of cash deposits made to secure future payments and services.

in kEUR	December 31, 2021	December 31, 2020
Other current assets	3,403	2,487
Total Non-Financial Assets	**3,403**	**2,487**
Other receivables current	453	738
Other financial assets current, gross	178	203
Total Financial Assets	**631**	**941**
Total Current	**4,034**	**3,428**

Other current financial assets include positive fair values from forward exchange contracts.

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

In kEUR	December 31, 2021	December 31, 2020
Receivables from social institution	2	1
Receivables for energy tax contribution	175	313
Credit note to receive	9	46
Other	13	14
Total Non-Financial Assets	**199**	**374**
Receivables with credit card companies	3	3
Supplier with debit balance	56	–
Suppliers premium	–	240
Deposit for custom handbook	14	3
Loan to employees	181	118
Total Financial Assets	**254**	**364**
Total	**453**	**738**

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

in kEUR	December 31, 2021	December 31, 2020
VAT receivables	1,539	1,244
Other income tax receivables	1,114	857
Current prepaid operating expenses	750	386
Total	**3,403**	**2,487**

The table below reports the breakdown of the item current prepaid expenses:

In kEUR	December 31, 2021	December 31, 2020
Next year travels	1	–
Advertising costs	4	–
Rental fees	182	168
Courses	5	2
Maintenance costs	54	49
IT expenses	87	72
Insurance	400	–
Transaction costs for new financing	8	26
Other	9	69
Total	**750**	**386**

4.6 Cash and cash equivalents

At December 31, 2021, cash and cash equivalents amounted to kEUR 47,246 (December 31, 2020: kEUR 23,434).

The following table provides the breakdown of the Group's Cash and cash equivalents:

In kEUR	December 31, 2021	December 31, 2020
Cash on hand	7	6
Bank balance	47,239	23,428
Total	**47,246**	**23,434**

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, 2021.

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 14,381. Lease liabilities resulting from finance agreements in 2020 amounted to kEUR 16,212.

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, 2021	December 31, 2020
Finance lease liabilities current	2,800	2,.772
Finance lease liabilities non-current	11,581	13,440
Total	**14,381**	**16,212**

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, 2021	December 31, 2020
Gross finance lease liabilities – minimum lease payments:		
Less than 1 year	3,295	3,333
1–5 years	10,567	11,579
More than 5 years	2,044	3,289
Minimum lease payments	**15,906**	**18,201**

in kEUR	December 31, 2021	December 31, 2020
The present value of finance liabilities – minimum lease payments:		
Less than 1 year	2,800	2,772
1 – 5 years	9,620	10,343
More than 5 years	1,961	3,097
Net present value of minimum lease payments	**14,381**	**16,212**

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.

Expenses on leases of low value and short-term leases amounted to kEUR 622 during the financial year 2021 and kEUR 563 during the financial year 2020.

4.8 Borrowings

The carrying amounts of borrowings are as follows:

in kEUR	December 31, 2021	December 31, 2020
Bank loan current	7,037	18,273
Bank loan no-current	14,371	20,999
Total	**21,408**	**39,272**

The Group pledged as security for current and non-current borrowings property, plant and equipment in an amount of kEUR 26,055, trade receivables in an amount of kEUR 3,930 and bank accounts in an amount of kEUR 1,394.

Additionally, the parent company, hGears AG, has granted as a pledge the shares of mG Italy.

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

Company	Bank	Nominal Value (kEUR)	Date	Amendment date	Interest rates	Repayment/ Maturity	Transactioncosts (kEUR)
hGears AG	Arrangers	10,000	September 21, 2018	April 28, 2021	3.5 % + 6m EURIBOR	Variable (till six months)	654
hGears AG	Arrangers	4,750	September 21, 2018	April 28, 2021	3.5 % + 6m EURIBOR	Semi-annual repayment	299
Herzog GmbH	Arrangers	20,750	September 21, 2018	April 28, 2021	3.5 % + 6m EURIBOR	Semi-annual repayment	1,466

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

On November 21, 2019 the company signed an amendment and restatement agreement in relation to the EUR 45,500,000 Credit Facilities Agreement originally dated September 21, 2018 in which the company has renegotiated with the banks specific covenants requirements. Amongst others the effects of the adoption of IFRS 16 were considered in the covenant calculation resulting in an increase in the interest margins by 0.5 %.

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

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

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

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

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

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

The main amendments include:

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

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

As of December 31, 2021, hGears Group had met all financial and non-financial covenants under its existing facility agreements.

4.9 Shareholder loans

in kEUR	December 31, 2021	December 31, 2020
Shareholder loans	–	14,341
Total	**–**	**14,341**

The shareholder loans were completely repaid on May 31, 2021.

4.10 Provisions

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

in kEUR	December 31, 2021	December 31, 2020
Provision, current	496	689
Provision, non-current	319	319
Total	**815**	**1,008**

in kEUR	December 31, 2021	December 31, 2020
Environment provision	269	269
Other risk provision	50	50
Total Provision non-current	**319**	**319**

in kEUR	December 31, 2021	December 31, 2020
Warranty provision	426	619
Other risk provision	70	70
Total Provision current	**496**	**689**

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, 2019	**269**	**70**	**268**	**607**
Addition	–	50	363	413
Release	–	–	–	–
Utilization	–	–	(12)	(12)
Balance as of December 31, 2020	**269**	**120**	**619**	**1,008**
Addition	–	50	180	229
Release	–	(4)	(120)	(124)
Utilization	–	(46)	(254)	(300)
Other	–	–	1	1
Balance as of December 31, 2021	**269**	**120**	**426**	**815**

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

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.

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.

4.11 Employee benefit obligations

This item in question includes the estimated liability for the severance indemnity (TFR) related to the employees of the subsidiary 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, 2019	**1,560**
Actuarial Losses (profits) from experience	(2)
Actuarial Losses (profits) from changes in financial assumptions	17
Interest costs	6
Utilisation of TFR	(78)
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**

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

	December 31, 2021	December 31, 2020
Economic techinical bases summary		
Inflation Rate	0.44 %	0.80 %
Discount Rate	1.75 %	(0.02 %)
Annual Rate Of Increase TFR	2.81 %	2.10 %
Demographic techinical bases summary		
Mortality	Mortality table RG48 published by the General 43ft he43ing Office	
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, 2021	Pension plan December 31, 2020
Turnover rate	+1%	1,383	1,490
Turnover rate	−1%	1,406	1,515
Inflation rate	+0.25%	1,410	1,520
Inflation rate	−0.25%	1,377	1,484
Discount rate	+0.25%	1,367	1,473
Discount rate	−0.25%	1,421	1,532

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 2021	–
Duration (years)	8.3

Future estimated payments for defined benefit plans

Year	in kEUR
1	92
2	121
3	89
4	100
5	99

The total expense recognized in the current period in relation to the Group contributions was kEUR 2,035 during 2021 and kEUR 2,069 during 2020.

4.12 Trade and other payables

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

in kEUR	December 31, 2021	December 31, 2020
Trade payables	19,389	16,197
Other payables	8,454	9,199
Total	**27,843**	**25,396**

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 Group's Other payables:

in kEUR	December 31, 2021	December 31, 2020
Contract Liabilities	110	43
Other current liabilities	2,492	2,432
Employees liabilities	5,621	6,696
Current deferred operating expenses	231	28
Total Current Non-Financial Liabilities	**8,454**	**9,199**

Other current liabilities breakdown is as follows:

in kEUR	December 31, 2021	December 31, 2020
Taxes on wages	1,905	1,943
Auditor costs	265	240
Deposit	4	4
Education fund	1	4
Birth allowance	92	75
IT handing charge return	7	1
Other	218	165
Total	**2,492**	**2,432**

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 yet taken, 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, 2021	December 31, 2020
Anniversary obligation	79	84
Trade Payables	311	263
Employee liabilities	93	81
Total	**483**	**428**

4.13 Other current financial liabilities

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

in kEUR	December 31, 2021	December 31, 2020
Interest liabilities	5	51
Derivates liabilities	5	13
Total	**10**	**64**

4.14 Current tax liabilities

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

4.15 Equity

On 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. On December 31, 2021 the total share capital of the company is divided into 10,400,000 ordinary shares with a par value of 1 Euro.

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

All shares issued are fully paid.

Capital Reserve represents contributions of the shareholders (kEUR 6,963), the contribution of miniGears companies (kEUR 13,485), reduced by kEUR 7,938 as result of the share capital increase from Company funds. The proceeds from IPO amounts to kEUR 60,000, reduced by certain legal, consulting and other third-party fees that are directly associated with in-process equity (kEUR 3,271). Due to the missing recoverability 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 comes from the result of the previous year and is equal to 5 % of its share capital.

The OCI Reserves includes:

- *Currency Translation Reserve:* it includes the reserve of the subsidiary mG China deriving from translating 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 and stock option program.
- Fair value stock option program.

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

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. To date, no use has been made of Conditional Capital 2021/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				
	December 31, 2019	Cash flows	Acquisition	Fair value changes	Foreign exchange movement	Other	December 31, 2020
Lease liabilities	17,460	(4,010)	–	–	(85)	2,847	16,212
Borrowings	39,111	(1,846)	–	–	–	2,007	39,272
Shareholder loans	13,660	–	–	–	–	681	14,341
Other current financial liabilities	129	(81)	–	(34)	–	50	64

			Non-cash changes				
	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	(0)
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 71 (2020: kEUR 92).

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 September 21, 2018, as well as by amendment of November 21, 2019, December 7, 2020 and April 28 2021 (see Note 4.8), the Group concluded with consortium banks, HCOB and SEB, a new Facilities Agreement. The Group shall ensure that it complies with the financial covenants, leverage and interest 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, 2021, the financial covenants had been met.

6.2 Financial risk management

hGears Group's operating activities expose the Group to a variety of financial risks such as market risks, credit risks and liquidity risks. hGears Group's finance department has created controlling instruments and key metrics to identify and evaluate such risks in close 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, 2021 and December 31, 2020 are summarized in the table below:

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 11, 2021	Intesa	From January 31, 2022 to February 28, 2022	From 1.2325 to 1.2336	54	(4)

December 31, 2020

Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR*
RMB/EUR	13	November 18, 2019 and November 26, 2020	SEB	vom 28.1.2021 bis zum 25.2.2022	from 7.9464 to 8.1636	1.468	(24)
RMB/USD	14	November 18, 2019 and November 27, 2020	SEB	vom 28.1.2021 bis zum 25.2.2022	von 6.6260 bis 7.0508	12.159	226

*In the consolidated statement of financial position, the net position of derivatives is disclosed due to immaterial amounts.

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

In kEUR	December 31, 2020			
	Equity		Profit for the period	
Exchange rate	10%	(10%)	10%	(10%)
RMB/Euro	(130)	130	60	(60)
RMB/U.S. Dollar	(1,070)	1,070	518	(518)

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

In kEUR	December 31, 2020			
	Equity		Profit for the period	
Wechselkurs	10%	(10%)	10%	(10%)
US-Dollar/Euro	–	–	(34)	41

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.

To mitigate, under economically acceptable conditions, the potential effects of changes in interest rates on the financial result the Group entered into floating-to-fixed interest rate swaps. Therefore, the Group covers part of the nominal value of bank loans with variable interest rate.

At the reporting date no contract is in place anymore.

The main information relating to the interest rate swaps in effect as of December 31, 2020, are summarized in the table below:

Currency	N.	Trade date	Counterparties	Expiry date	Swap rate	Notional kEUR	Fair Value kEUR	Floating rate
EUR	1	September 4, 2019	HCOB	December 31, 2021	0.07%	8,000	(6)	EURIBOR 6M

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, 2021 due to the fact, that not all customers are blue chip, no trade receivables are covered by the insurance company (2020: kEUR 1,194). 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, 2021		December 31, 2020	
	Gross	Provision	Gross	Provision
Amounts undue	10,497	(21)	11,064	(105)
Past due 0–30 days	1,471	(2)	615	(3)
Past due 31–60 days	138	–	16	–
Past due 61–90 days	24	–	91	–
More than 91 days	89	(48)	87	(118)
Total	**12,219**	**(71)**	**11,873**	**(226)**
Trade receivables, net	**12,148**		**11,647**	

For the reconciliation of the loss allowance on trade receivables please see Note 4.4.

The table below shows the gross carrying amounts by credit risk rating classes for each class of other financial assets measured at amortized cost as of December 31, 2021 and 2020.

In kEUR December 31, 2021	Other non-current receivables (deposits)	Other receivables	Other current assets	Other current financial assets	Cash and cash equivalents (bank balances)
Credit risk rating class 1	127	156	–	178	47,246
Credit risk rating class 2	–	–	–	–	–
Credit risk rating class 3	–	–	–	–	
Total	**127**	**156**	**–**	**178**	**47,246**

in kEUR December 31, 2020	Other non-current receivables (deposits)	Other receivables	Other current assets	Other current financial assets	Cash and cash equivalents (bank balances)
Credit risk rating class 1	125	364	–	203	23,434
Credit risk rating class 2	–	–	–	–	–
Credit risk rating class 3	–	–	–	–	
Total	**125**	**364**	**–**	**203**	**23,434**

For these financial assets the identified expected credit losses as of December 31, 2021, 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 2021 and 2020 respectively.

For FX Forwards the cash flows have been estimated using the spot FX rate applicable at the end of the reporting period 2021 and 2020 respectively.

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	–	–
Derivatives (with net settlement)	–	–			
Cashoutflow			–	–	–
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**

In kEUR

Financial liability description	Carrying amount	December 31, 2020	< 1 year	1–5 years	> 5 years
Trade payables	16,197	16,197	16,197	–	–
Other payables	9,627	9,627	9,199	428	–
Derivatives (with gross settlement)	–	8			
Cashoutflow			(1,129)	(339)	–
Cashinflow			1,132	344	–
Derivatives (with net settlement)	13	(6)			
Cashoutflow			(6)	–	–
Shareholder loans	14,341	16,147			
Shareholder loans – capital portion			–	9,265	–
Interest expenses on Shareholder loan			–	6,882	–
Borrowings	39,272	43,450			
Borrowings – capital portion			17,748	22,450	–
Interest expenses on Borrowings			1,440	1,812	–
Lease liabilities	16,212	18,201	3,333	11,579	3,289
Total	**95,662**	**103,624**	**47,914**	**52,421**	**3,289**

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, 2021	Fair Value December 31, 2021
ASSET			
Non-current assets			
Other non-current assets	AC	127	127
Current assets			
Trade receivables	AC	11,519	n/a*
Trade receivables	FVPL	630	630
Trade receivables subject to factoring	AC	453	n. a.*
Other receivables			
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*

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**

in kEUR	Classification IFRS 9	Carrying amount December 31, 2020	Fair Value December 31, 2020
ASSET			
Non-current assets			
Other non-current assets	AC	125	125
Current assets			
Trade receivables	AC	10,299	n/a*
Trade receivables	FVPL	1,348	1,348
Trade receivables subject to factoring	AC	738	n/a*
Other receivables			
Other current financial assets			
Derivatives with hedge accounting	n/a	95	95
Derivatives without hedge accounting	FVPL	108	108
Cash and cash equivalents	AC	23,434	n/a*
LIABILITIES			
Non-current liabilities			
Lease liabilities	n/a	13,440	n/a**
Borrowings	FLAC	20,999	21,959
Shareholder loan	FLAC	14,341	14,975
Current liabilities			
Lease liabilities	n/a	2,772	n/a**
Borrowings	FLAC	18,273	18,691
Other current financial liabilities			
Derivatives with hedge accounting	n/a	13	13
Accrued interest	FLAC	51	51
Trade and other payables			
Trade payables	FLAC	16,197	n/a*
Other payables			
Other current non-financial payables	n/a	9,199	n/a*

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

n/a* According to IFRS 7.29 (a) disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value (e.g. for short-term trade receivables and payables). If this is the case for short-term financial instruments from your perspective, the disclosure of fair value is not required.

n/a** According to IFRS 7.29 (d) disclosure of fair value is not required for lease liabilities.

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:

In kEUR	Nominal values December 31, 2021	Nominal values December 31, 2020	Fair Values December 31, 2021	Fair Values December 31, 2020
Hedging of currency risk				
Forward exchange contracts	2,692	13,627	174	203
thereof positive fair value	2,639	12,159	178	226
thereof negative fair value	54	1,468	(4)	(24)
Hedging of interest rate risk				
Interest rate swaps	–	8,000	–	(6)
thereof positive fair value	–	–	–	–
thereof negative fair value	–	8,000	–	(6)

*In the consolidated statement of financial position, the net position of derivatives is disclosed due to immaterial amounts. However, for a better understanding of the actual exposure this table shows the gross amount.

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.

The following table shows the profile of the timing of the notional amount of derivatives designated as hedging instruments, by risk category:

in kEUR December 31, 2020	Nominal amount By time to maturity <1 year	Nominal amount By time to maturity 1–5 years	Nominal amount By time to maturity >5 years	Nominal Amount total December 31, 2020	Average Price/Rate of the hedging instrument Sicherungsinstruments December 31, 2020
Hedging of Foreign Exchange Risks					
Forward Exchange Contracts EUR/RMB	959	339	–	1,297	8.0749
Forward Exchange Contracts USD/RMB	8,628	2,123	–	10,751	6.7045
Hedging of Interest Rate Risks					
Interest Rate Swaps	–	8,000	–	8,000	0.00070

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.

Information related to the designated components of derivatives, separately by risk category, is presented below:

	Carrying Amount	Line Item	Changes in Fair Value used for calculating hedge ineffectiveness	Nominal Amount
In kEUR	December 31, 2020	December 31, 2020	December 31, 2020	December 31, 2020
Hedging of Foreign Exchange Risks				
Forward exchange contracts				
Derivative Financial Assets	117*	Other current financial assets (*)	50	10,751
Derivative Financial Liabilities	(23)*	Other current financial liabilities (*)	(30)	1,297
Hedging of Interest Rate Risks				
Interest rate swaps				
Derivative Financial Liabilities	(6)	Other current financial libilities	(6)	8,000

*In the consolidated statement of financial position, the net position of derivatives is disclosed due to immaterial amounts. However, for a better understanding of the actual exposure this table shows the gross amount.

As of December 31, 2021 there are no open hedge in place.

The quantitative information about the respective hedged items by risk category is given in the table below:

	Changes in value of hedged items used for calculating hedge ineffectiveness	Balance of cash flow hedge reserve for continuing hedges
In kEUR	December 31, 2020	December 31, 2020
Cash Flow Hedges		
Hedging of Foreign Exchange Risks		
Designated hedged items	(19)	19
Hedging of Interest Rate Risks		
Designated hedged items	6	(6)

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 TEUR	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

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	(39)	Other operating income/expenses
Hedging of Interest Rate Risks	(4)	17	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
Opening balance January 1, 2020	**39**	**(17)**
Changes in fair value of hedging instruments recognized in OCI (effective portion)	15	(4)
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	(39)	17
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	**–**	**–**

As of December 31, 2021, the unrealized pre-tax losses on the measurement of derivatives in cash flow hedges, which are recognized in other comprehensive income amounted to kEUR – (2020: kEUR 11). Losses that were reclassified from other comprehensive income to profit or loss amounted to kEUR 9 (2020: kEUR 23).

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, 2021 and December 31, 2020, 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	2021	2020
Financial assets measured at Amortised cost	443	438
Financial liabilities measured at Amortised costs	(3,057)	(2,123)
Financial assets & liabilities at FVPL	(63)	(89)

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, 2021		
in kEUR	Financial assets AC	Financial liabilities AC
Interest income	2	–
Interest expense	–	(3,050)
TOTAL	**2**	**(3,050)**

December 31, 2021		
in kEUR	Financial assets AC	Financial liabilities AC
Interest income	6	589
Interest expense	–	(2,712)
TOTAL	**6**	**(2,123)**

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, 2021	December 31, 2020
No later than 1 year	189	80
Later than 1 year and no later than 5 years	67	65
Total	**256**	**145**

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, 2021, there were no contingent liabilities.

8.2 Related party transactions

Finatem III GmbH & Co. KG, the direct parent of the Company and ultimate controlling party of the Group, has an interest of 35,81 % in the capital of the Company as of December 31, 2021.

In the normal course of its business activities, hGears Group enters into agreements and transactions with its shareholders and other entities of Finatem III Group (defined as Finatem III GmbH & Co. KG and its subsidiaries, joint ventures and associated companies) for various business purposes, including the furnishing of services or financing of operating activities. These related-party transactions are described below.

Transactions within hGears Group are not included in the description as these are eliminated in the consolidated financial statements.

The following transactions were carried out with related parties:

8.2.1 Transactions with shareholders

The transactions with Finatem III GmbH & Co. KG are summarized below.

- Accrued financial expenses: the total value for the financial year 2021 is equal to kEUR 237 (2020: kEUR 622);
- Residual financial loan: the balance at December 31, 2021 is equal to kEUR 0 (December 31, 2020: kEUR 13,163). The shareholder loans were completely repaid on May 31, 2021 (see note 4.9);
- Revenues: the total value for the financial year 2021 is equal to kEUR 1,179 (2020: kEUR 0) 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 2021 is equal to kEUR 20 (2020: kEUR 60);
- Residual financial loan: the balance at December 31, 2021 is equal to kEUR 0 (at the end of 2020: kEUR 1,179). The shareholder loans were completely repaid on May 31, 2021;
- Revenues: the total value for the financial year 2021 is equal to kEUR 131 (2020: kEUR 0) and it is related to "Cost Sharing and Indemnity Agreement". The income are posted in the line Other operating expenses;
- Salaries: kEUR 35 (2020: kEUR 141);
- Building rent: kEUR 442 (2020: 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)
- Daniel Basok

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
Dr. Gabriele Fontane	April 27, 2021	2026	Lawyer and Partner of the law firm Oppenhoff	

Prof. Volker Michael Stauch, Christophe Hemmerle, Daniel Michael Kartje and Bernd Lattemann were members of the Company's Advisory Board until April 27, 2021.

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

in kEUR	2021	2020
hGears AG	137	75
mG Italy	70	76
Total	**207**	**151**

In addition, other operating expenses (legal fees) of kEUR 101 thousand (2020: kEUR 10) were incurred with members of the Supervisory Board in 2021.

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

in kEUR	2021	2020
Salaries and other short-term employee benefits	1,804	749
Share-based payments	565	–
Total	**2,369**	**749**

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, 2021	December 31, 2020
Payroll liabilities	645	479
Total	**645**	**479**

The increase in Payroll liabilities is due to the increased number of the members of management board, an IPO bonus granted, and the increased variable compensation of the management board members.

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

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

Shares	December 31, 2021	December 31, 2020
Pierluca Sartorello	125,898	–
Daniel Basok	8,077	–
Vorstand	**133,975**	**–**
Volker Stauch	45,967	–
Christophe Hemmerle	5,769	–
Daniel Kartje	2,900	–
Mathias Seidler	11,538	–
Dr. Gabriele Fontane	3,846	–
Aufsichtsrat	**65,749**	**–**
Summe	**203,402**	**–**

Some of the hares attributed to Mr. Volker Stauch, and to Mr. Pierluca Sartorello are still held by Finatem III GmbH & Co. KG. These will be transferred to their owners after the end of the lock-up period.

During 2018 a member of the management board received unsecured and interest-free loans amounting to kEUR 216 to pay payroll taxes in Germany for fiscal years 2015 – 2018 and to be recovered as foreign tax credit (FTC) with resubmission of Italian tax returns for the same years. For fiscal years 2019 a similar loan for similar purpose have been granted in amount of kEUR 30 respectively. In 2020 the board member repaid kEUR 164 based on the FTC refund received in Italy and by offsetting the payment of the bonuses. During 2021 no additional loans were given to the management board member.

Additional information related to the managing directors as of December 31, 2021 is as follows:

Pierluca Sartorello:

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

Basok Daniel:

- 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.

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

	2021		2020	
	Average exercise price per share option	**Number of options**	**Average exercise price per share option**	**Number of options**
As at January 1	-		–	–
Granted during the year	26.16	190,500	–	–
Exercised during the year	–		–	–
Forfeited during the year	–		–	–
As at December 31	**26.16**	**190,500**	**–**	**–**
Vested and exercisable at 31 December	–	–	–	–

The performance target for the stock options granted in 2021 was not achieved. Therefore, these options expired on December 31, 2021.

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 30, 2021	Share options December 31, 2020
June 4, 2021	December 31, 2021	26.16	190,500	–

The fair value of the options granted in fiscal year 2021 amounted to EUR 3.34 per option at the grant date (2020: EUR 0).

The fair value at grant date is independently determined using an adjusted form of the Black-Scholes model which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option, discount for lack of marketability and the correlations and volatilities of the peer group companies.

The model inputs for options granted for the year 2021 included:

- options are granted for no consideration and vest based on hGears AG's share price.

Vested options are exercisable for a period of two years after vesting

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

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The total expenses from the options issued under the employee option plan in the amount of EUR 637 thousand (2020: EUR 0 thousand) were recognized in personnel expenses.

8.4 WpHG notifications

The voting rights notifications are reflected in the annual financial statements for the fiscal year 2021 of hGears AG. These are published in the electronic Federal Gazette.

8.5 Declaration on the Corporate Governance Code

The Management Board and Supervisory Board of hGears AG have issued the declaration on the Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG).

This is permanently accessible on the hGears homepage at "https://ir.hgears.com/de/corporate-governance/declaration-of-complianceentsprechenserklaerung/".

8.6 Subsequent events

On 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 extends the current EUR 32 million credit agreement by more than 3 years. On January 31, 2022, the terms 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.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 Management of hGears Group currently assumes that the war in Ukraine will have a negative impact in the next twelve months on the world economy and, as a result, it will have an indirect negative impact on the Group. As of the day of the report the Management is still evaluating the possible quantitative impact on the Group.

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, 2022.

Pierluca Sartorello	**Daniel Basok**
(Chairman of the Management Board)	(Member of the Management Board)

ANNEX 1

	December 31, 2020	Change occurred during the current year						Exchange rate differences	December 31, 2021
		Addition	Dismissal	Depreciation	Reclassification	Writedown	IFRS 16 adoption		
Gross value	17,676	542	–	–	(169)	–	–	438	18,487
Provisions for amortisation 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 amortisation 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 amortisation 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 amortisation 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**

		Change occurred during the current year							
	December 31, 2019	**Addition**	**Disposal**	**Depreciation**	**Reclassification**	**Writedown**	**IFRS 16 adoption**	**Exchange rate differences**	**December 31, 2020**
Gross value	17,110	303	(212)	–	575	–	–	(100)	17,676
Provisions for amortization and depreciation	(3,000)	–	66	(1,736)	–	–	–	23	(4,647)
Land and Buildings	**14,110**	**303**	**(146)**	**(1,736)**	**575**	**–**	**–**	**(77)**	**13,029**
Gross value	115,367	5,737	(3,233)	–	1,604	–	–	(175)	119,300
Provisions for amortization and depreciation	(78,317)	–	3,206	(5,505)	–	–	–	105	(80,511)
Plants and Machinery	**37,050**	**5,737**	**(28)**	**(5,505)**	**1,604**	**–**	**–**	**(70)**	**38,789**
Gross value	17,124	927	(687)	–	(99)	–	–	(17)	17,248
Provisions for amortization and depreciation	(11,331)	–	552	(1,294)	–	–	–	13	(12,060)
Tools and Dies	**5,793**	**927**	**(134)**	**(1,294)**	**(99)**	**–**	**–**	**(4)**	**5,188**
Gross value	15,651	840	(92)	–	287	–	–	(85)	16,601
Provisions for amortization and depreciation	(9,709)	–	92	(1,281)	–	–	–	23	(10,875)
Other assets	**5,942**	**840**	**–**	**(1,281)**	**287**	**–**	**–**	**(62)**	**5,726**
Fixed assets under construction and down-payments	**3,722**	**2,236**	**(106)**	**–**	**(2,367)**	**–**	**–**	**(19)**	**3,466**
Property, plant and equipment	**66,197**	**10,043**	**(414)**	**(9,816)**	**–**	**–**	**–**	**(232)**	**66,198**

ANNEX 2

		Change occurred during the current year						
	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 amortisation 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 amortisation and depreciation	(1,560)	–	–	(0)	–	–		(1,560)
Brands and trademarks	**–**	**2**	**–**	**(0)**	**–**	**–**	**–**	**2**
Intangible assets under construction and down-payments	**104**	**30**	**–**	**–**	**68**	**–**	**11**	**216**
Gross value	378	5	–	–	–	–	–	383
Provisions for amortisation and depreciation	(303)	–	–	(18)	–	–	–	(322)
Other	**73**	**5**	**–**	**(18)**	**–**	**–**	**–**	**61**
Goodwill and Intangible assets	**1,541**	**514**	**–**	**(545)**	**–**	**–**	**14**	**1,525**

	December 31, 2019	Addition	Disposal	Depreciation	Reclassification	Writedown	Exchange rate differences	December 31, 2020
Gross value	4,667	193	(12)	–	26	–	(6)	4,868
Provisions for amortization and depreciation	(2,964)	–	–	(551)	–	–	10	(3,505))
Software and licences	**1,703**	**193**	**(12)**	**(551)**	**26**	**–**	**(4)**	**1,363**
Gross value	1,560	–	–	–	–	–	–	1,560
Provisions for amortization and depreciation	(1,404)	–	–	(156)	–	–		(1,560)
Brands and trademarks	**156**	**–**	**–**	**(156)**	**–**	**–**	**–**	**–**
Intangible assets under construction and down-payments	**122**	**18**	**–**	**–**	**(29)**	**–**	**(7)**	**104**
Gross value	365	8	–	–	3	–	2	378
Provisions for amortization and depreciation	(276)	–	–	(27)	–	–	–	(304)
Other	**89**	**8**	**–**	**(27)**	**3**	**–**	**2**	**74**
Goodwill and Intangible assets	**2,070**	**219**	**(12)**	**(735)**	**–**	**–**	**(1)**	**1,541**

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, 18 March 2022
hGears AG
The Management Board

Pierluca Sartorello	**Daniel Basok**
(Chairman of the Management Board)	(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, 2021, 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, 2021, 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, 2021. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 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 § 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, 2021, and of its financial performance for the financial year from January 1 to December 31, 2021, 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 § 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 § 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, 2021. 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
2. hGears AG IPO

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 2,486 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 17,624 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.

2. hGears AG IPO

1. The shares of hGears AG have been listed on the regulated market of the Frankfurt Stock Exchange since October 2021. In connection with the preparations for this IPO, the Company was reorganized from a Gesellschaft mit beschränkter Haftung (German limited liability company) into an Aktiengesellschaft (German stock corporation) and its share capital was increased to EUR 8,000 thousand by way of a capital increase from Company funds. In the course of the IPO, a total of 5,800,000 shares were placed with new investors, of which 2,400,000 stemmed from a capital increase at hGears AG and 3,400,000 from the holdings of the previous shareholder. A total of EUR 62,400 thousand in cash and cash equivalents was generated as issue proceeds from the capital increase. The IPO affected the Group's equity in particular due to the EUR 60,000 thousand premium from the capital increase, which was transferred to capital reserves. This was offset by certain transaction costs of EUR 3,271 thousand directly in relation to the IPO, which were recognized in capital reserves to reduce equity. The "Cash flows from financing activities" line item of the cash flow statement and the corresponding change in the "Cash and cash equivalents" line item of the balance sheet due to the issue proceeds were also mainly affected by the proceeds from the IPO. Given the size of this transaction, this matter was of particular significance during our audit.

2. We took into consideration the legal reorganization connected with the IPO of hGears AG that was of significance for our audit of the financial statements. As part of our audit of Group equity, cash and cash equivalents and the consolidated cash flow statement, we, among other things, obtained evidence about the amount of the issue proceeds and the effects on Group equity. For this, we primarily relied on bank statements and commercial register excerpts as well as the resolutions adopted by the executive bodies of hGears AG. In addition, we assessed the appropriate consideration of the costs of the IPO. We were able to satisfy ourselves that the legal representatives have properly reflected the effects of the legal restructuring, the effects of the capital increase carried out in advance of the IPO, and the effects of the IPO of hGears AG in the consolidated financial statements.

3. The Company's disclosures relating to the effects of hGears AG's IPO are contained in notes 1 and 4.14 of the notes to the financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB as an unaudited part of the group management report.

The other information comprises further

- the separate non-financial group report pursuant to § 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 § 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 § 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 § 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 § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 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_2021-12-31-de.zip and prepared for publication purposes complies in all material respects with the requirements of § 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 § 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, 2021 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 § 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 § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) 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 § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 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 § 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 § 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 § 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 May 5, 2021. We were engaged by the supervisory board on December 12, 2021. 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 § 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 18, 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Marcus Nickel)	**(sgd. Denis Etzel)**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FINANCIAL CALENDAR 2022

30 March 2022	Publication annual financial report 2021
10 May 2022	Publication quarterly results Q1 2022
22 June 2022	Annual General Meeting (AGM)
3 August 2022	Publication half-yearly financial report 2022
9 November 2022	Publication quarterly results Q3 2022

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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