ANNUAL REPORT
2024

hGears | the **heart** of your performance

KEY FIGURES

in EUR million	2024	2023
Revenue	95.7	112.5
Gross profit	41.9	56.0
Gross profit margin in %	43.8	49.8
Adjusted EBITDA	0.5	5.6
Adjusted EBITDA margin in %	0.5	5.0
EBIT	−15.4	−10.8
Net result	−21.2	−13.8
Net return on revenues in %	−22.1	−12.3
Free cash flow	−3.8	−3.1
Net financial position	−9.4	−3.4
Net debt / adj. EBITDA	18.7×	0.6×

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WHO WE ARE

LEADING SUPPLIER OF HIGH-PRECISION GEARS AND COMPONENTS

hGears develops and manufactures high-precision gears and components with a strong focus on e-mobility and e-drive applications. The legacy of the Company dates back to 1958, which means that the group combines more than 60 years of experience and unique expertise in machined metal processing and state-of-the-art sinter process production. With its three production sites in Schramberg (Germany), Padova (Italy) and Suzhou (China), hGears is one of few companies able to offer both metal processing technologies worldwide.

FOCUS ON E-MOBILITY

The group is a globally leading manufacturer of best-in-class precision gears and components for e-mobility applications, especially e-bikes. hGears is constantly increasing its weight in this 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 e-mobility industry. Furthermore, the process also deepens the long-lasting relationships with existing customers.

THE FISCAL YEAR 2024 AT A GLANCE

EUR 95.7 M
Revenue
FY 2024

EUR 0.5 M
Adj. EBITDA
FY 2024

EUR 9.4 M
Net debt
FY 2024

[e]-Mobility
46 %

e-Bike
20 %

e-Tools
34 %

Sales
FY 2024

Leading supplier
for e-bike
precision
components

49.4 %
Equity ratio

×3
Production sites
in Germany, Italy, China

644
Employees

TO OUR SHAREHOLDERS

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hGears the heart of your performance

LETTER FROM THE MANAGEMENT BOARD

Sven Arend and Daniel Basok

Dear shareholders, ladies and gentlemen,

The year 2024 was marked by challenges for hGears, which we overcame with determination and adaptability. Political uncertainty and stubborn inflation characterized the environment, while the interest rate cuts by central banks – especially in the second half of 2024 – did not lead to the hoped-for economic recovery. Nevertheless, the e-Tools division managed to stabilize, while e-Bike continued to struggle with excessively high inventories and [e]-Mobility was increasingly confronted with global structural problems in the automotive industry.

As part of the continued streamlining of our global organizational structures, we implemented layoffs in Suzhou (China) in the first half of 2024, introduced short-time work in Padova (Italy) and Schramberg, and ultimately implemented the 35-hour workweek in Schramberg. Nevertheless, by the end of the year, we were forced to approve further layoffs at our European locations. We recognize the challenges these measures have posed for our employees and sincerely thank them for their flexibility, continued loyalty, and commitment. With the support of our employees, we are resolutely facing the current challenges and are confident that we will emerge stronger from the present situation together.

At the beginning of 2024, we introduced new business divisions that reflect a sharper focus on target markets and are now even better aligned with the specific requirements of various industries in terms of products, development processes, and standards. Moreover, the new divisional structure enhances clarity and transparency both internally and externally.

The newly aligned **e-Bike** business area focuses on the specific requirements of the bicycle industry. Our production capacities in this area and the expertise of our engineers are highly regarded in the industry, making us a preferred partner, thanks in part to our many years of experience. We provide sustainable support to our customers in the development and enhancement of products and systems, particularly in terms of noise reduction, vibrations, and durability. In addition to the general trend from conventional bicycles to e-Bikes, we see the increasing segmentation of the e-Bike market as an additional growth driver. However, the reduction of excess inventory, which had accumulated across all distribution channels in the e-Bike industry since the end of the COVID-19 pandemic, continued until the end of the year. As a result, order volumes did not recover in the second half of 2024 and remained weaker for longer than all industry experts had anticipated. This had a negative impact on the business performance of the e-Bike division.

The **[e]-Mobility** business area supplies the automotive industry with high-precision components and solutions for electric vehicles, hybrid vehicles, and conventional vehicles. In the conventional business – i. e., parts and systems for internal combustion engine (ICE) vehicles – the focus remains on the premium, sports, and luxury segments, as well as on powersports vehicles. At the same time, the Company is increasingly involved in the development of systems that are used in both electric and conventional vehicles, such as brake-by-wire and steer-by-wire. hGears meets the highest quality standards and holds all necessary certifications, including IATF and TISAX. Meeting these highest standards is becoming an increasing competitive advantage not only in the automotive industry but also in our other business areas. This means that the current trend toward rising quality requirements is positive for us and presents new opportunities. While demand for e-mobility in the conventional automotive sector was impacted by weak economic conditions, projects for electric vehicles worldwide were postponed due to low end-market demand. This was driven, on the one hand, by the removal of subsidies in Europe and, on the other hand, by inadequate charging infrastructure and a resulting sense of disillusionment due to the cumbersome use of electric vehicles.

The **e-Tools** business area combines our activities in the field of electrically powered tools for craftsmen and gardening. Here too, hGears is capable of supplying customers worldwide and on an industrial scale, while our engineers eliminate noise, vibration, and weight issues during the development process. In light of the growing importance of ESG criteria, durability and recyclability have emerged as key requirements – applicable across all business areas, not just e-Tools. After a slow first half of the year, the e-Tools business area continued to stabilize and recorded significant year-over-year growth in the second half of 2024, albeit at a relatively low level.

We place great importance on environmental issues and sustainability and further developed and implemented our ESG strategy in 2024. We want to be a good corporate citizen and are increasingly aligning our business practices with ESG criteria, which also has an impact on investment decisions. All our high-precision products are already fully recyclable. Nevertheless, we continue our efforts and actively support our customers on their journey toward a circular economy. We increasingly see this proactive approach as a competitive advantage. Our ESG report has already been aligned with the stringent requirements of the ESRS, ensuring that we are well prepared for related regulations.

The weak market environment and the resulting decline in volumes were also reflected in the Group's financial figures. Revenue decreased by 14.9 % in 2024 compared to the previous year, reaching EUR 95.7 million, while adjusted gross profit declined disproportionately by 22.5 % to EUR 43.6 million. Adjusted EBITDA amounted to EUR 0.5 million, down from EUR 5.6 million in the previous year. The decline in the adjusted EBITDA margin from 5.0 % in the prior year to 0.5 % in the reporting period was primarily due to the lack of operating leverage and ongoing start-stop inefficiencies. The balance sheet remained stable at the end of the year, with an equity ratio of 49.4 % (2023: 53.9 %) and cash and cash equivalents of EUR 17.1 million (2023: EUR 26.6 million). Despite the significant revenue decline, the ratio of net working capital to revenue continued to improve, reaching 7.5 % (2023: 8.2 %).

Despite the currently challenging environment, we are confident that the structurally increasing demand across all three business areas will continue to drive our growth and that hGears will remain strongly positioned in the medium and long term.

Our thanks go to all our employees, shareholders, customers, and partners for their trust and continuous support. Together, we will continue to shape the future of hGears successfully. We look forward to keeping you updated with the latest information.

Schramberg, 26 March 2025

Management Board,

Sven Arend, CEO
Chairman of the
Management Board

Daniel Basok, CFO
Member of the
Management Board

SUPERVISORY BOARD

Prof. Volker Michael Stauch
Chairman of the Board

Christophe Hemmerle
Vice-Chairman

Dr. Gabriele Fontane

Christoph Mathias Seidler

Daniel Michael Kartje

REPORT OF THE SUPERVISORY BOARD

In its function as a supervisory body and guided by the principles of responsible and good corporate governance, the Supervisory Board has perceived the duties imposed upon it by law, the Articles of Association and the Rules of Procedure unrestrictedly in the financial year 2024. It regularly and carefully supervised the management of the Management Board and advised it on all matters of importance for the Company. The Management Board informed the Supervisory Board regularly, comprehensively and in a timely manner by means of written and oral reports on essentially all events that were of fundamental importance for the Company, including decisions that do not require the approval of the Supervisory Board. The Management Board informed the Supervisory Board, in particular, about important key business figures and regularly or upon request about relevant company processes, especially of planning, business development, strategic development, personnel and succession planning, the risk situation, risk management and compliance. Where the course of business performance deviated from the planning, the Management Board explained these deviations in detail and always involved the Supervisory Board in the coordination of the strategy and the status of the implementation of the strategy within the Company.

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

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

In the financial year 2024, no conflicts of interest of Supervisory Board members arose which must be disclosed to the Supervisory Board without delay and about which the General Meeting must be informed.

The Supervisory Board held nine meetings in the 2024 financial year, five of which were held in person, two by telephone and two by video conference. In addition, eight resolutions were passed by circulation procedure. In connection with the fulfilment of their duties, the members of the Supervisory Board had sufficient opportunity in plenary sessions to critically and comprehensively deal with the reports and resolution proposals submitted by the Management Board. They were able to contribute their own suggestions to discussions at any time.

FOCUS OF THE SUPERVISORY BOARD’S DELIBERATIONS

The Supervisory Board meetings in the reporting period regularly focussed on the Management Board’s reports on the sales and earnings performance of hGears AG and the Group as well as the financial and earnings position. The Supervisory Board met regularly, sometimes without the Management Board. Items on the agenda concerned either the Executive Board itself or internal Supervisory Board matters. The Supervisory Board also dealt intensively with the financial situation of hGears AG and the strategic orientation through the segmentation of the sales organization by markets.

Subject of the Supervisory Board meeting on 26 March 2024, was in particular the presentation of the annual and consolidated financial statements for 2023 and the presentation and discussion of the business development, also on the basis of key figures in the financial year 2023 and in the period up to the end of February 2024. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, the auditors elected by the Annual General Meeting on 13 June 2023, audited the financial statements for the financial year 2023 prepared by the Management Board in accordance with the German Commercial Code. The auditor issued an unqualified audit opinion. The consolidated financial statements of hGears AG for the financial year 2023 were prepared in accordance with Section 315e of the German Commercial Code (HGB) on the basis of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The consolidated financial statements also received an unqualified audit opinion from PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The Supervisory Board also resolved to propose to the 2024 Annual General Meeting that BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, be appointed as auditors for the 2024 annual financial statements of hGears AG and the 2024 consolidated financial statements for the hGears Group. The Supervisory Board unanimously approved the agenda for the Company's Annual General Meeting for the financial year 2023 on 11 June 2024.

The financial statement documents and the audit reports for the financial year 2023 were discussed in detail at the Supervisory Board meeting on 26 March 2024. The auditor reported on the key results of its audit. The Chairman of the Audit Committee reported in detail about the audit of the annual and consolidated financial statements at the plenum session of the Supervisory Board meeting. The Supervisory Board has examined the annual and consolidated financial statements and the management report in detail, including the report of the Supervisory Board, the corporate governance statement and the non-financial statement. The Supervisory Board unanimously approved the annual and consolidated financial statements. The financial statements were thus adopted. Furthermore, the Supervisory Board unanimously resolved the STI performance achievement for the financial year 2023 and the STI performance targets for the financial year 2024 for the members of the Management Board as part of the variable Management Board compensation. Furthermore, the Supervisory Board unanimously approved the remuneration report for the financial year 2023 and agreed to the proposal to submit it to the Annual General Meeting. Additionally, the Supervisory Board unanimously approved the Supervisory Board's report for the financial year 2023 and the non-financial statement as well as the corporate governance statement.

At the Supervisory Board meeting on 10 June 2024, which was attended by all members of the Company's Supervisory Board, the Management Board presented the business results for the current financial year up to April 2024. The Management Board also informed the Supervisory Board about various Group initiatives, particularly in the areas of Customer & Markets, Supply Chain and Operations as well as personnel changes at the plant in Padova, Italy.

At the Supervisory Board meeting on 23 July 2024, which was attended by all members of the Company's Supervisory Board, the Management Board reported on the business results of the first half of the year and the forecast for the current financial year 2024. The Management Board particularly presented savings potentials, possibilities for efficiency improvements and the financial situation of the hGears Group.

The Supervisory Board unanimously passed a resolution on 23 July 2024, by means of a telephone on the establishment of the Stock Option Programme 2024 (SOP 2024) for the members of the Management Board.

On 25 August 2024, the Supervisory Board unanimously passed a resolution by means of a telephone on the issue of stock option rights to the members of the Company's Management Board as part of the Stock Option Programme 2024 and on the approval of the Management Board resolutions on the establishment of the Stock Option Programme 2024 for the managers and on the issue of stock option rights to managers as part of the Stock Option Programme 2024.

The Supervisory Board unanimously decided in a circular resolution on August, 2024, to waive the disclosure of the annual financial statements and the preparation of the management report including the appendix of hGears Schramberg GmbH.

By resolution in a circular procedure on 21 October 2024, the Supervisory Board unanimously agreed to the shareholder resolution of hGears Schramberg GmbH to dismiss the managing director Mr. Markus Munz.

At the Supervisory Board meeting on 22 October 2024, which was attended by all members of the Company's Supervisory Board, the Management Board also presented the business results to date up to September 2024 and discussed the background to the current revenue and earnings situation of the hGears Group in detail with the Supervisory Board. Measures to improve efficiency were discussed.

On 12 December 2024, the Supervisory Board passed a resolution by way of circulation on the approval of the 2024 Declaration of Conformity in accordance with Section 161 German Stock Corporation Act (AktG).

At the meeting on 12 December 2024, the Management Board presented the 2025-2029 business plan to the Supervisory Board. The Supervisory Board discussed with the Management Board the risks and opportunities for the hGears Group, the current business development and the financial metrics for the current financial year.

PARTICIPATION IN SUPERVISORY BOARD MEETINGS

The attendance at meetings of the members of the Supervisory Board in office in the financial year 2024 is disclosed below on an individualised basis.

Member of the Supervisory Board	Number of meetings	Participation in %
Prof. Volker Michael Stauch	9/9	100 %
Christophe Hemmerle	9/9	100 %
Christoph Matthias Seidler	9/9	100 %
Dr Gabriele Fontane	9/9	100 %
Daniel Michael Kartje	9/9	100 %

COMMITTEES

Audit Committee

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

- Christophe Hemmerle (Chair)
- Daniel Kartje

The Supervisory Board has not formed any other committees.

Audit Committee Meetings

The Audit Committee held five meetings in the reporting period.

At the meeting of the Audit Committee on 26 March 2024, the financial statement documents and the audit reports for financial year 2023 were discussed in detail. The auditor reported on the key findings of its audit.

In the Audit Committee meeting on 10 June 2024, the Management Board informed the Audit Committee about the business development at the Suzhou site and the liquidity development.

At the meeting on 23 July 2024, the Management Board informed the members of the Audit Committee about the current risk situation, the compliance system and the implementation of a Code of Conduct.

At the meeting on 22 October 2024, the members of the Audit Committee discussed the internal control and risk management system and the governance system with the Management Board. Furthermore, the subject of the meeting was the discussion of an SAP authorization concept in consultation with the auditor.

On 12 December 2024, a meeting of the Audit Committee was held, the subjects of which were to discuss the Risk Aggregation Budgets 2025 and the governance system.

Participation in Audit Committee Meetings

The attendance of the Supervisory Board members in office in the financial year 2024 at meetings of the Audit Committee is disclosed below on an individualised basis.

Member of the Supervisory Board	Number of meetings	Participation in %
Christophe Hemmerle	5/5	100 %
Daniel Michael Kartje	5/5	100 %

CORPORATE GOVERNANCE

In 2024, the Supervisory Board continuously observed the further development of corporate governance standards in the Company on an ongoing basis. In accordance with Principle 23 of the German Corporate Governance Code, the Management Board and Supervisory Board report on the Company's corporate governance in the Declaration on Corporate Governance, which is published together with the declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act. The Management Board and Supervisory Board of hGears AG issued a declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG) on 12 December 2024.

CHANGES IN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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

There were no changes to the composition of the Management Board during the reporting period. Currently, the Company's Management Board consists of Sven Arend (CEO) and Daniel Basok (CFO).

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements of hGears AG and the consolidated financial statements as at 31 December 2024, as well as the management report and the Group management report, and issued an unqualified audit opinion.

The external auditor commissioned by the Supervisory Board to review the content of the separate non-financial statement also issued an unqualified audit opinion. The aforementioned financial statement documents, the auditor's report and the separate non-financial statement were submitted to all members of the Supervisory Board in good time. They were discussed in the meetings of the Audit Committee on 24 March 2025, and in the meeting of the Supervisory Board on 24 March 2025. At all meetings, the auditor reported on the main results of the audit and was available to answer questions and provide additional information.

Following its own examination and discussion of the annual and consolidated financial statements, the management report and the Group management report as well as the separate non-financial statement, the Supervisory Board determined that it had no objections and approved the result of the audit by the auditor and the external auditor. The Supervisory Board approved the annual financial statements and the consolidated financial statements for the financial year 2024 prepared by the Management Board. The annual financial statements are thus adopted.

The Supervisory Board would like to thank the Management Board and all employees for their constant commitment and constructive cooperation in the financial year 2024.

Schramberg, 24 March 2025

Prof. Volker Michael Stauch
Chairman

HGEARS AND CAPITAL MARKETS

Key data hGears stock 2024

Number of shares as of 31 December 2024	10,400,000 shares
Share capital as of 31 December 2024	EUR 10,400,000.00
Share price as of 31 December 2024	EUR 1.695
Market capitalization as of 31 December 2024	EUR 17.6 million
Share price high 2024	EUR 4.01
Share price low 2024	EUR 1.53

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

The main global indices mostly recorded price gains in 2024, with some markets experiencing particularly strong increases and reaching new record highs. This occurred despite the geopolitical environment remaining largely unchanged compared to the previous year. The Russian war of aggression in Ukraine has already lasted around three years. The situation in the Gaza Strip and the Middle East remained tense, but the feared regional escalation did not materialize, while Syria was liberated from its regime shortly before the end of the year. Central and Western Europe were characterized by many political upheavals and changes of government in 2024. In the first half of the year, the USA and the European Union sharply raised tariffs on Chinese e-cars, thereby intensifying the trade dispute with China. It is also to be expected that the US president elected shortly before the end of 2024 may cause additional unrest, and not just in terms of economic policy. As a result, expectations of falling interest rates due to declining inflation rates on the one hand and the positive performance of companies in the context of the AI boom on the other remain the driving forces on the global equity markets.

Following a sharp decline in 2023, inflation rates in the US ranged between 2.44 % – 3.48 %, while inflation in the Eurozone fluctuated between 1.7 % and 2.8 %. The US Federal Reserve left the target corridor for the key interest rate unchanged at 5.25 % – 5.50 % in the first six months of the year, but then lowered the range by 100 basis points to 4.25 % – 5.00 % in several interest rate steps in the fall. The European Central Bank reduced the interest rate for the deposit facility by 25 basis points in June 2024 and by a further 75 basis points to 3.00 % in the second half of the year.

The performance on stock exchanges around the world was split in two in that large-cap blue chips recorded strong growth, while small caps – particularly in Europe – showed subdued development. This is also reflected in the respective indices: since the beginning of 2024, the German benchmark index DAX Large Caps has improved by 18.8 %, while the broader-based European EURO STOXX 50 has only gained 7.7 %. In the same period, the SDAX index, which comprises German SMEs, fell by 1.8 %, while the DAX Auto Parts & Equipment sub-index declined by 9.9 % due to the looming slowdown in the automotive sector.

In the year 2024, hGears shares reached a high of EUR 4.01 on 4 January 2024 and a low of EUR 1.53 on 13 December 2024. The closing price on December 31, 2024 was EUR 1.695, which corresponds to a fall of 52.3 % since the start of the year. An average of 5,569 shares were traded daily in the twelve months of 2024 (full year 2023: 8,458 shares).

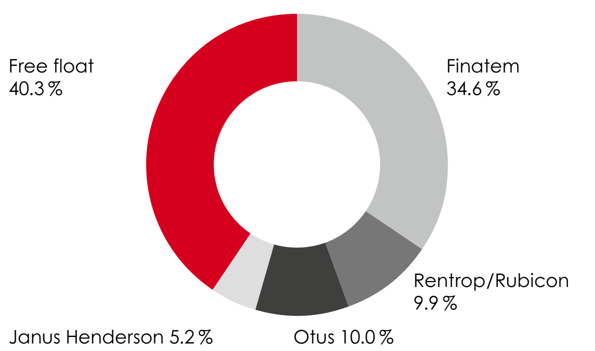
As of 31 December 2024

Bank	Target price EUR	Recommendation
ABN Amro – Oddo BHF	2.80	Neutral
Hauck & Aufhäuser	2.90	Hold
M. M. Warburg	2.50	Hold

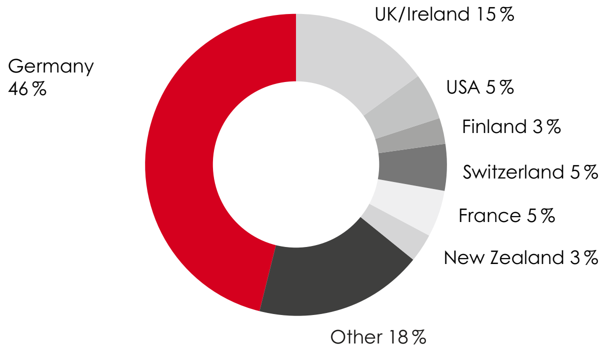
Annual General Meeting 2024

At the Annual General Meeting in Frankfurt am Main on 11 June 2024, the shareholders of hGears AG approved all items on the agenda. The event was held in a virtual format but allowed shareholders to ask live questions to ensure that they were able to make full use of their shareholder rights. 70.04 % of the share capital were represented at the Annual General Meeting. The proposals for the resolutions put to the vote were adopted by a large majority of the shareholders. Furthermore, the Annual General Meeting approved the actions of the Management Board and the Supervisory Board with 99.80 % and 96.46 % of the votes respectively and approved the compensation report with 96.56 %. A detailed summary of the individual voting results and the presentation by CEO Sven Arend can be found under the link "Annual General Meeting" in the "Investor Relations" section of our website (www.hgears.com).

Shareholder structure 31 December 2024



Shareholders by region 31 December 2024



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PRELIMINARY REMARK

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

OVERVIEW

In 2024, the economic recovery fell short of expectations. Although energy and commodity prices stabilized at a moderate level, the restrictive monetary policy of the central banks, which was only eased significantly towards the end of the second half of the year, had a negative impact on global growth. Despite falling inflation rates, high interest rates had a dampening effect on investment and consumption, which led to a persistently weak economy in many national economies. Overall, global economic development was mixed. While the US economy recorded growth, economic momentum in other advanced economies and emerging markets remained subdued to mixed. The geopolitical situation remained tense in 2024. Russia's ongoing war against Ukraine was a key source of uncertainty, while the conflict in the Middle East continued, albeit without the feared conflagration. Central and Western Europe experienced political upheaval: there were changes of government in France, the "traffic light coalition" in Germany failed due to a vote of no confidence, and a political shift to the right took hold in several European countries. The USA and the EU increased tariffs on e-cars, exacerbating the trade conflict with China. At the end of 2024, a new president was elected in the USA, whose inauguration is likely to influence more than just global trade relations.

Although the interest rate cuts by the central banks to date have not yet noticeably revived the construction industry, the power tool and garden equipment industry was able to slowly but steadily reduce its excess inventories. The e-Tools division recorded only a marginal decline in sales in 2024, but successfully stabilized at a low level. The automotive industry in the Western Hemisphere faced major challenges in 2024, as demand for cars with combustion engines collapsed due to poor consumer sentiment. At the same time, the transition to electromobility came to a standstill. The [e]-Mobility division was unable to evade the negative trend in the automotive industry, but was less affected overall thanks to its focus on the premium, sports and luxury segments. Contrary to expectations, the European e-bike market barely recovered in 2024 and sales figures were estimated to be only slightly above the previous year's level. At the same time, inventories have been reduced much more slowly than expected. As a result, orders remained at a low level, which had a significant negative impact on sales in the e-Bike division.

The strategic focus of hGears continues to be on sustainable drive and mobility concepts. The management sees the Company as very well positioned to participate in this growth market. With motivated employees and existing capacities, hGears is well equipped to look to the future with confidence.

COMPANY FUNDAMENTALS

Business model

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

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

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

hGears business activities are divided into three business areas:

e-Bike
The e-Bike business area focuses on the manufacture of high-precision, function-critical components (e. g. crankshafts and gears) for the production of electric drives for e-bikes and micromobility solutions. The business area offers both development and co-development services and uses its simulation capabilities, among other things, to support customers in reducing weight, noise and vibrations.

[e]-Mobility
The [e]-Mobility business area supplies the automotive industry with high-precision and function-critical parts and systems for electric vehicles, hybrid vehicles and vehicles with combustion engines in the premium, sports and luxury segments as well as powersports vehicles. Engineers support the development and co-development processes and help to optimize the systems' noise, vibrations, and durability. hGears meets the highest quality standards and holds all the necessary certifications, which is increasingly proving to be a competitive advantage.

e-Tools
This business area focuses on components used in the drive mechanism of electric power-tools and gardening tools (e-drive). It includes the production of precision components used in the part of the gearbox that connects the electric motor to the actual tool (e.g., cutting and trimming tools). The business area also manufactures gearboxes for various industrial applications, such as roller shutters and systems for heating, ventilation and air conditioning.

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

Group strategy
The Company aims to be one of the world's leading manufacturers of high-precision components for e-mobility applications.

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

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

hGears is currently focusing on further profitable, organic expansion in related business activities and increasing its market share in e-mobility applications. In Europe, the Company is already a leading supplier of high-precision gearboxes and components for e-bikes.

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

To enable further growth, hGears has made investments in recent years and is very well equipped for a recovery in demand.

Co-development

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

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

Research and development

hGears has over 65 years of experience in advanced machined steel processing and state-of-the-art sintered metal production. Its research and development programmes are primarily focused on testing, validating, and integrating new alloys, advanced simulation models, and innovative production processes into the Company's production processes and business model.

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

hGears major strength in engineering is its multinational technical teams, consisting of highly talented and experienced engineers covering all phases of research and development, from advanced design to application and process engineering. These capabilities are an important strategic asset for the Company's further growth. In providing co-development expertise, hGears engineers also work closely together with customers. The added value related to these activities also supports our pricing efforts.

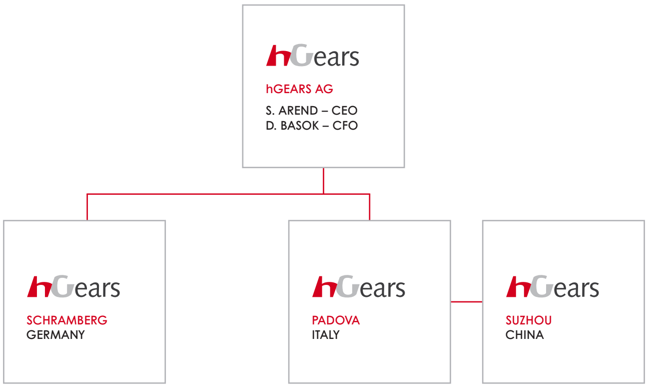
As of 31 December 2024, hGears employed 35 full-time employees in the engineering areas in the Advanced Engineering, Process Engineering and Application Engineering departments (30 June 2024: 36 employees; 31 December 2023: 43 employees). The lower number of engineers in the engineering departments published compared to previous years is primarily a result of organizational reclassifications; in fact, the number of engineers in the Company has remained largely unchanged.

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

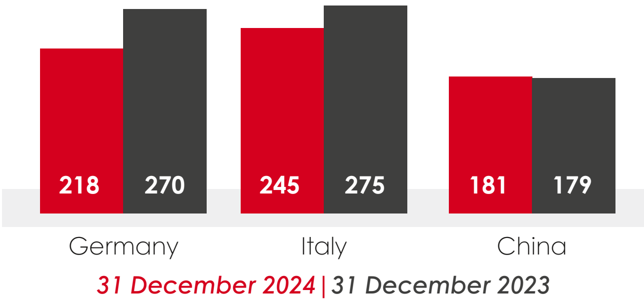
The current R&D activities are focused on developing additional production processes and expanding the Company's patent portfolio.

Locations and employees

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



As of 31 December 2024, hGears had 644 (31 December 2023: 724) employees (full-time equivalents, excluding members of the Management Board). The distribution of employees across the various locations was as follows:



Of these employees, 539 work as factory workers and 105 as administrators and managers.

Management system and performance indicators

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

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

Sales and marketing

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

Key performance indicators for the hGears Group

Non-financial performance indicators

As part of non-financial reporting, non-financial performance indicators are regularly collected and taken into account as performance indicators. Training hours, days lost due to accidents at work (LTAR) and the sickness absence rate are recorded and monitored in order to assess employee matters. Energy consumption in relation to hours worked and the recycling rate are also recorded. We currently consider LTAR, energy consumption per working hour and the recycling rate to be the most important indicators.

The Lost Time Accident Rate (LTAR) indicates the number of accidents at work with lost time for the current year, based on 1 million working hours. It serves as a key figure for evaluating occupational safety and enables the comparison of accident frequencies within a company or between different organizations.

We record energy consumption in kWh in relation to the number of hours worked by the entire workforce, including temporary workers and trainees.

The recycling rate expresses the proportion of recycled materials in relation to the total volume of waste.

	2024	2023
Lost Time Accident Rate (LTAR)	4.1	8.1
Energy consumption per working hour	24 kWh	27 kWh
Recycling rate	85 %	79 %

Environmental aspects are also taken into account through certification in accordance with ISO 14001 and IATF 16949 in all three plants and ISO 50001 in Germany.

Detailed information and facts on the sustainability criteria can be found in the sustainability report, which forms an integral part of this report and is available on our website (https://hgears.com/company/corporate-culture/corporate-responsibility/).

Financial performance indicators

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

Revenues comprises the sales of goods and other revenues.

Adjusted EBITDA represents earnings before interest, taxes, depreciation, amortization and management adjustments (for non-recurring items). Exceptional items include in particular one-off project costs and restructuring costs (e. g. severance payments and costs in connection with redundancy plans).

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

kEUR	2024	2023
Revenues	95,712	112,475
adjusted EBITDA	500	5,609
Free cash flow	–3,824	–3,058

Comparison of actual results vs. forecast

Contrary to the initial positive signs at the start of 2024, the global economy was unable to establish a solid upturn. Developments were divided; while the US economy recorded growth, developments in other advanced economies and emerging markets remained mixed, if not subdued. This means that central bank easing in the developed regions – with the exception of the USA – had little impact on global economic development for the time being. The central banks had reacted to the fall in inflation with their interest rate cuts, particularly in the second half of the year, but were surprised by the rise in inflation in the final quarter. The persistently high cost of living, a smaller-than-expected decline in interest rates, and ongoing global political uncertainties continued to create an unfavorable environment for consumers in 2024. This was reflected in the sluggish performance of the global economy in 2024[1].

1 https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025

Fortunately, the business with electric tools stabilized in 2024 after excess inventories in the industry were reduced, although construction activity in the developed regions of the world has not yet recovered significantly. Meanwhile, hGears' automotive customer base in the premium and luxury segment again proved generally resilient, while the broader market suffered significantly from the stuttering mobility transition and poor consumer sentiment. Meanwhile, and contrary to experts' expectations, the e-bike industry in 2024 continued to suffer significantly from overstocking across the entire value chain as a result of the coronavirus pandemic.

On 25 October 2024, the Management Board of hGears announced that the Group's total revenue for the full year 2024 will be in the range of EUR 90 – 95 million (2023: EUR 112.5 million, previous forecast: EUR 100 – 110 million). In 2024, hGears achieved revenue of EUR 95.7 million, marginally above the adjusted forecast range. Once again, hGears was confronted with irregular volume call-offs, particularly in the e-Bike business area, which caused stop-and-go costs and weighed on the gross margin. At the same time, low sales continued to have a negative impact on operating leverage due to the general decline in volumes, which had a negative effect on adjusted EBITDA. On 25 October 2024, the Management Board set the range for adjusted EBITDA of minus EUR 1 million to plus EUR 1 million for the full year 2024 (2023: EUR 5.6 million; previous forecast: EUR 1 – 3 million). The adjusted EBITDA of EUR 0.5 million achieved in 2024 is within the forecast range. After EUR −3.1 million in 2023, hGears generated a free cash flow of EUR −3.8 million in 2024, within the range of negative EUR 2 – 5 million adjusted on 25 October 2024. The deviation of the free cash flow reported for 2024 from the previous forecast (EUR 0 – 3 million) is mainly due to lower profitability.

Overall assessment of the business development

Despite a lack of impetus from the construction industry, the power tool and garden equipment industry was able to reduce its excess stock. The e-Tools business area was able to stabilize at a low level in 2024 with only a marginal decline in sales. The automotive industry in the Western Hemisphere faced major challenges in 2024, as demand for conventional cars with combustion engines collapsed and the transition to electromobility stalled due to inadequate charging infrastructure and the sudden loss of subsidies. The [e]-Mobility business area was unable to evade the negative trend, but was less affected overall thanks to its focus on the premium, sports and luxury segments. Contrary to expectations, the European e-bike market barely recovered in 2024, sales figures were only just above the previous year's level and destocking in the value chain was much slower than expected. As a result, orders failed to materialize once again, which had a significant negative impact on the e-Bike business area.

The hGears Group generated revenue of EUR 95.7 million in 2024. hGears' diversified business portfolio proved to be an advantage here. In summary, the pressure on margins due to stop-and-go costs caused by irregular customer call-offs, coupled with a significant lack of operating leverage, led to a noticeable decline in profitability.

Non-financial report

Sustainability and sustainable action are integral and fundamental components of hGears' philosophy and corporate strategy. We not only pay attention to the sustainability of our own operations, but also contribute to products and innovations that themselves make a valuable contribution to ESG issues. We are integrating parts of our separate non-financial Group report (CSR Report) into the hGears 2024 Annual Report, in accordance with Section 315b (3) of the German Commercial Code (HGB). The report is also available on the hGears website (https://hgears.com/company/corporate-culture/corporate-responsibility/).

ANNUAL REPORT

Economic environment

After a slight economic upturn appeared to emerge in spring 2024, the global economy lost momentum and only saw a slight recovery in the second half of the year. The US economy expanded, while growth in other advanced economies, particularly in the eurozone, remained subdued. Economic development in the emerging markets was mixed, but overall remained at a significantly higher level than in the developed countries. According to estimates by the International Monetary Fund (IMF Update January 2025)[2], global production rose by 3.2 % in 2024.

2 https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025

The geopolitical situation remained tense in 2024. Above all, Russia's ongoing war against Ukraine remained a key uncertainty factor and continued to influence the security policy considerations of Western countries. The conflict in the Middle East continued until the end of 2024, but the feared conflagration did not materialize. Shortly before the end of the year, the Syrian population managed to free itself from the existing regime. Meanwhile, Europe experienced major political changes in 2024: in France, upheavals shaped the government, while in Germany the rift in the "traffic light government" came to a head from summer 2024 and ultimately ended in a vote of no confidence with new elections announced. However, there were also political changes in smaller European countries, each accompanied by a certain political shift to the right. In the first half of 2024, the USA and the European Union significantly increased their tariffs on e-cars, further exacerbating tensions in the trade dispute with China. And finally, a new president was elected in the USA at the end of 2024, whose inauguration is likely to influence more than just global trade relations.

Following the significant declines in the previous year, inflation in the developed economies remained stubbornly sideways. Although it trended downwards until September 2024, it then rose again slightly in the fourth quarter. In the eurozone, the inflation rate in December 2024 was 2.4 % after 2.9 % in the previous year, while in the USA it was 2.89 %, compared to 3.35 % in December of the previous year. Inflation therefore remained above the central banks' target of around 2 %. Nevertheless, both the European Central Bank and the US Federal Reserve lowered their key interest rates in the second half of the year by 100 basis points to 3 % and to a range of 4.25 – 4.50 % respectively.

Sector-specific environment

Contrary to the expectations of many market observers, the European e-bike market barely recovered in 2024, and sales figures are estimated to have remained only slightly above the previous year's level. This is confirmed by studies by Roland Berger[3], EY[4] and CONEBI[5], the European Industry Association of Bicycle and Bicycle Parts Manufacturers. At the same time, however, sales in the industry fell significantly due to large price discounts; in October 2024, the consulting firm Roland Berger predicted a 9.3 % decline in sales for 2024 as a whole. The reason for this was that inventories across the entire value chain were reduced much more slowly than expected following the coronavirus boom, while the financing of inventories exerted a certain amount of pressure to sell due to high interest rates. Due to overstocks and declining orders from the e-bike industry, driven by the overall tense situation, we assume that e-bike production declined in 2024. hGears supplied components and component sets for approximately 1.2 million e-bike motors (2023: 1.5 million).

The automotive industry in the western hemisphere faced major challenges in 2024, as demand for cars with combustion engines collapsed due to poor consumer sentiment. At the same time, the transition to electromobility came to a significant standstill, partly due to the inadequate expansion of the relevant infrastructure and the loss of subsidies for e-cars. On the other hand, it was also due to the misjudgements of the major Western automotive companies, which underestimated the demand for inexpensive electric mid-range and small cars.

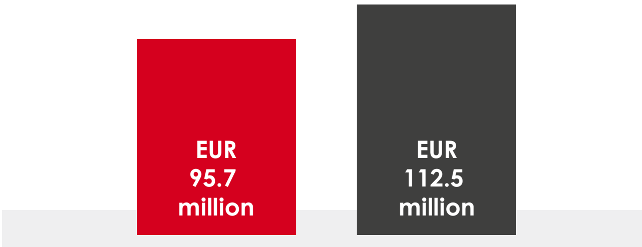
Overall, according to the European Automobile Manufacturers' Association ACEA[6], automotive registrations increased by 0.8 % in 2024. However, this growth was solely due to the strong rise in hybrid vehicle (HEV) registrations. In the EU registration statistics for the full year 2024, hybrid models were once again the clear winners, with a growth rate of 20.8 %, raising their market share in the EU to 30.9 %. In contrast, after strong increases in previous years, BEV registrations declined by 5.9 %, with the drop occurring primarily in the second half of 2024. Registrations of plug-in hybrids (PHEVs) also fell by 6.8 %, continuing a downward trend in popularity that had already been observed in previous years. As a result, BEVs accounted for 13.6 % of total registrations in 2024, while PHEVs accounted for 7.1 %. The sluggish expansion of Europe's still inadequate charging infrastructure has evidently led to a certain level of disillusionment, while generous government subsidies had already been significantly reduced or completely eliminated in some cases as early as 2023. In total, the share of electric vehicles (BEVs, HEVs, and PHEVs) in overall registrations rose to 51.7 % in 2024, up from 48.1 % in the previous year. Vehicles with conventional powertrains saw an overall decline of 6.7 %, following a particularly weak second half of the year (−11.9 %). Gasoline-powered cars remained the most popular type of drivetrain, with a registration share of 33.3 %, but also recorded a decline of 4.8 % in 2024. Meanwhile, the share of registered diesel cars fell to 11.9 %, as new diesel registrations declined by 16.6 % in the second half of 2024 and by 11.6 % for the year as a whole.

3 https://www.rolandberger.com/de/Insights/Publications/Recovery-delayed-Die-europ%C3%A4ische-Fahrradindustrie-im-Krisenmodus.html
4 https://www.ey.com/de_de/news/2024/07/ey-fahrradstudie-2024
5 https://www.conebi.eu/
6 https://www.acea.auto/pc-registrations/new-car-registrations-0-8-in-2024-battery-electric-13-6-market-share/

BUSINESS PERFORMANCE

Income Situation

Revenue



31 December 2024 | 31 December 2023

In 2024 the hGears Group generated revenue of EUR 95.7 million, down 14.9 % on the previous year (2023: EUR 112.5 million). The decline in revenue is primarily due to lower volumes in the e-Bike and [e]-Mobility business areas. By contrast, the e-Tools business area managed to stabilize at a low level and revenue fell only slightly by 2.0 % year-on-year to EUR 32.5 million in 2024 (previous year: EUR 33.2 million). In the [e]-Mobility business area, the Company suffered from the generally weak demand in the automotive industry and the resulting delays in project launches. As a result, sales fell by 11.0 % from EUR 49.6 million in 2023 to EUR 44.2 million in the reporting period. Meanwhile, the e-Bike business area suffered from persistently high inventory levels throughout the industry's value chain for the second year in a row, resulting in a further decline in production. This resulted in a 36.1 % decline in sales from EUR 28.9 million in the previous year to EUR 18.5 million in 2024.

At kEUR 77, other own work capitalized in 2024 was lower than the previous year's figure of kEUR 87.

Expenses

The cost of materials fell by 9.3 % from EUR 55.3 million in 2023 to EUR 50.1 million in 2024. The cost of raw materials and consumables decreased disproportionately due to a change in the product mix, while the stop-and-go costs caused by irregular customer call-offs had an additional negative impact. A negative change in inventories also had a negative impact. As a result, the raw materials and consumables ratio deteriorated from 49.2 % to 52.4 %.

Gross profit, defined as total operating revenue less cost of materials, amounted to EUR 41.9 million in 2024 compared to EUR 56.0 million in 2023, which corresponds to a decrease of EUR 14.1 million. The gross margin (gross profit as a percentage of sales) amounted to 43.8 % in 2024, compared to 49.8 % in the previous year. As explained above, inventory changes, product mix and stop-and-go costs had a negative impact on the Company's gross profit margin.

Personnel expenses amounted to EUR 35.7 million in 2024 (previous year: EUR 39.3 million), which corresponds to a personnel expense ratio of 37.3 % of revenue (previous year: 34.9 %). In the course of 2024, 80 full-time positions were cut. As a result, hGears was able to reduce personnel costs by EUR 3.6 million compared to the same period of the previous year, which corresponds to a decrease of 9.1 %. This at least partially compensated for the negative effect of the volume cuts. Not least for this reason, a further headcount reduction was decided at the end of the year, which is to be implemented in 2025.

Other operating expenses and income (excluding impairment losses on financial assets [IFRS9]) amounted to EUR −10.1 million in 2024 (previous year: EUR 14.3 million) or 10.6 % of sales (previous year: 12.8 %). Net expenses fell by EUR 4.2 million or 29.6 % and therefore more than sales. This primarily reflects our cost discipline, but also the decrease in maintenance costs as a result of the decline in production. Government grants amounted to EUR 0.5 million in 2024 (previous year: EUR 0.6 million).

Adjusted EBITDA at Group level amounted to EUR 0.5 million in the 2024 financial year (previous year: EUR 5.6 million). The adjusted EBITDA margin reached 0.5 % after 5.0 % in the previous year. The adjustments include extraordinary personnel costs (e. g. severance costs and associated consulting and legal costs) of EUR 2.1 million (previous year: EUR 2.4 million). Other consulting and project costs amounted to EUR 1.8 million (previous year: EUR 0.2 million). For further information, see Section 3.10 Segment reporting in the notes to the consolidated financial statements.

The hGears Group generated unadjusted EBITDA of EUR −3.9 million in 2024 (previous year: EUR 2.3 million) and was thus below the previous year's level. The unadjusted EBITDA margin fell from 2.1 % to −3.9 %, mainly due to declining sales and a significant lack of operating leverage. However, the management succeeded in cushioning the negative effects through cost-cutting measures and, in some cases, severe cutbacks. Overall, savings of EUR 7.8 million were achieved in personnel costs and opex.

Depreciation, amortization and impairments amounted to EUR 11.5 million in 2024, a decrease of EUR 1.6 million compared to EUR 13.1 million in the previous year. The reduction was primarily due to the fact that special depreciation from the previous year (EUR 0.9 million in 2023) did not recur.

The Group's earnings before interest and taxes (EBIT) amounted to EUR −15.4 million in 2024 after EUR −10.8 million in the previous year.

Meanwhile, the financial result improved by EUR 1.1 million from EUR -3.7 million in 2023 to EUR −2.6 million in 2024. This is due to the fact that the financial result in the previous year included a write-down of EUR 1.5 million in connection with the insolvency of a customer.

The Group's earnings before taxes (EBT) fell in the reporting period from EUR −14.5 million in 2023 to EUR −18.0 million in 2024.

Following a tax refund of EUR 0.7 million in the previous year, tax expenses amounted to EUR 3.2 million in 2024, mainly due to the reversal of deferred taxes.

The result for the period amounted to EUR −21.2 million in 2024, compared to EUR -13.8 million in the previous year. The return on sales (net result as a percentage of sales) amounted to −22.1 % in the reporting period, compared to −12.3 % in 2023.

Net assets

The Company's total assets decreased from EUR 136.7 million to EUR 107.0 million in the course of 2024.

Non-current assets amounted to EUR 62.4 million at the end of 2024 and were therefore 16.4 % lower than at the end of the 2023 financial year (EUR 74.6 million). The main reason for the decline was depreciation of property, plant and equipment in the amount of EUR 11.5 million.

Current assets fell by 28.2 % to EUR 44.6 million as at the end of 2024 compared to EUR 62.1 million in December 2023. Inventories were reduced in line with the active management of net working capital and, at EUR 16.6 million, were 16.8 % lower than at the end of 2023 (EUR 20.0 million) and were therefore reduced by a greater percentage than the decline in revenue (−14.9 %). As at 31 December 2024, hGears had a firm order backlog of EUR 16.8 million. Due to increased efforts to realize outstanding receivables, trade receivables fell to EUR 7.6 million in 2024 compared to EUR 10.5 million in 2023, which corresponds to a decrease of 28.2 %. However, cash and cash equivalents also had a strong impact, amounting to EUR 17.1 million at the end of the year (31 December 2023: EUR 26.6 million). Current assets did not include any non-current assets held for sale (2023: EUR 0.5 million).

The management successfully reduced the net working capital from EUR 9.3 million in 2023 by 22.1 % to EUR 7.2 million, thereby lowering the ratio to revenue from 8.2 % to 7.5 %, despite the revenue decline of 14.9 % in 2024.

The equity of hGears decreased compared to the previous year due to the negative annual result and amounted to EUR 52.9 million in 2024 (31 December 2023: EUR 73.7 million). As a result, the equity ratio declined from 53.9 % in the previous year to 49.4 % at the end of 2024. However, an equity ratio of around 50 % continues to represent a solid value in the current uncertain economic and geopolitical environment.

Due to new financing, non-current liabilities increased from EUR 9.0 million as of 31 December 2023 to EUR 16.8 million in December 2024, accompanied by a change in the maturity structure of financial and lease liabilities. At the same time, short-term liabilities decreased by 30.8 % from EUR 54.0 million at the end of 2023 to EUR 37.4 million in December 2024, remaining almost unchanged compared to mid-2024 (EUR 37.4 million).

Financial position

On 27 March 2024, hGears signed a financing agreement with a lender for a EUR 15.0 million financing with a term of 36 months. The agreement is secured by the pledge of the production facilities of the German plant, with a carrying amount of EUR 15.9 million (31 December 2023: EUR 16.8 million). The agreement includes a remaining balance of EUR 6.0 million, which is due upon maturity.

On 10 May 2024, the conditions precedent of the financing agreement were met, and the agreement became effective.

In April 2024, hGears signed additional financing agreements with two leading European banks for a total amount of EUR 5.0 million (EUR 2.5 million each). hGears pledged receivables (EUR 4.8 million) and inventories (EUR 9.6 million) of the German plant as collateral for these loan agreements. The agreements are open-ended and can be drawn down and repaid at any time.

In October 2024, hGears signed a framework agreement with a leading Italian bank for a total amount of up to EUR 4.0 million. The framework agreement does not require any collateral, has a term of six months, and can be drawn down, repaid, and extended at any time.

On 13 December 2024, hGears signed a financing agreement with a lender for a EUR 0.5 million financing with a term of 72 months. The agreement is secured by the pledge of a specific production facility of the German plant, with a carrying amount of EUR 1.0 million.

The above agreements served to refinance the group's liabilities as of 31 December 2023.

Cash flow

hGears recorded a cash flow from operating activities of EUR −4.8 million in the 2024 financial year. In the previous year, cash flow from operating activities amounted to EUR 4.1 million. The decline is primarily due to a lower contribution from operating activities and the reduction of trade payables and other liabilities at the end of the year.

Compared to EUR −8.1 million in the previous year, cash flow from investing activities significantly improved to EUR −0.6 million in 2024. Following the investments made in previous years, the Company is well-positioned in terms of production facilities and well-prepared for a potential recovery in demand. Against this backdrop, and also to preserve liquidity, the management was able to reduce CAPEX to a reasonable minimum in 2024.

Cash flow from financing activities amounted to EUR −4.1 million in 2024, compared to EUR −5.4 million in 2023. The key drivers were cash flows related to the Company's refinancing, which largely balanced out on a net basis.

In 2024, hGears recorded a net cash flow of EUR −9.6 million, compared to EUR −9.4 million in the previous year.

Finally, cash and cash equivalents amounted to EUR 17.1 million (previous year: EUR 26.6 million).

Summary assessment of the Company's economic situation

Despite challenging macroeconomic and geopolitical conditions, which led to volume reductions and irregular material call-offs in 2024, revenue reached EUR 95.7 million, slightly exceeding the adjusted forecast of EUR 90 – 95 million. The Management Board considers the achieved revenue to be satisfactory.

Currently, the Management Board is focusing on cost control and liquidity preservation. At the same time, operational excellence, execution, and resource allocation remain top priorities. Once the economy shows clear signs of recovery, the Company will return to its strategic growth path.

Principles and objectives of financial management

Default risk

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

Currency risk

Currency risk is largely mitigated through hedging.

Unused credit lines

At the end of 2024, hGears had unused credit lines amounting to EUR 4.0 million.

BUSINESS PERFORMANCE OF HGEARS AG (HOLDING COMPANY)

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

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

The annual financial statements of hGears AG have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). There have been no changes to the recognition and measurement methods compared to the previous year. As in the previous year, the annual financial statements and the combined management report of hGears AG and the Group for the 2024 financial year will be published in the Company register.

Earnings situation

The revenue of hGears AG resulted from services related to the exercise of its holding function. This primarily included compensation for service and administrative functions. Revenue increased by kEUR 425 compared to the previous year (kEUR 589), reaching kEUR 1,014, mainly due to higher group allocations.

Other operating income amounted to kEUR 370, an increase of kEUR 156 compared to the previous year (kEUR 214). This increase was primarily due to income from the reallocation of intra-group insurance costs included in the year.

Personnel expenses decreased by kEUR 827 to kEUR 1,152 compared to the previous year (kEUR 1,979). Personnel expenses did not include any costs of exceptional size or significance (2023: kEUR 797). The previous year's costs primarily related to expenses for a severance agreement with a former member of the Management Board.

Other operating expenses mainly include legal and consulting fees, recruitment costs, travel and entertainment expenses, software maintenance costs, group services, insurance, financial statement costs, and Supervisory Board remuneration.

Other operating expenses did not include any costs of exceptional size or significance (previous year: kEUR 513). The previous year's costs primarily related to expenses for an individual value adjustment of a customer amounting to kEUR 344. Income from investments includes dividend income of kEUR 278 (previous year: kEUR 461).

The financial result for the 2024 financial year amounted to kEUR 1,987, compared to kEUR 478 in the previous year. The 2023 result included write-downs of kEUR 1,525 related to the bankruptcy of a customer.

The expenses from loss transfer amounted to kEUR 15,773 (2023: kEUR 10,305) and fully relate to the control agreement with hGears Schramberg GmbH.

The net loss of hGears AG for the 2024 financial year amounted to kEUR 15,923 (2023: net loss of kEUR 13,761).

Financial and asset position

The loans to affiliated companies amounting to kEUR 32,000 primarily result from the conversion of cash pool receivables into long-term loans.

Receivables from affiliated companies include trade receivables amounting to kEUR 686 (2023: kEUR 460) and interest receivables of kEUR 517 (2023: kEUR 1,077).

Liabilities to affiliated companies amounted to kEUR 22,438 (2023: kEUR 16,743) and primarily consisted of kEUR 16,068 (2023: kEUR 10,518) related to the settlement of loss absorption with hGears Schramberg GmbH and VAT obligations. Additionally, this position includes the group cash pool amounting to kEUR 6,051 (2023: kEUR 5,852) and trade payables of kEUR 317 (2023: kEUR 351).

Outlook hGears AG

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

The equity ratio fell by 15 percentage points to 61 % as at the reporting date compared to December 2023 and was therefore within the forecast of 60 % for the 2024 financial year made in the 2023 management report. The reduction is primarily due to the loss absorption of hGears Schramberg GmbH.

We expect hGears AG's equity ratio to remain above 45 % in 2025.

DECLARATION IN ACCORDANCE WITH SECTIONS 289F AND 315D HGB

The Management Board and Supervisory Board report on the corporate governance of the Company in this statement in accordance with Sections 289 f and 315 d German Commercial Code and Principle 23 of the German Corporate Governance Code (Code).

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

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

- According to **recommendation D.4** of the Code, the Supervisory Board shall form a Nomination Committee composed exclusively of shareholder representatives which nominates suitable candidates to the Supervisory Board for its proposals to the General Shareholders' Meeting. The Supervisory Board does not consider the formation of a nomination committee to be necessary. With a five-member Supervisory Board, efficient discussions and an intensive exchange of views on suitable candidates for the Supervisory Board's election proposals to the General Shareholders' Meeting are also possible in the full Supervisory Board. Furthermore, there is no need for the formation of a nomination committee composed exclusively of shareholder representatives, as the Supervisory Board of hGears AG is not co-determined..
- The remuneration of the Management Board members set forth in the currently applicable service agreements complies with recommendations set forth in Section G. of the Code, except for **recommendation G.3**. According to recommendation G.3 of the Code, in order to assess whether the specific total remuneration of Management Board members is in line with usual levels compared to other enterprises, the Supervisory Board shall determine an appropriate peer group of other third-party entities, and shall disclose the composition of that group. The peer-group comparison shall be applied with a sense of

perspective, in order to prevent an automatic upward trend. The Supervisory Board has not determined an appropriate peer group as it is of the opinion that, taking into account the business model and the size of the Company, there are currently no comparable companies who could serve as peers for the purposes of the assessment of management remuneration. However, the Supervisory Board considers the individual compensation of the members of the Management Board to be more than appropriate, particularly in view of the level of management remuneration in other listed companies.

Schramberg, 12 December 2024

hGears AG
The Management Board The Supervisory Board

The latest Declaration of Compliance is available on the hGears AG website at https://ir.hgears.com/wp-content/uploads/20241212_Declaration-of-Compliance-2024_hGears-AG-EN.pdf

Compensation system and remuneration of the members of the Management Board

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

Constitution of the Company

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

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

Corporate Governance

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

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

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

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

Working methods and composition of the Management Board

The Management Board manages the Company on its own responsibility.

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

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

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

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

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

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

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

The Supervisory Board appointed Mr Daniel Basok to the Management Board on 8 April 2021 and Mr Sven Arend to the Management Board on 28 December 2022 with effect from 1 February 2023. The Supervisory Board appointed Mr Sven Arend as Chairman of the Management Board.

Working methods and composition of the Supervisory Board

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

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

Details of the work of the Supervisory Board are provided in the report of the Supervisory Board for the fiscal year 2024.

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

The members of the Supervisory Board are:

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

In 2023, the Supervisory Board conducted an internal self-assessment of its work (efficiency review) for the last time with the assistance of an external consultant. The members of the Supervisory Board were given the opportunity to evaluate the effectiveness of the Supervisory Board's work and to make suggestions for improvement via an online questionnaire. The results were discussed by the Supervisory Board. Measures to improve the work of the Supervisory Board include, in particular, improving the culture of discussion within the Supervisory Board and regular dialogue, even without the presence of the Management Board.

Audit Committee

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

The members of the Audit Committee are:

- Christophe Hemmerle (Chairman)
- Daniel Michael Kartje

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

Management and control of Group companies

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

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

Transparency and financial accounting

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

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

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

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

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

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

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

Women on the Supervisory Board

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

Women on the Management Board

In the financial year 2024, no women were represented on the Management Board. This is in line with the target percentage of 0 %. The Supervisory Board is firmly convinced that it is in the interests of the Company to bind and retain the members of the Management Board, that meet the requirement profile, for the long term. The Supervisory Board does not consider a change in the composition of the Management Board or an increase solely for the purpose of increasing the proportion of women to be appropriate.

Women at the first and second management level

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

Succession planning for the Management Board

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

Diversity concept for the Management Board

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

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

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

Implementation of the diversity concept for the Management Board

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

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

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

Requirements to be met by the Composition of the Supervisory Board

Qualification profile

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

This includes in particular extensive and in-depth knowledge and experience in

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

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

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

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

Independence and Potential Conflicts of Interests

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

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

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

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

Diversity

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

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

Requirements to be met by the Individual Members of the Supervisory Board

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

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

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

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

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

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

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

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

Status of implementation

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

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

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

Qualification matrix

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

General Meeting

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

DISCLOSURE IN ACCORDANCE WITH SECTIONS 289A AND 315A HGB

Composition of share capital

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

Restrictions affecting voting rights or the transfer of shares

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

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

Finatem III GmbH & Co. KG, Frankfurt am Main, Germany notified us on 18 June 2021, that its shareholding in the Company was 35.8 % of the voting rights. As of 31 December 2024, the shareholding in the Company amounts to 34.6 % of the voting rights.

Shares with special rights conferring powers of control

No special rights conferring powers of control apply to shareholders.

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

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

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

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

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

Authorization of the Management Board to issue and repurchase shares

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

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

The extraordinary General Meeting of the Company of 5 May 2021 authorized the Management Board, subject to the approval of the Supervisory Board, to issue until 4 May 2026 convertible and/ or warrant-linked bonds or profit participation rights (together the "Bonds") on one or more occasions with a total nominal amount of up to EUR 100,000,000.00 subject to further terms and has created contingent capital for this in the amount of up to EUR 3,261,600.00 (Conditional Capital 2021/I). The holders of the abovementioned Bonds can be granted conversion or subscription rights in respect of up to 3,261,600 new, ordinary bearer shares (Inhaberaktien) with no par value (Stückaktien) in the Company with a notional interest in the share capital of a total of up to EUR 3,261,600.00.

Repurchase shares

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

Authorized capital

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

Conditional capital

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

The Company's share capital is conditionally increased by up to EUR 525,450 by issuing up to 525,450 no-par value bearer shares (Conditional Capital 2024). The Conditional Capital 2024 is exclusively for the purpose of issuing shares of the Company to issue subscription rights to shares of the Company to members of the Management Board of the Company and selected executives of the Company and of companies affiliated with the Company within the meaning of Sections 15 et seq. AktG in the form of stock options in accordance with the authorization resolution of the Annual General Meeting on 11 June 2024. The conditional capital increase will only be implemented to the extent that share options are granted in accordance with the aforementioned authorization resolution (share option program 2024), the holders of the share options exercise their option rights and the Company does not grant any treasury shares to service the stock options. The new no-par value bearer shares are entitled to dividends from the beginning of the financial year for which the Annual General Meeting has not yet passed a resolution on the appropriation of profits at the time of issue. The Supervisory Board is authorized to amend the wording of the Articles of Association accordingly in line with the respective 'utilization of Conditional Capital 2024 and after expiry of all exercise periods. The Management Board with the approval of the Supervisory Board and – with regard to the members of the Management Board – the Supervisory Board are authorized to determine the further details of the issuance of shares from the Conditional Capital 2024.

Agreements related to change of control

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

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

Compensation agreements in case of a takeover offer

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

OPPORTUNITIES AND RISK REPORTS

Opportunities and Risks

As an internationally operating group with production sites in Germany, Italy, and China, hGears is exposed to various risks associated with its operational business activities. The implemented risk management system ensures the early and transparent identification of potential risks to initiate appropriate countermeasures in a timely manner. Risks and opportunities are defined as potential future developments or events that may lead to negative or positive deviations from hGears' budget. Business risks are only accepted if they are calculable and if the associated opportunities are expected to create reasonable value.

Risk Management System

Within the Group, overall responsibility for the Risk Management System (RMS) and the Internal Control System (ICS) lies with the Management Board, while operational implementation is carried out by the management teams of the respective subsidiaries and their subordinate managers. This structure is based on the globally recognized 2013 COSO framework, which defines eight key elements for the effective control and monitoring of risks.

A Group Head of Risk & Compliance, reporting to the CFO, ensures the implementation of the Management Board's risk policies and assesses the overall risk situation of the Group. To detect potentially existential threats early in accordance with Section 91 (2) of the German Stock Corporation Act (AktG), a risk aggregation is conducted using Monte Carlo simulation (see Section Evaluation of Risks and Opportunities for a detailed explanation of the methodology).

Risk management is closely integrated with planning and controlling processes and applies to all Group companies. Operational managers reporting directly to the Management Board identify risks that exceed predefined thresholds. Opportunities are systematically monitored and implemented by Controlling, while strategic decisions remain the responsibility of the Management Board.

To ensure effective corporate management, the adequacy and effectiveness of the RMS and ICS are regularly reviewed. This review is conducted through internal controls, independent audits, and reporting to the Management Board and the Supervisory Board. The systems are continuously developed to meet changing regulatory requirements and company-specific risks.

Assessment of the Management Board on RMS und ICS (unaudited)

As of the reporting date, considering the scope of business activities and the risk situation, there are no indications of any overall economic inadequacy or ineffectiveness of the internal control and risk management system. Accordingly, hGears complies with the requirements of the German Corporate Governance Code (DCGK A.5)[7] and ensures that the existing control and risk management systems effectively fulfill their function.

Opportunity Management System

hGears' opportunity management serves to identify and leverage potential at an early stage. It is based on the target agreement process initiated by the Management Board, which is monitored by Controlling. Opportunity management is continuously developed to secure competitive advantages and promote the Company's long-term development.

Alignment with corporate strategy is ensured through existing controlling processes, which facilitate a structured analysis and assessment of growth and optimization opportunities. This enables the targeted management of business opportunities and supports the sustainable development of hGears.

According to hGears' risk policy, opportunity management is not part of the RMS. It is managed in a decentralized manner by the operational management, which is responsible for identifying and implementing strategic opportunities. Since the RMS focuses on potential risks, opportunities are not explicitly recorded or assessed within this framework. However, potential positive developments are incorporated into the Monte Carlo Simulation through best-case scenarios to enable a realistic assessment of business development.

7 https://dcgk.de/de/kodex/aktuelle-fassung/a-leitung-und-ueberwachung.html

Internal Control System

As an integral part of corporate management, hGears' ICS provides the foundation for secure, efficient, and legally compliant business operations. It encompasses all systematically defined controls and monitoring activities with the aim of ensuring the reliability of financial reporting, increasing the efficiency of business processes, and ensuring compliance with legal requirements and internal policies. An effective and efficient ICS is essential for identifying, managing, and mitigating risks in business processes at an early stage.

The ICS at hGears covers all essential business processes and extends beyond mere controls within the financial reporting process. It includes both financial and non-financial aspects, ensuring comprehensive protection of corporate activities. While risk management focuses on identifying and assessing strategic and overarching risks, the ICS primarily addresses the operational level. To identify and mitigate risks at an early stage, the ICS defines clear control mechanisms within business and financial reporting processes. Continuous monitoring ensures that controls are consistently followed and their effectiveness is maintained. Process risks are systematically identified and assessed, with corrective measures being derived and their implementation tracked.

The close integration of the RMS and ICS creates a holistic approach to risk management. One example of this is the integration of financial risks into the ICS: While the RMS identifies and assesses potential liquidity risks at an early stage, the ICS implements targeted control measures such as stricter payment monitoring or limitations to ensure financial stability. This connection enables a comprehensive risk analysis and helps to realize synergies while avoiding redundant structures. Thus, the ICS not only supports compliance with legal regulations but also contributes to achieving strategic objectives and ensuring the Company's long-term stability.

To continuously improve system effectiveness, key controls are reviewed at least once a year as part of a self-assessment conducted by the operational units and centrally documented. These regular assessments ensure the consistent application of control mechanisms and enable early adaptation to changing conditions.

The ICS thus makes a significant contribution to the stability and long-term security of hGears by establishing standardized processes and control mechanisms in key business areas. It is based on the four principles of need-to-know, segregation of duties, transparency, and control, which enable a structured and effective management of business processes.

In the financial sector, the ICS ensures compliance with applicable IFRS accounting guidelines as well as a consistent preparation of the consolidated financial statements, supported by a uniform, standardized reporting and consolidation software. In the area of IT security, the ICS includes a detailed authorization concept that clearly regulates access to critical systems and data. Additionally, the system-based traceability of data entries in the ERP and consolidation software ensures a transparent and audit-proof processing of financial information. Across business areas and processes, the ICS also includes compliance-related controls. The focus is on adherence to the Code of Ethics, the whistleblower system, antitrust law, anti-corruption and anti-bribery measures, as well as data protection and information security. The primary objective is to raise awareness of potential risks and to ensure compliance with and implementation of applicable laws, regulations, and internal company policies to minimize risks.

Compliance with these control mechanisms is ensured through regular internal audits as well as a central compliance and audit function. The close integration with the risk management system enables the early identification of potential weaknesses and the initiation of appropriate countermeasures.

Opportunities and Risk Situation

Organization of the Risk Management Process

The Group-wide risk management policy defines roles, responsibilities, tasks, and processes in risk management, including the organizational structure and reporting requirements for risks and opportunities. hGears applies an integrated top-down and bottom-up approach to risk management, ensuring that both strategic and operational risks are comprehensively identified, assessed, and managed.

At the Group level, central risk owners are responsible for managing and coordinating strategic and crossfunctional risks. Simultaneously, at the subsidiary level, local risk owners oversee the identification, evaluation, and management of operational risks. This matrix structure ensures that risk management is embedded throughout the Company and that all risk dimensions – strategic and operational – are adequately considered.

The Risk Management Committee meets regularly to review the risk inventory, evaluate risk mitigation measures, and ensure compliance with policies. Additionally, the appropriateness of existing risk management policies is continuously assessed and adjusted if necessary. Unexpected risks are reported immediately or within the framework of monthly risk review meetings to enable timely evaluation and management.

The Supervisory Board is regularly informed about the current risk situation and monitors the effectiveness of the RMS. It ensures that the RMS complies with legal requirements and effectively supports corporate strategy.

Evaluation of Risks and Opportunities

To enable the early detection of potentially threatening developments and to determine the overall risk exposure, risk aggregation is performed using Monte Carlo simulations. This simulation assesses potential risks based on probabilities of occurrence and potential damage amounts. For the quantitative analysis of market risks, triangular distributions with minimum, maximum, and most likely values are used. The risk aggregation considers net risks, meaning risks that consider implemented risk mitigation measures. The aggregation of all risks determines the overall risk exposure. In the Monte Carlo simulation, the effects of the Company's most significant individual risks are assigned to the corresponding items in the planned income statement (P&L) and planned balance sheet.

Independent simulation runs generate one hundred thousand possible risk-related future scenarios, each calculating a specific version of the income statement and balance sheet. The entirety of all simulation runs provides a "representative sample" of all possible risk scenarios for the Company concerning the probability of over-indebtedness and illiquidity.

The results of the aggregation serve as the basis for reporting on the overall risk position and risk-bearing capacity to the Management Board and the Supervisory Board.

Risks

The assessment of risks and opportunities provides insights into the key risks relevant to hGears.
The standard risk management assessment horizon covers 12 months on a rolling basis.

The following overview ranks the TOP net risks based on their potential impact on Group EBIT.
The extent of damage of net risks is categorized as follows:

- medium: from EUR 0.50 Mio.
- significant: from EUR 1.25 Mio.
- high: from EUR 2.50 Mio.

Risk	Impact	Change to prev. year
Declining Customer Demand	significant	unchanged
Cybercrime	significant	increased
Non-Compliance	medium	increased
Engineering	medium	new
Declining Production Efficiency	medium	new
IT-Availability	medium	decreased

The probabilities of occurrence of the risks vary, with the risk of declining customer demand classified as high, the non-compliance risk as low, and the remaining risks as low to medium.

Declining Customer Demand / Financing

hGears continuously implements measures for cost optimization and liquidity preservation. Additionally, further steps are currently being implemented to specifically counteract potential declines in demand. Despite these measures, based on the current planning, additional financing in the low single-digit million range will be required in the first quarter of 2026. As of the publication date, this financing has not yet been secured; however, the Company has already received indicative offers from potential financing partners. Therefore, the Management Board is confident that financing will be successfully secured by the end of 2025 at the latest.

An additional decline in sales volumes of more than 10% below the forecasted revenue – contrary to current expectations – could further increase risk and intensify the Group's liquidity needs. To detect changes in demand at an early stage and respond flexibly, hGears continues to focus on continuous market monitoring, strengthening customer relationships, and maintaining close coordination with existing customers. These measures are intended to help identify market trends early and make the necessary adjustments. If necessary, further personnel-related measures will also be taken.

If, contrary to expectations, no additional external financing can be secured for 2026, the continued existence of the parent company and the Group is at risk. As a result, there is significant uncertainty that may cast substantial doubt on the ability of the parent company and the Group to continue as a going concern. The parent company and the Group may therefore not be able to realize their assets or settle their liabilities in the ordinary course of business.

Cybercrime

The threat posed by cybercrime remains high due to the increasing number of attacks on IT infrastructures worldwide. Companies are increasingly facing targeted cyberattacks, data misuse, and system failures, which can cause significant financial and operational damage.

hGears addresses this risk with a comprehensive cybersecurity strategy that includes an existing cybersecurity insurance policy as well as the implementation of a group-wide Information Security Management System (ISMS). In addition, established security measures such as multi-factor authentication, mobile device management, device control and encryption, network segmentation, and network monitoring are utilized. Regular awareness training sessions educate employees on current threats and enhance their resilience against cyberattacks.

While these measures significantly mitigate the risk, complete elimination cannot be guaranteed due to the dynamic threat landscape.

Non-Compliance

Global regulatory requirements are continuously increasing, exposing companies to a growing risk of legal and policy violations. In general, compliance violations can result in substantial fines, reputational damage, and compensation claims. In some countries, executives may also face prison sentences.

hGears addresses this risk with a Code of Ethics that promotes adherence to legal and internal regulations, thereby reducing the risk of compliance violations. Additionally, an existing D&O insurance policy protects the Company against compensation claims related to potential breaches of duty.

Compared to the previous year, this risk has risen in ranking due to the removal of former top risks. However, the risk assessment itself has not changed significantly.

To further mitigate this risk, regular training sessions and awareness programs are an integral part of the compliance strategy, continuously enhancing employees' understanding of regulatory requirements. Furthermore, compliance is firmly integrated into the ICS, including regular self-assessments.

To strengthen the role of compliance within the Company, additional measures are being implemented. These include, in particular, the further expansion of the reporting and whistleblowing system to detect and address violations at an early stage. The goal is to enhance protection against violations and simplify reporting options for employees, ensuring a low-threshold and effective communication process.

During the reporting period, no compliance reports were received, and no compliance risks were identified.

Engineering
This is a newly identified risk that has been included in the current risk assessment for the first time. The planned launch of new customer projects in the medium-term planning requires intensive customer development support to ensure successful implementation in the production process.

Due to previously implemented cost-saving measures combined with a cautious hiring policy, capacity bottlenecks in engineering may arise if revenue growth exceeds expectations or customer projects ramp up earlier than planned. This could impact the timely execution of projects and lead to delays in production or series release.

Potential consequences include additional costs for outsourcing engineering services or a slower or delayed project start if customer requirements or deadlines change, which are not yet known today.

To mitigate this risk, internal processes are being optimized, and existing resources are being strategically prioritized. Additionally, development capacity is regularly reviewed to identify potential bottlenecks at an early stage and implement targeted measures as needed.

Declining Production Efficiency
This newly identified risk has been included in the current risk assessment for the first time. Technical malfunctions and machine downtimes occur particularly when production is not operating at full capacity. In such cases, extended downtimes lead to inefficient start-up processes, resulting in higher scrap rates and increased production costs. Another risk arises from the reduced workforce in certain production stages. If demand unexpectedly increases, bottlenecks could occur, as capacities cannot be expanded at short notice. Additionally, hGears has partially reversed outsourcing and reintegrated certain production steps into the Company. This transition requires a learning phase, which may initially lead to longer throughput times, higher resource consumption, and potential quality fluctuations.

To address these challenges, insourcing has been approved by customers. This enables hGears to avoid idle capacities in its own production while simultaneously reducing the reliance on external services. Furthermore, the Company applies lean management methods to optimize processes. Targeted employee training supports the transition, facilitates onboarding, and ensures quality standards.

IT-Availability
The availability and security of IT systems are essential for smooth business operations. Severe disruptions, such as system failures, network attacks, data loss, or data manipulation, can lead to operational interruptions and negatively impact customer processes.

hGears continuously works on optimizing its IT landscape and implements both conceptual and operational measures to identify and mitigate IT risks at an early stage. This includes the ongoing implementation of TISAX certification at company sites. Additionally, technical and organizational protective measures are applied to strengthen the resilience of the IT infrastructure.

To further minimize risks, regular training and development programs for employees are conducted to raise awareness of secure IT practices and enable early identification of potential risks.

Opportunities
hGears identifies potential in various areas that can contribute to the long-term stabilization and enhancement of profitability. The identification and utilization of these opportunities are based on strategic market analyses as well as targeted operational measures.

Market Development and Demand Potential
The market recovery and the increasing demand in specific target segments offer growth opportunities. In particular, the field of e-mobility and sustainable drive technologies presents opportunities due to changing regulatory frameworks and growing environmental awareness. One example is the development of new technologies in the area of electronic brake system control, which enhance safety and efficiency. hGears continuously adapts its product portfolio to capitalize on these developments. Based on its own development and production expertise, hGears identifies further growth opportunities in the recovering e-mobility market.

By optimizing internal processes, the Company aims to increase value creation and secure long-term competitiveness.

Technological Advancement and Process Optimization
hGears sees significant opportunities for efficiency improvements and enhanced competitiveness through the optimization of production processes and the continued implementation of its insourcing strategy. By strategically applying lean management methods and modern manufacturing technologies, production workflows can be optimized, lead times shortened, and costs reduced.

The successfully completed customer audits in the hardening department in the past financial year demonstrate that investments in in-house production capabilities are paying off. These achievements in process transformation confirm the strategy of relocating additional production steps in-house. Through insourcing, hGears reduces external dependencies, improves process control, and realizes long-term cost advantages. At the same time, this step enables the development of internal expertise, increasing flexibility in responding to future customer requirements.

To further enhance efficiency, hGears is making targeted investments in its machinery and continues the transition to modern, flexibly deployable manufacturing equipment. This contributes to greater production flexibility, the reduction of bottlenecks, and improvements in process stability and quality.

In the long term, the Management Board expects these measures to unlock the potential for higher productivity, lower scrap rates, and better resource utilization..

Diversification and Strategic Partnerships
hGears sees significant opportunities for sustainable growth in expanding its customer portfolio and reducing dependence on individual major customers. By strategically entering new markets and customer segments, the Company can further strengthen its market position and secure long-term revenue potential. A particular opportunity arises from new customers increasingly entering the e-mobility market. The growing demand presents hGears with the opportunity to leverage its expertise in this sector and establish new customer relationships.

Furthermore, deepening existing customer relationships provides opportunities to generate additional orders and act as a preferred partner for new projects. Through close collaboration with customers, hGears can respond early to changing requirements and offer tailored solutions. Additionally, the Company is focusing on strategic partnerships to drive technological innovation, exploit synergies, and expand access to new business areas. These partnerships enable efficient resource utilization and a targeted approach to market opportunities.

The combination of customer diversification, close collaboration with existing customers, and targeted partnerships strengthens hGears' competitiveness and contributes to its long-term corporate development.

Financial and Operational Stability
hGears sees significant opportunities in optimizing its financial structure and cost management to ensure long-term corporate stability. Efficient working capital management enables the Company to improve liquidity, reduce financing costs, and create financial flexibility for future investments.

Another key factor is the sustainability strategy (ESG), which is becoming increasingly important for corporate financing. By implementing an ESG-compliant strategy, hGears can enhance access to investors and financing, as sustainable and responsible corporate governance is increasingly considered a key criterion for capital providers. hGears is already committed to ESG-compliant reporting that exceeds regulatory requirements, ensuring transparency and accountability toward stakeholders.

Additionally, measures aimed at process optimization and cost efficiency offer potential for profitability improvement. Through targeted management of fixed costs and more efficient resource utilization, hGears can operate more economically and achieve long-term competitive advantages.

Another focus is on strengthening resilience to market fluctuations, particularly through proactive risk management in supply chains and material availability. This approach helps to mitigate unexpected cost increases and maintain financial stability even in volatile market conditions.

Through these measures, hGears ensures that the Company remains financially stable, competitive, and strategically capable of action in the long term.

Assessment of the Opportunity and Risk Situation
hGears continues to operate in a challenging market environment characterized by economic uncertainty and subdued customer demand. The greatest risk lies in the persistently reduced demand and the resulting decline in sales volumes. Additionally, the slower-than-expected recovery of the overall market poses a challenge to the Company's asset, financial, and earnings position. hGears continuously monitors market developments and has implemented appropriate measures for early risk detection and mitigation to ensure financing and liquidity at all times. To further stabilize the financial position, targeted actions were taken during the reporting year to reduce operating costs and optimize working capital, thereby strengthening liquidity. Furthermore, the risk management system was enhanced by extending the risk aggregation period to a multi-year timeframe.

At the same time, opportunities arise for stabilizing and improving business development in the medium term. The reduced inventory levels at customers suggest a potential increase in demand. Existing customer statements indicate future demand. Despite the current challenges, the Management Board expects a trend reversal in the medium term.

The ICS and RMS of hGears are essential instruments for ensuring the accuracy of financial reporting and the early identification of potential risks. Nevertheless, inherent residual risks cannot be entirely ruled out.

The Management Board has implemented appropriate measures for early risk detection and management and prioritizes all activities that contribute to the consistent implementation of the action plan, as it plays a crucial role in stabilizing the risk and opportunity situation. In the Management Board's assessment, there is significant uncertainty regarding financing from the 2026 financial year and declining customer demand, which may cast substantial doubt on the ability of the parent company and the Group to continue as a going concern. As a result, the parent company and the Group may not be able to realize their assets or settle their liabilities in the ordinary course of business. However, at the same time, the Management Board assumes that, thanks to the measures already initiated and planned, hGears will be able to avert the threat to its continued existence and maintain business operations in their usual form. This assessment is made considering existing uncertainties as well as the legal requirements pursuant to Section 91 (2) and (3) of the German Stock Corporation Act (AktG).

OUTLOOK REPORT

Overall economy

The Russian war of aggression against Ukraine, now in its third year, is increasingly influencing Western European politics and has the potential to divide the world. At the end of 2024, a new president was elected in the United States, whose views and statements are at least unsettling while simultaneously redefining America's role. This is likely to manifest not only in a controversial trade policy but also in other areas. As a result, geopolitical risks have not diminished but have instead shifted in some respects.

Meanwhile, stable or slightly declining energy and raw material prices are likely to be counteracted by tariffs, hindering the decline in inflation. This raises the question of how quickly central banks will lower interest rates.

In its January 2025 forecast[8], the International Monetary Fund (IMF) projects global economic growth of 3.3 % for the current year, marking a slight increase of 0.1 % compared to the 3.2 % of 2024. According to the IMF, economic growth in China is expected to fall to 4.6 % in 2025, after 4.8 % in the previous year. Meanwhile, the United States is expected to grow by 2.7 %, while the Eurozone will once again achieve only a relatively

8 https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025

modest 1.0 %, which, however, represents an improvement over the estimated 0.8 % in 2024. The main reason is the IMF's continued expectation of weak growth in Germany of 0.3 %, which would nevertheless represent a marginal improvement after two years of recession (2024: −0.2 %, 2023: −0.3 %). Meanwhile, the IMF expects global inflation to fall from an estimated 5.7 % in 2024 (annual average) to 4.2 % in 2025 and 3.5 % in 2026. The reasons for the decline in inflation are falling energy prices and a cooling of labor markets. According to the IMF, inflation in the United States will be close to but above the 2 % target in 2025, while inflation dynamics in the Eurozone are likely to be more subdued. This is likely to lead to further interest rate cuts by the respective central banks in the near future, thus supporting economic development.

After the interventions of the American president and his leadership team, a ceasefire in the Russian war of aggression against Ukraine now seems at least possible, while this step has already been achieved in the conflict between Israelis and Palestinians. The Management Board is closely monitoring and assessing the developments of these conflicts. The Company's pass-through clauses would take effect in the event of rising energy and raw material costs, and the Management Board would immediately seek to compensate for higher costs not covered by these clauses through price increases.

e-Bike

2025 is expected to be the third consecutive year in which the bicycle industry continues to reduce its excess inventory. Against this backdrop, industry experts, based on production and sales figures from previous years, expect that production will stabilize at a very low level in 2025 and move toward normalization from 2026 onward, which would mean a significant recovery for the industry. A leading manager in the e-Bike industry, however, already sees the first signs of recovery in 2025[9]. Even though forecasts have become more cautious, industry experts (e. g., Roland Berger[10], EY[11], Kearney/Houlihan Lokey[12], CONEBI[10]) continue to believe that the e-Bike industry will return to a long-term positive growth trend after this temporary correction. Bicycles and e-Bikes are already key pillars of the urban mobility transition. For example, recent statistics from Transport for London (TfL)[14] show that the number of cycling trips in London has increased by 26 % since 2019 and by 11.6 % between 2023 and 2024 alone. In addition to the increasing segmentation of the e-Bike market, the growing use of micromobility solutions, such as cargo bikes or electric light vehicles, will further drive demand.

[e]-Mobility

The resistance from member states and the business sector against the EU regulation, which mandates that all new cars and light commercial vehicles registered in the EU must emit no CO_2 from 2035, is growing. This could lead to a postponement of the combustion engine phase-out. Regardless, combustion engine vehicles may continue to be operated beyond the legal sales ban (e. g. with e-Fuels), which could stimulate demand for special high-end sports cars with internal combustion engines in the luxury segment until 2035. hGears has positioned itself as a highly qualified supplier for the production of electric auxiliary and control systems (e.g. Steer-by-Wire, Brake-by-Wire, anti-wobble systems), which are increasingly replacing hydraulic systems thanks to the introduction of higher-voltage onboard networks. This new generation of electric systems is being used in both internal combustion engine vehicles and electric vehicles due to their faster and more precise functionality. Meanwhile, according to the European Automobile Manufacturers' Association ACEA[15], BEV registration figures in 2024 declined, particularly in the second half of the year, and the share of total registrations in the EU fell slightly by 1.0 % to 13.6 %. The main reasons for this are the still inadequate charging infrastructure and the partially abrupt withdrawal of subsidies. Nevertheless, openness to electromobility is increasing in almost all European countries, according to a recent study by Horváth[16]. Around 58 % of respondents in Germany, Europe's largest automotive market, are considering purchasing an electric car, with this share almost doubling since April 2024, while the number of staunch EV opponents has dropped to 20 %. Thus, more and more people seem willing to engage with the topic of electromobility when purchasing their next car.

9 https://www.bike-eu.com/49273/bosch-2024-financial-performance-held-back-by-market-developments?utm_source=Selligent&utm_medium=email&utm_campaign=2399_BIK_RN_202405&utm_content=5030_BIK_RN_20240612&utm_term=109
10 https://www.rolandberger.com/de/Insights/Publications/Recovery-delayed-Die-europ%C3%A4ische-Fahrradindustrie-im-Krisenmodus.html
11 https://www.ey.com/de_de/news/2024/07/ey-fahrradstudie-2024
12 https://cdn.hl.com/pdf/2024/houlihan-lokey-kearney-bike-industry-study.pdf
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e-Tools

The interest rate cuts implemented by central banks, especially in the second half of 2024, have not yet sustainably stimulated the construction industry in developed countries, and due to subdued consumer sentiment, demand for electric garden tools has also remained subdued. Nevertheless, the e-Tools industry has managed to reduce excess inventory. Further interest rate cuts should have a positive impact on both construction activity and consumer confidence, thereby boosting demand. Furthermore, gardening is expected to continue benefiting from a strong electrification trend, not least due to increasing regulation, as combustion engines in this segment are considered a major source of pollution. In 2024, the business with power tools and electric garden equipment has stabilized and should benefit from the trends described above.

Outlook

Non-Financial performance indicators

The group-wide occupational safety and health measures will continue to be optimized to fundamentally reduce lost workdays due to workplace accidents. In 2025, an LTAR of 4 is to be achieved. The recycling rate is also to be fundamentally improved but should at least reach the specified target of 84 % in the current year. hGears' energy consumption can only be reduced gradually and step by step, primarily through the acquisition of new machinery. Meanwhile, absolute energy consumption is expected to decline slightly, although, in purely mathematical terms, it may increase slightly in relation to employee working hours due to the reduced workforce. Thus, we expect an energy consumption of 26 kWh per working hour in 2025.

Financial performance indicators

In view of the uncertainties and challenges on the global markets, accompanied by persistently high inventories and shifts in demand trends, the currently still high key interest rates and increased geopolitical risks, the Management Board of hGears remains cautious in its outlook. For the 2025 financial year, hGears expects sales in the range of EUR 80 – 90 million.

The expected weak volume development is also likely to be reflected in inefficiencies and considerably reduced operating leverage this year. Against this backdrop, the Management Board will focus primarily on operational excellence, execution and deployment while continuing to optimize cost structures. Ultimately, the Management Board expects a negative adjusted EBITDA of EUR minus 4 to minus 1 million for 2025.

Meanwhile, it should be possible to generate a negative free cash flow of EUR minus 6 to minus 2 million in 2024. Management will continue to only authorize expenditure on investments in fixed assets (CAPEX) if it is certain that additional sales and earnings can be generated in the short to medium term.

Schramberg, 24 March 2025

Sven Arend
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 1 January to 31 December

in kEUR	Note	2024	2023
Revenues	3.1	95,711	112,475
Other capitalized own work	3.2	77	87
Changes in inventories	3.2	(3,727)	(1,291)
Total output		**92,061**	**111,271**
Other operating income	3.3	2,137	3,552
Impairment gains/losses from financial instruments	4.4	37	(442)
Raw materials and consumables used	3.4	(50,143)	(55,313)
Personnel expenses	3.5	(35,730)	(39,287)
Depreciation, amortization and impairment	3.6	(11,488)	(13,113)
Other operating expenses	3.7	(12,276)	(17,459)
Profit/loss from operating activities		**(15,402)**	**(10,791)**
Finance income		131	126
Impairment gains/losses from financial instruments		68	(1,525)
Finance expenses		(2,773)	(2,292)
Financial result	**3.8**	**(2,574)**	**(3,691)**
Income before income taxes		**(17,976)**	**(14,482)**
Income and deferred taxes	3.9	(3,192)	688
Net result of the period		**(21,168)**	**(13,794)**
The result is attributable to:			
Result attribution to Shareholders		**(21,168)**	**(13,794)**
Basic/diluted earnings per share (EUR)	**3.11**	**(2.04)**	**(1.33)**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

in kEUR	2024	2023
Net result of the period	**(21,168)**	**(13,794)**
Other comprehensive income:		
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment benefit obligations	6	4
Tax effect	(3)	(1)
Other comprehensive income that may be reclassified subsequently to profit or loss		
Currency translation adjustment	292	(609)
Total comprehensive income	**(20,873)**	**(14,400)**

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of hGears AG, Schramberg

in kEUR	Note	31 December 2024	31 December 2023
Property, plant and equipment	4.1	61,302	70,552
Intangible assets	4.2	653	881
Other non-current assets	4.5	118	114
Other non-current financial assets	4.5	340	–
Deferred tax assets	3.9	2	3,077
Total non-current assets		**62,415**	**74,624**
Inventories	4.3	16,649	20,021
Trade receivables	4.4	7,556	10,528
Other receivables	4.5	952	765
Other current assets	4.5	2,319	3,680
Cash and cash equivalents	4.6	17,127	26,597
Assets held for sale	4.7	–	530
Total current assets		**44,603**	**62,121**
Total assets		**107,018**	**136,745**

in kEUR	Note	31 December 2024	31 December 2023
Share capital		10,400	10,400
Capital reserve		69,232	69,232
Other reserves		400	400
OCI		2.371	2.072
Retained earnings		(8,359)	5,435
Net result of the period		(21,168)	(13,794)
Total Equity	**4.14**	**52,876**	**73,744**
Lease liabilities	4.8	5,606	7,227
Borrowings	4.9	9,694	–
Deferred tax liabilities	3.9	20	21
Provisions	4.10	319	319
Employee benefit obligations	4.11	901	1,068
Trade and other payables	4.12	234	328
Total non-current liabilities		**16,774**	**8,963**
Lease liabilities	4.8	2,240	2,516
Borrowings	4.9	8,782	20,081
Provisions	4.10	630	849
Other current financial liabilities	4.13	168	148
Trade and other payables	4.12	25,548	30,444
Total current liabilities		**37,368**	**54,038**
Total liabilities		**54,142**	**63,001**
Total equity and liabilities		**107,018**	**136,745**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of hGears AG, Schramberg for the years ended 31 December

				OCI			
in kEUR	Share capital	Capital reserve	Other reserves	Currency translation	Employee plan	Retained earnings	Total equity
Balance at 1 January 2023	**10,400**	**69,232**	**400**	**1,622**	**1,055**	**5,434**	**88,145**
Other changes	–	–	–	–	0	–	0
Net result of the period	–	–	–	–	–	(13,794)	(13,794)
Other comprehensive income	–	–	–	(609)	3	–	(606)
Total comprehensive income	**–**	**–**	**0**	**(609)**	**3**	**(13,794)**	**(14,400)**
Balance at 31 December 2023	**10,400**	**69,232**	**400**	**1,013**	**1,058**	**(8,359)**	**73,744**
Balance at 1 January 2024	**10,400**	**69,232**	**400**	**1,013**	**1,058**	**(8,359)**	**73,744**
Other changes	–	–	–	–	5	–	5
Net result of the period	–	–	–	–	–	(21,168)	(21,168)
Other comprehensive income	–	–	–	292	3	–	295
Total comprehensive income	**–**	**–**	**–**	**292**	**8**	**(21,168)**	**(20.873)**
Balance at 31 December 2024	**10,400**	**69,232**	**400**	**1,305**	**1,066**	**(29,527)**	**52,876**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

of hGears AG, Schramberg for the years ended 31 December

in kEUR	2024	2023
Profit / loss from operating activities	**(15,402)**	**(10,791)**
Depreciation, amortization and impairment	11,488	13,113
Other non-cash items	(290)	(303)
Income tax payments	178	525
Provisions and others	(387)	256
Interest paid	(2,501)	(1,887)
Interest received	196	89
Change in inventories	3,426	213
Change in receivables	3,064	1,540
Change in liabilities	(4,475)	(440)
Change in other assets	565	1,572
Change in other liabilities	(725)	219
Net cash provided by (used in) operating activities	**(4,862)**	**4,106**
Cash flows provided by (used in) investing activities		
(Payments) for investments	(1,450)	(8,234)
Loans granted	–	(470)
Income from sales of fixed assets	809	601
Net cash provided by (used in) investing activities	(641)	(8,103)
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	24,661	5,068
Repayments of borrowings	(26,218)	(5,304)
Repayments leasing agreements	(2,578)	(5,197)
Cash flows provided by (used in) financing activities	**(4,135)**	**(5,433)**
Net cash increase (decrease) in cash and cash equivalents	**(9,637)**	**(9,430)**
Cash and cash equivalents at the beginning of the year	26,597	36,276
Effects of exchange rate changes on cash and cash equivalents	167	(250)
Closing Cash and cash equivalents	**17,127**	**26,597**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of hGears Group as of 31 December 2024 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as adopted by the European Union and Section 315e of the German Commercial Code ("HGB"), were released by the Management Board for issue by the Supervisory Board on 24 March 2025.

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

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

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

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

hGears continuously implements measures for cost optimization and liquidity preservation. Additionally, further steps are currently being implemented to specifically counteract potential declines in demand. Despite mentioned measures, based on the current planning additional financing in low single digit million amount is required in the first quarter of 2026. As of the signing day, the financing has not yet been secured but the Company already received indicative offers from potential lenders. Therefore the Management Board is confident that the financing will be successfully secured at latest by the end of 2025.

An additional decline in sales volumes of more than 10 % below the forecasted revenue – contrary to current expectations – could further increase risk and intensify the Group's liquidity needs. To detect changes in demand at an early stage and respond flexibly, hGears continues to focus on continuous market monitoring, strengthening customer relationships, and maintaining close coordination with existing customers. These measures are intended to help identify market trends early and make the necessary adjustments. If necessary, further personnel-related measures will also be taken.

If, contrary to expectations, no additional external financing can be secured for 2026, the continued existence of the parent company and the Group is at risk. As a result, there is significant uncertainty that may cast substantial doubt on the ability of the parent company and the Group to continue as a going concern. The parent company and the Group may therefore not be able to realize their assets or settle their liabilities in the ordinary course of business.These consolidated financial statements cover the financial year from 1 January 2024 to 31 December 2024 (comparative annual period: 1 January 2023 to 31 December 2023).

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

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

hGears Group sees only very limited direct effects from the geopolitical situation, as the group has no significant suppliers or customers in Russia, Ukraine, or the Middle East. After a sharp decline in 2023, the downward trend of inflation slowed significantly in 2024 and even rose slightly again in the fourth quarter. As a result, central banks may slow down their interest rate adjustments, particularly after the interest rate cuts that took place mainly in the second half of 2024. Combined with persistently weak consumer sentiment, this could weigh on global economic growth.

IFRS issued, EU endorsed and adopted in the reporting period

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2024:

Title	IASB Effective date	EU Endorsement status	Effects
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases)	1 January 2024	Endorsed	No material impact for hGears Group
Classification of Liabilities as Current or Non-Current (Amendment to IAS 1 Presentation of the Financial Classification Statements)	1 January 2024	Endorsed	No material impact for hGears Group
Non-current Liabilities with Covenants (Amendments to IAS 1 Presentations of the Financial Statements)	1 January 2024	Endorsed	No material impact for hGears Group
Supplier Finance Arrangements (Amendments to IAS 7 Statements of Cash Flows and IFRS 7 Financial Instruments: Disclosures)	1 January 2024	Endorsed	No material impact for hGears Group

2.2 Basis of Consolidation

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

As of 31 December 2024, the financial statements of the following subsidiaries of hGears AG are included in the consolidated financial statements by means of full consolidation:

Subsidiary	Percentage of ownership %	Subscribed capital	Result of FY 2024 (*)
hGears Schramberg GmbH, Schramberg, Germany	100	kEUR 4,400	kEUR –
hGears Padova S.p.A., Padova, Italy	100	kEUR 2,000	kEUR (6,341)
hGears (Suzhou) Co., Ltd., Suzhou, China	100	kRMB 49,487	kRMB 2,359

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

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

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

2.3 Recent Accounting Developments

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

Various new accounting standards and interpretations have been published but are not mandatory for reporting periods ending on 31 December 2024 and have not been adopted early by the Group. These standards are not expected to have a material impact on hGears Group's net assets, financial position, and results of operations for the period presented or future reporting periods and on foreseeable future business transactions, respectively.

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

Standard/Interpretation	Adopted by the European Union	Early adoption	Impact on hGears Group
Amendments			
Amendments to IAS 21 – Lack of exchangeability of a currency (effective for annual periods beginning on or after 1 January 2025) (1)	Endorsed	Permitted	None
Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7 (2)	Not yet endorsed	Permitted	None
IFRS 18 Presentation and Disclosure in Financial Statements (3)	Not yet endorsed	Permitted	The quantitative and qualitative effects of the application of IFRS 18 on the consolidated financial statements cannot yet be reliably estimated
IFRS 19 Subsidiaries without Public Accountability: Disclosures (3)	Not yet endorsed	Permitted	None

(1) IASB/IFRS IC effective date 1 January 2025; (2) IASB/IFRS IC effective date 1 January 2026
(3) IASB/IFRS IC effective date 1 January 2027

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 non-financial assets, (Note 4.15)
- the uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group (Note 4.1 and 4.2),
- the expected cash inflow from trade receivables (Note 4.4),
- the valuation of inventories (Note 4.3),
- the accounting and measurement of pension provisions and other provisions (Note 4.10 and 4.11),
- the accounting for deferred taxes (Note 3.9).

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

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

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

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

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

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

2.5 Foreign Currency Translation

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

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

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

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

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

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

The following foreign currency rates have been applied:

Chinese RMB	2024	2023
as of 31 December	7.5833	7.8509
annual average rate	7.7875	7.6600

2.6 Accounting Policies

2.6.1 Revenue Recognition

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

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

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

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

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

2.6.2 Finance income and finance expenses

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

2.6.3 Cash and cash equivalents

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

2.6.4 Trade receivables

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

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

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

2.6.5 Inventories

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

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

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

2.6.6 Property, plant and equipment

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

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

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

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

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

2.6.7 Right-of-use-Assets/ Lease Liabilities

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

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

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

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

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

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

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

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

A right-of-use asset is subsequently measured at cost less any accumulated depreciation and, if necessary, any accumulated impairment. According to IFRS 16, the depreciation of right-of use assets is recognized within functional costs. The interest due on the lease liability is a component of interest expense. In determining the lease term, all facts and circumstances offering economic incentives for exercising extension options or not exercising termination options are taken into account. In determining the lease term, those options are only considered if their exercise is reasonably certain.

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

2.6.8 Intangible assets

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

hGears Group doesn't have any intangible asset with an indefinite useful lives.

Other intangible assets with a finite useful life

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

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

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

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

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

2.6.9 Impairment of non-financial 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.

2.6.10 Trade and other payables

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

The contract liabilities is the entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

2.6.11 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.

Sale and buyback transactions where the conditions for a sale are not met are treated as financing.

2.6.12 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.

2.6.13 Employee Benefits

2.6.13.1 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 Padova) 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.).

2.6.13.2 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.

2.6.14 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.

2.6.15 Financial instruments
2.6.15.1 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.

2.6.15.2 Financial assets

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

Classification

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

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

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

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

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

- Financial assets are classified as measured at **Amortized Cost** if the Group holds the assets for collection of contractual cash flows (business model "hold to collect") and the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. After initial recognition, such financial instruments are subsequently carried at Amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the statement of income when the financial assets are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in the consolidated statement of profit or loss.
- Debt financial assets are classified as measured at **fair value through other comprehensive income** if the business model is "hold to collect and sell" and the contractual cash flows are solely payments of principal and interest on principal amount outstanding. The changes in fair value are recognized in other comprehensive income and are reclassified to profit or loss when the instrument is derecognized. Changes in expected credit losses are recorded in profit or loss by adjusting the FVOCI reserve instead of the carrying amount.
- Financial assets that do not meet the criteria for AC or FVOCI are classified as measured at **fair value through profit or loss.** In addition, the Group may irrevocably designate a debt instrument as measured at FVPL (so-called fair value option). Gains or losses on a debt instrument classified into this category are recognized in profit or loss and presented net within other income/(expenses) in the period in which they arise.

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

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

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

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
- in case of payment default (settlement of the invoice after the due date) or failure to pay.

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

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

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

For detailed information on credit risk refer to Note 6.2.2.

2.6.15.3 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 2.6.7. At initial recognition, the Group measures a financial liability at its fair value minus any directly attributable transaction costs, in case a financial liability is not classified at fair value through profit or loss. Transaction costs of financial liabilities carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss.

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

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

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

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

2.6.15.4 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.

2.6.16 Government Grants

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

Government grants related to assets are recognized in other operating income over the life of a depreciable asset.

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

2.6.17 Non-current Assets Held for Sale and Discontinued Operations

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

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

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

3.1 Revenues

hGears Group generates revenue from the sale of manufacturing, distribution and selling of precision turned parts, drive components, gear kits as well as complex system solutions.

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

in kEUR	2024	2023
Sales of goods	95,153	111,705
Other	558	770
Total Revenues	**95,711**	**112,475**

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

Following the strategic reorganization at the beginning of 2024, hGears combined its activities into the e-Bike, [e]-Mobility, and e-Tools business areas with the rational to strengthen its focus on industry-specific requirements and dynamics while also creating more transparency.

The following table provides hGears Group's sales of goods by the new business areas:

in kEUR	2024	2023
e-Bike	18,460	28,882
[e]-Mobility	44,171	49,640
e-Tools	32,522	33,183
Sales of goods	**95,153**	**111,705**

For comparison reason, here below the classification of sales of goods under the previous business areas:

in kEUR	2024	2023
e-Mobility	35,995	42,011
e-Tools	27,131	26,516
Conventional	32,027	43,178
Sales of goods	**95,153**	**111,705**

hGears business activities are divided into three business areas:

- **e-Bike:** The focus is now purely on the e-Bike industry. The activities of the business area include the co-development and manufacturing of components for e-bike applications, which also help to improve noise, vibration, and harshness characteristics.
- **[e]-Mobility:** Focuses on supplying the EHV and conventional automotive industry and manufacturers of powersports vehicles according to the highest quality standards and fulfils all necessary certifications.
- **e-Tools:** Focuses on components utilized in the powering mechanism of battery driven, cordless power and gardening tools. It includes the manufacturing of precision components that are used in the part of the gearbox that connects the electric motor to the actual tools (e. g., cutting tools, trimming tools). Furthermore, the business area contains industrial applications.

Sales of goods in the e-Bike business area decreased mainly due to ongoing destocking in the e-bike industry (2024: kEUR 18,460; 2023: kEUR 28,882).

The revenue in the [e]-Mobility business area declined from kEUR 49,640 in 2023 to kEUR 44,171 in 2024 mainly due to lower demand in Automotive market.

Sales of goods in the e-Tools business area almost in line with 2023 sales (2024: kEUR 32,522, 2023: kEUR 33,182).

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

in kEUR	2024	2023
EU area	67,001	80,420
USA	7,370	9,050
China	6,188	5,996
Rest of the world	14,594	16,239
Sales of goods	**95,153**	**111,705**

Sales of goods in the EU area include sales in Germany for a total amount of kEUR 17,289 (2023: kEUR 29,942), Hungary for a total amount of kEUR 16,380 (2023: kEUR 24,196) and Italy for a total amount of kEUR 16,393 (2023: kEUR 9,419).

Besides Germany, Hungary and Italy, 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	2024	2023
Other capitalized own work	77	87
Changes in inventories	(3,727)	(1,291)
Total	**(3,650)**	**(1,204)**

3.3 Other operating income

The line item breaks down as follows:

in kEUR	2024	2023
Foreign currency exchange gains	674	1,723
Disposal of non-current assets	54	710
Reversal of provisions	369	98
Non-cash benefits to employees	275	247
Government grants	509	610
Refund from social contribution for employees	15	16
Other	241	148
Total	**2,137**	**3,552**

In the line Government grants are recognized subsidies received in Italy and in Germany according to IAS 20.

3.4 Raw materials and consumables used

The line item breaks down as follows:

in kEUR	2024	2023
Raw Materials less discounts received	(36,529)	(37,274)
Consumables used and energy	(9,999)	(13,823)
Outsourced manufacturing costs	(3,615)	(4,216)
Total	**(50,143)**	**(55,313)**

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

3.5 Personnel expenses

The line item breaks down as follows:

in kEUR	2024	2023
Wages and salaries	(28,299)	(30,159)
Social security contributions	(6,563)	(7,190)
Temporary workers	(868)	(1,938)
Total	**(35,730)**	**(39,287)**

Wages and salaries include expenses for defined contribution pension plans in the amount of kEUR 1,819 in 2024 and kEUR 1,934 in 2023.

In 2024 the use of short-time-work in Germany led to claims for the reimbursement of short-time allowance, which are recognized as reduction of the Personnel expenses, according to IAS 20 (2024: kEUR 140, 2023: kEUR 205).

In 2024 the Group employed 668 people on average (2023: 777).

	2024	2023
Factory workers	495	594
Office workers and Managers	173	183
Total	**668**	**777**

As of 31 December 2024, the Group employed 647 FTEs, including the Management Board (31 December 2023: 726).

	31 December 2024	31 December 2023
Factory workers	558	630
Office workers and Managers	89	96
Total	**647**	**726**

3.6 Depreciation, amortization and impairment

The notes to the individual items show the breakdown of depreciation, amortization and impairment charges between intangible assets and property, plant and other equipment. Total depreciation, amortization and impairment came to kEUR 11,488 (2023: kEUR 13,113).

In 2024 the disposal of the Assets held for sales (31 December 2023: kEUR 530), generated a gain of kEUR 329 through remeasurement under IAS 16.

In 2023, special depreciation, according to IFRS 5 were booked for a total amount of kEUR 915.

For more information on leasing, we refer to Section 4.7.

3.7 Other operating expenses

The line item breaks down as follows:

in kEUR	2024	2023
Maintenance, distribution and manufacturing expenses	(4,764)	(6,343)
Administration and marketing	(4,851)	(5,938)
Miscellaneous personnel expenses	(1,263)	(1,939)
Foreign currency exchange losses	(427)	(1,677)
Lease expenses	(627)	(747)
Losses from disposal of fixed assets	(49)	(383)
Other	(295)	(432)
Total	**(12,276)**	**(17,459)**

The table below shows the fees booked in 2024 and 2023 for the Auditing Company:

in kEUR	2024	2023
Auditors		
Audit	(376)	(607)
Total	**(376)**	**(607)**

3.8 Financial result

The line item breaks down as follows:

in kEUR	2024	2023
Interest bank income	131	89
Other interest income and similar income	–	37
Financial income	**131**	**126**
Impairment gains / losses from financial instruments	68	(1,525)
Impairment gains / losses from financial instruments	**68**	**(1,525)**
Interest expense on finance lease liabilities	(501)	(540)
Interest expenses banks loans and overdrafts	(727)	(1,138)
Other interest expenses and similar expenses	(1,545)	(614)
Financial expenses	**(2,773)**	**(2,292)**
Total	**(2,573)**	**(3,691)**

Other interest expenses and similar expenses include the scheduled amortization of transaction costs in relation to the loans in the amount of kEUR 241 (2023: kEUR 262), factoring interests in the amount of kEUR 292 (2023: kEUR 310) and interest on Maturus financing in the amount of kEUR 962 (see Section 4.9). An impairment loss from financial instruments in 2023 resulted from the impairment of a financial asset in the amount of EUR 1.5 million. Interest income of a total of kEUR 131 (2023: kEUR 89) primarily resulted from bank deposits and from other interest income.

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

3.9 Income and deferred taxes

The line item breaks down as follows:

in kEUR	2024	2023
Current income taxes	(114)	(60)
Deferred income taxes	(3,078)	748
from temporary differences	(1,416)	(210)
from tax loss carry-forwards	(1,662)	958
Total taxes	**(3,192)**	**(688)**

Effective income taxes for 2024 include corporation tax, solidarity surcharges, trade tax and foreign income taxes paid totaling kEUR 114 (2023: kEUR 60).

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 % (2023: 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	2024	2023
Income before income taxes	**(17,975)**	**(14,482)**
Theoretical taxes income/(expenses)	5,235	4,218
Effective taxes income/(expenses)	(3,192)	719
Lower/(higher) tax burden related to:	**(8,427)**	**(3,499)**
Differences in foreign tax rates	(18)	(169)
Taxes not relating to the period	(73)	12
No-deductible expenses and tax free income	80	322
Taxes on dividends	(10)	(7)
Unused tax loss carry forwards	(5,384)	(3,599)
Impairment of DTA	(2,955)	–
Others	(66)	(58)
Tax charge	**(8,427)**	**(3,499)**

The effective tax rate of the Group is 17.8 % (2023: −5.0%).

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 2024**	**31 December 2023**
Finance lease liabilities	534	633
Intangible	25	29
Inventories	52	728
Other current financial liabilities	–	59
Other receivables	4	8
Property, plant and equipment	123	549
Provisions	60	289
Tax losses carry forward	1,673	3,335
Trade receivables	51	15
Borrowings	32	71
Non-current other liabilities	31	21
Trade and other payables	40	81
Other non-current liabilities	281	–
Other	(2)	–
Offsetting	(2,902)	(2,741)
Total	**2**	**3,077**

	Deferred tax liabilities	
in kEUR	31 December 2024	31 December 2023
Employee benefit obligations	20	18
Inventories	–	9
Trade receivables	21	–
Property, plant and equipment	2,879	2,729
Non-current other liabilities	2	3
Other	–	3
Offsetting	(2,902)	(2,741)
Total	**20**	**21**

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 1,673 (31 December 2023: kEUR 3,335) have been recognized for tax loss carry forwards.

There are unused tax losses in the Group for corporate income tax (Tax rate: 15.825 %) in the amount of kEUR 50,389 (31 December 2023: kEUR 33,055) and unused tax losses for trade taxes (Tax rate: 13.3 %) in the amount of kEUR 42,598 (31 December 2023: kEUR 31,645). Only kEUR 1,235 unused tax losses are subject to a time limit of 5 years (31 December 2023: kEUR 1,342).

In the period under review, tax effect of kEUR 2 (2023: kEUR 1) resulted from the re-measurement of the employees benefit obligation. These effects are recognised in other comprehensive income; the cumulative amount is kEUR 20 (31 December 2023: kEUR 18).

No deferred tax liabilities were recognized on temporary differences in the carrying amounts of investments, so-called outside basis differences, in the amount of kEUR 33,066 (31 December 2023: kEUR 18,396), as hGears AG can control the timing of the realization of the temporary differences and these will not be reversed in the foreseeable future.

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

3.10 Segment reporting

An operating segment is defined as a unit of an entity that engages in business activities from which it can earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's chief operating decision-maker, the Management Board, and for which discrete financial information is available. In light of such definition, hGears consists of one operating segment, production of high precision gears and components.

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

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

in kEUR	IFRS consolidated	
FY	**2024**	**2023**
Revenues	**95,712**	**112,475**
Adjusted EBITDA [1]	**500**	**5,609**
One-off transaction costs	(4,414)	(3,287)
Depreciation, amortization and impairment	(11,488)	(13,113)
EBIT	**(15,402)**	**(10,791)**
Finance income	199	126
Finance expenses	(2,773)	(3,817)
EBT	**(17,946)**	**(14,482)**
Income and deferred taxes	(3,192)	688
Net result of the period	**(21,168)**	**(13,794)**

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

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

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

in kEUR	IFRS consolidated	
FY	**2024**	**2023**
Personnel costs [1]	2,090	2,375
One-off advisory fees	31	54
One-off Impairment	542	684
One-off special project cost	1,751	162
Other	–	12
Total	**4,414**	**3,287**

(1) it includes additional bonuses for employees and accruals for severance costs

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

in kEUR	IFRS consolidated	
FY	**2024**	**2023**
Return on revenues in % [1]	(22.1)	(12.3)
Free Cash Flow [2]	(3,824)	(3,058)

(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 (2024: kEUR 626, 2023: kEUR 858), which are part of the payments for PPE and intangible assets.

hGears Group generates more than 10 % of its sales with one customer. As of 31 December 2024, this single most important customer represented accounts receivable with a carrying amount of kEUR 561(31 December 2023: kEUR 349) and revenues in 2024 in the amount of kEUR 16,258 (2023: kEUR 24,501).

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

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

in kEUR	hGears AG/ Germany		Schramberg/ Germany		Padova/ Italy		Suzhou/ China		Reconciliation [(1)]		IFRS consolidated	
FY	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**
Additions	–	–	906	5,985	1,411	2,924	321	229	–	–	**2,638**	**9,138**
Carrying amounts	47	73	35,391	41,658	20,559	22,782	6,000	6,958	(42)	(39)	**61,955**	**71,432**

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

3.11 Earnings Per Share

The basic earnings per share (as defined in IAS 33) as of 31 December 2024 is EUR −2.04 (31 December 2023: EUR −1.33). It is calculated by dividing the net income or loss for the period attributable to holders of ordinary equity instruments of hGears by the weighted average number of ordinary shares outstanding during 2024, amounting to 10,400,000 (2023: 10,400,000).

The 262,750 options granted on 25 July 2024 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 31 December 2024.

The performance targets for the stock options granted in 2024 were not achieved. Therefore, these options expired on 31 December 2024 and will not have any dilutive effect going forward.

4. NOTES TO THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

4.1 Property, plant and equipment

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

in kEUR	31 December 2024	31 December 2023
Land and Buildings	9,398	10,937
Plants and Machinery	41,632	45,509
Tools and Dies	4,332	4,695
Other assets	4,140	5,017
Fixed assets under construction and down-payments	1,800	4,394
Total	**61,302**	**70,552**

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

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

in kEUR	31 December 2024	31 December 2023
Right-of-use Assets:		
Land and Buildings	5,651	6,689
Plants and Machinery	3,046	6,471
Other assets	642	751
Total	**9,339**	**13,911**

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

in kEUR	1 January 2023	Addi-tion	Dis-posal	Depre-ciation	Reclassi-fication	Currency differences	31 December 2023
Right-of-use Assets:							
Land and Buildings	10,690	–	–	(1,561)	(2,315)	(125)	6,689
Plants and Machinery	6,886	192	–	(607)	–	–	6,471
Other assets	356	693	(2)	(295)	–	(1)	751
Total	**17,932**	**885**	**(2)**	**(2,463)**	**(2,351)**	**(126)**	**13,911**

in kEUR	1 January 2024	Addi-tion	Dis-posal	Depre-ciation	Reclassi-fication	Currency differences	31 December 2024
Right-of-use Assets:							
Land and Buildings	6,689	303	–	(1.511)	–	43	5,524
Plants and Machinery	6,471	21	–	(283)	(3,163)	–	3,046
Other assets	751	336	(16)	(303)	–	1	769
Total	**13,911**	**660**	**(16)**	**(2,097)**	**(3,163)**	**44**	**9,339**

Additions to the right-of-use assets during the financial year 2024 were kEUR 660 (31 December 2023: kEUR 885).

In 2024, application of IFRS 16 – Leases resulted in the recognition of kEUR 2,097 in depreciation and amortization (2023: kEUR 2,463) and interest payments for leasing kEUR 501 (2023: kEUR 540). As of 31 December 2024 lease liabilities amounted to kEUR 7,845 (31 December 2023: kEUR 9,743).

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

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

Fixed assets under construction and down-payments amounted to kEUR 1,800 and include down-payments to suppliers for the acquisition of plant and machinery (31 December 2023: kEUR 4,394).

4.2 Intangible assets

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

in kEUR	31 December 2024	31 December 2023
Software and licenses	552	701
Brands and trademarks	25	38
Down-payments	76	142
Total	**653**	**881**

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.

4.3 Inventories

In kEUR	31 December 2024	31 December 2023
Raw materials, consumables and supplies	12,158	11,325
Finished goods and work in progress	10,666	13,991
Provisions for inventory	(6,175)	(5,295)
Total	**16,649**	**20,021**

The gross value of written-down inventories as of 31 December 2024 is kEUR 14,728 (31 December 2023: kEUR 16,659).

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

in kEUR	
Balance as of 31 December 2022	**(4,946)**
Addition	(794)
Reverse	236
Utilization	202
Other	7
Balance as of 31 December 2023	**(5,295)**
Addition	(1,227)
Reverse	34
Utilization	321
Other	(8)
Balance as of 31 December 2024	**(6,175)**

Depreciation of kEUR 1,227 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 34. The utilization mainly refers to the scrapping.

Inventories recognised as an expense during the year ended 31 December 2024 amounted to kEUR 20,045 (2023: kEUR 20,395). These were included in Raw materials and consumables used and Changes in inventories.

4.4 Trade receivables

The carrying amounts of the trade receivables approximate to their fair values and it is equal to kEUR 7,556 (31 December 2023: kEUR 10,528).

The Group entered into in various supplier finance programs of our customers. Under these arrangements, the Group sells trade receivables to financial institutions. When the receivables are transferred, they are paid out in full by the bank, after the deduction of a discount. As the sale is non-recourse and the Group has transferred the credit risk, trade receivables amounting to kEUR 6,127 as of the reporting date, are fully derecognized (31 December 2023: kEUR 7,797). Further trade receivables intended to be sold and amounting to kEUR 731 are not sold yet as of the reporting date (31 December 2023: kEUR 651).

At 31 December 2024, provision for impairments amounted to kEUR 33 (31 December 2023: kEUR 493).

4.5 Other current assets and non-current assets

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

In kEUR	31 December 2024	31 December 2023
Other receivables non-current	118	114
Other financial assets non-current	340	–
Total Non-Current	**458**	**114**

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

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

in kEUR	31 December 2024	31 December 2023
Receivables for energy costs	196	287
Other	629	183
Total Non-Financial Assets	**825**	**470**
Loan to employees	95	281
Supplier with debit balance	7	4
Suppliers premium	19	7
Other	6	3
Total Financial Assets	**127**	**295**
Total	**952**	**765**

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

in kEUR	31 December 2024	31 December 2023
VAT receivables	530	541
Tax receivables	1,336	2,376
Current prepaid operating expenses	453	762
Total	**2,319**	**3,680**

4.6 Cash and cash equivalents

At 31 December 2024, cash and cash equivalents amounted to kEUR 17,127 (31 December 2023: kEUR 26,597). This position includes cash in hand in the amount of kEUR 1 (31 December 2023: kEUR 4).

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

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was immaterial as of 31 December 2024.

4.7 Assets held for sale

In 2023 hGears Group decided to sell some non-current assets previously used in its business. According to IFRS 5, those assets were classified separately from other assets in the statement of Financial Position.

The assets previously classified as held for sale and not sold during 2024 (kEUR 110) are no longer classified as such in the current reporting period (31 December 2023: kEUR 530). According to IFRS 5 an asset can only remain in this category if its sale is highly probable within one year from the date of classification. Since the sale has not been completed within this period and the criteria for classification as held for sale are no longer met, the assets have been reclassified back to Property, plant and equipment and the values are adjusted to the recoverable amounts according to IAS 16.

4.8 Lease liabilities

The Group leases various plants and equipment within the scope of IFRS 16. The carrying amount of the corresponding lease liabilities amount to kEUR 7,845 (31 December 2023: kEUR 9,743).

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

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

in kEUR	31 December 2024	31 December 2023
Finance lease liabilities current	2,240	2,516
Finance lease liabilities non-current	5,605	7,227
Total	**7,845**	**9,743**

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

in kEUR	31 December 2024	31 December 2023
Gross finance lease liabilities – minimum lease payments:		
Less than 1 year	2,608	2,890
1 – 5 years	6,063	7,748
More than 5 years	7	86
Minimum lease payments	**8,678**	**10,724**

in kEUR	31 December 2024	31 December 2023
The present value of finance liabilities – minimum lease payments:		
Less than 1 year	2,240	2,516
1 – 5 years	5,599	7,142
More than 5 years	6	84
Net present value of minimum lease payments	**7,845**	**9,743**

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 related to lessee accounting are:

in kEUR	2024	2023
Expenses from short-term leases	394	464
Expenses from leases of low-value assets	165	148
Expenses from variable lease payments	68	136
Total	**627**	**748**

4.9 Borrowings

On 27 March 2024 hGears signed a financing agreement with a lender for a financing of EUR 15 million with duration of 36 months. The agreement is secured by pledging the manufacturing equipment of the German plant with carrying amount of EUR 15.9 million. The agreement has a balance of EUR 6.0 million due at maturity.

On 10 May 2024 the conditions precedent of the financing agreement were fulfilled and thus the agreement became effective.

In April 2024 hGears signed additional financing agreements with two leading European banks with total amount of EUR 5.0 million (each EUR 2.5 million). hGears pledged account receivables (EUR 4.8 million) and inventory (EUR 9.6 million) of the German plant to secure these credit agreements. The agreements have no maturity and can be drawn and repaid at any time.

In October 2024 hGears signed a master agreement with a leading Italian bank with a total amount of up to EUR 4.0 million. The master agreement doesn't require any collaterals and has a maturity of six months and can be drawn, repaid and extended at any time.

On 13 December 2024 hGears signed a financing agreement with a lender for a financing of EUR 0.5 million with duration of 72 months. The agreement is secured by pledging the specific related equipment of the German plant with carrying amount of EUR 1.0 million.

The mentioned above agreements served to refinance the Group's debt as of 31 December 2023.

The carrying amounts of borrowings are as follows:

in kEUR	31 December 2024	31 December 2023
Bank loan current	4,921	20,081
Other lenders current	3,861	–
Other lenders non-current	9,694	–
Total	**18,476**	**20,081**

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

Bank	Nominal Value (in mEUR)	Date	Interest rates	Repayment / Maturity	Transaction costs (in kEUR)
1 Maturus Finance GmbH	14.7	10 May 2024	10.42 %	Monthly	375
2 Unicredit	2.5	21 June 2024	4,00 % + 3m EURIBOR	Variable	–
3 Deutsche Bank	2.5	25 June 2024	8,00 % +€STR	Variable	–
4 Intesa Sanpaolo S.p.A.	4.0	9 October 2024	2,75 % + 3m EURIBOR	Variable	–
5 Würth Leasing GmbH & Co. KG	0.5	13 December 2024	9.38 %	Monthly	–

The cancellation conditions of the agreement **1)** reported in the table above are:

- delay in the repayment of two monthly fees;
- breach in insurance obligation;
- evidence of significant deterioration in the financial strength of the borrower;
- the collateral provided by the borrower has lost considerable value;
- the borrower does not succeed to provide securities in any other way;
- the borrower business is sold in whole or substantial part.

There are no cancellation conditions for the agreements **2)**, **3)** and **4)**.

4.10 Provisions

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

In kEUR	31 December 2024	31 December 2023
Provision, current	630	849
Provision, non-current	319	319
Total	**949**	**1,168**

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

in kEUR	Environment provision	Other risk provision	Warranty provision	Total
Balance as of 31 December 2022	**269**	**184**	**430**	**883**
Addition	–	321	82	403
Release	–	(10)	(42)	(52)
Utilization	–	–	(63)	(63)
Other	–	–	(3)	(3)
Balance as of 31 December 2023	**269**	**495**	**404**	**1,168**
Addition	–	12	134	146
Release	–	(174)	(123)	(297)
Utilization	–	-	(69)	(69)
Other	–	(1)	2	1
Balance as of 31 December 2024	**269**	**332**	**348**	**949**

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

The Company doesn't expect to utilize the accrued amount in the next 12 months.

The amounts considered in "Other risks provision" refer to the best estimate made by the Management Board about probable liabilities in relation to proceedings against suppliers, tax authorities, employees and other subjects. The estimate takes into account, where applicable, the opinion of legal advisors and other experts, the past experience of the Company in similar situations and the intention of the Company to proceed with further action. This item also includes provisions for anticipated losses. It's expected that the accrued amount of kEUR 282 is utilized in the next 12 months.

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

4.11 Employee benefit obligations

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

Italian "Trattamento di Fine Rapporto" (TFR) benefit is a deferred compensation item established by Italian law. It is 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 27 December 2006 ("2007 Finance Act") and the following decrees and regulations issued in the early months of 2007, the Italian severance indemnity plans are deemed:

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

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

The composition of this item is detailed as follows:

in kEUR	
Balance as of 31 December 2022	**1,100**
Actuarial Losses (profits) from experience	(27)
Actuarial Losses (profits) from changes in financial assumptions	24
Interest costs	39
Utilisation of TFR	(68)
Balance as of 31 December 2023	**1,068**
Actuarial Losses (profits) from experience	(1)
Actuarial Losses (profits) from changes in financial assumptions	(5)
Interest costs	30
Utilisation of TFR	(182)
Other	(9)
Balance as of 31 December 2024	**901**

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

	31 December 2024	**31 December 2023**
Economic summary		
Inflation rate	2.00 %	2.00 %
Discount rate	3.18 %	3.08 %
Annual rate of increase TFR	3.00 %	3.00 %
Demographic summary		
Mortality	ISTAT 2022	Mortality table RG48 published by the General 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 31 December 2024	Pension plan 31 December 2023
Turnover rate	+1%	912	1,070
Turnover rate	−1%	907	1,065
Inflation rate	+0,25%	919	1,079
Inflationsrate	−0,25%	901	1,057
Discount rate	+0,25%	896	1,051
Discount rate	−0,25%	924	1,085

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 2024	–
Duration (years)	7.00

Future estimated payments for defined benefit plans

Year	in kEUR
1	103
2	74
3	64
4	103
5	115

The total expense recognized in the current period in relation to the Group contributions was kEUR 1,819 during 2024 and kEUR 1,934 during 2023.

4.12 Trade and other payables

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

in kEUR	31 December 2024	31 December 2023
Trade payables	16,996	21,290
Current Non-Financial Liabilities	8,552	9,154
Total	**25,548**	**30,444**

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade payables are assumed to be the same as their fair values, due to their short-term nature.

The following table provides the breakdown of the Current Non-Financial Liabilities:

in kEUR	31 December 2024	31 December 2023
Contract Liabilities	243	657
Other current liabilities	2,272	2,696
Employees liabilities	4,527	4,131
Current deferred operating expenses	1,510	1,670
Total Current Non-Financial Liabilities	**8,552**	**9,154**

Contractual liabilities as of 31 December 2023 resulted reversed in revenues in 2024 for an amount equal to kEUR 414.

Other current liabilities breakdown is as follows:

in kEUR	31 December 2024	31 December 2023
Taxes and social contributions on wages	1,751	1,939
Auditor costs	302	488
Other	219	266
Total	**2,272**	**2,693**

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

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

in kEUR	31 December 2024	31 December 2023
Anniversary obligation	97	64
Trade Payables	137	191
Employee liabilities	–	73
Total	**234**	**328**

4.13 Other current financial liabilities

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

in kEUR	31 December 2024	31 December 2023
Interest liabilities	168	148
Total	**168**	**148**

4.14 Equity

On 8 April 2021, the Company's share capital increased from kEUR 63 to kEUR 8,000 from company funds. On 21 May 2021 the share capital is increased due to the IPO to kEUR 10,400. At 31 December 2024 the total share capital of the Company is divided into 10,400,000 ordinary shares with a par value of EUR 1.

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 "former" miniGears companies (kEUR 13,485), reduced by kEUR 7,938 as result of the share capital increase from Company funds. The proceeds from IPO amounts to kEUR 60,000, reduced by certain legal, consulting and other third-party fees that are directly associated with in-process equity (kEUR 3,278, increased by kEUR 7 compared to last year). Due to the missing recoverability of the tax advantages, no taxes were recognised in the equity.

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

The OCI Reserves includes:

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

Retained earnings 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 31 March 2026, by up to a total of EUR 4,000,000.00 by issuing up to a total of 4,000,000 new no-par value bearer shares in return for cash contributions and/or contributions in kind (Authorized Capital 2021). The 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 22 June 2022, with the approval of the Supervisory Board, to issue convertible and/or warrant-linked bonds or profit-sharing rights with or without conversion or subscription rights (collectively hereinafter also referred to as "bonds") in a total nominal amount of up to EUR 100,000,000.00 on one or more occasions until 4 May 2026. The holders of the Bonds referred to in the preceding sentence may be granted conversion or subscription rights to up to 3,261,600 no-par value bearer shares of the Company with a pro rata amount of the share capital of up to EUR 3,261,600.00 in total. The conversion and subscription rights may be serviced from conditional capital to be resolved at this or future Annual General Meetings, from existing or future authorized capital and/or from a cash capital increase and/or from existing shares and/or provide for a cash settlement instead of the delivery of shares. No use has yet been made of Conditional Capital 2021/I.

Conditional Capital 2024
The Management Board was authorized by the Annual General Meeting on 11 June 2024, with the approval of the Supervisory Board, to conditionally increase the Company's share capital by up to EUR 525,450.00 by issuing up to 525,450 no-par value bearer shares (Conditional Capital 2024). Conditional Capital 2024 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 11 June 2024. The conditional capital increase shall only be implemented to the extent that stock options are granted in accordance with the aforementioned authorization resolution (Stock Option Programme 2024), the holders of the stock options exercise their rights, and the Company does

not grant any treasury shares to service the stock options. The new no-par value bearer shares shall carry dividend rights from the beginning of the financial year for which the Annual General Meeting has not yet adopted a resolution on the appropriation of profits at the time of issue. The Supervisory Board is authorized to amend the wording of the Articles of Association in line with the respective utilization of Conditional Capital 2024 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 2024.

The total nominal amount of the Company's conditional capital, including Conditional Capital 2021/I in the amount of EUR 3,261,600.00 (Section 4.3 of the Articles of Association) and the new Conditional Capital 2024 in the amount of EUR 525,450.00 (Section 4.4 of the Articles of Association), which replaced Conditional Capital 2023, amounts to a total of EUR 3,787,050.00 and therefore not exceeds half of the share capital existing at the time of the resolution on the conditional capital increase.

4.15 Impairment of assets or cash-generating units

As at 31 December 2024 the hGears Group reviewed the carrying amounts of Intangible assets of kEUR 653 (previous year: kEUR 881) and Property, plant and equipment of kEUR 61,302 (previous year: kEUR 70,552) to determine whether there were any indications of impairment of assets or cash-generating units. The review resulted that as at the reporting date no impairments required. In the fundamental analyses of the recoverability of cash-generating units, the hGears Group determines the higher of value in use and fair value less costs to sell as the recoverable amount and compares this with the corresponding carrying amounts. The cash-generating units correspond to the individual companies of the hGears Group. The value in use is determined by discounting the expected future cash flows from the continued use of the cash-generating units at a risk-adjusted interest rate (WACC). Future cash flows are determined on the basis of the business plan approved by management at the time the impairment test is carried out. The business plan regularly covers a period of five years. It is based on expectations regarding the future economic development of the respective markets and the profitability of the products offered. A risk assessment is also carried out when deriving the value in use. The effects of company-related risks as well as the effects of the Russia-Ukraine conflict and interest rate trends are taken into account in the calculation via cash flows. Country risks, on the other hand, are taken into account as cross-company effects in the interest rate. The assumptions used for the planning calculation are checked for plausibility both on the basis of historical developments and external sources of information. The risk-adjusted interest rate (WACC – weighted average cost of capital) calculated for the respective cash-generating unit – as at 31 December 2024 is 9.81 % (previous year: 10.32 %) after tax plus country risk premium. The WACC before taxes was 11.94 % as at 31 December 2024 (previous year: 12.92 %). The calculation is based on the Capital Asset Pricing Model (CAPM), taking into account current market expectations. Specific peer group information for beta factors, capital structure data and borrowing costs are used to determine the interest rate. The company-specific cash flows were calculated using the respective tax rates of the companies in Germany of 29.13 % (unchanged from the previous year) and abroad of 25.00 % and 27.90 % (unchanged from the previous year). For the periods after the detailed planning phase, the cash flows of the last planning period are extrapolated using growth rates based on long-term inflation expectations. The growth rates used for the calculation are generally 1.5 % (previous year: 1.0 %). Corporate planning is based on past experience, taking current forecasts into account. In the companies, the main planning assumptions are based on the industry forecasts for the global industry economy on which sales planning is based, specific customer commitments for individual company-specific adjustments, which also include planned product innovations and cost savings.

Changes in the WACC and/or in profitability within the possible range (i.e. a change of +1.0 %-points in the WACC or changes of 20 % or 10 % in profitability, would cause the carrying amount of one cash-generating unit to exceed its recoverable amounts by EUR 5.3 million, EUR 9.7 million and EUR 7.5 million respectively. In case of reductions in the revenues of 20 % or 10% there would be an impairment requirement of EUR 3.6 million or EUR 4.5 million respectively.

5. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOW

The following table provides the reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities.

in kEUR	31 December 2023	Cash flows	Non-cash changes: Acquisition	Fair value changes	Foreign exchange movement	Other	31 December 2024
Finance lease liabilities	9,743	(2,578)	–	–	54	626	7,845
Borrowings	20,081	(1,557)	–	–	–	(48)	18,476
Other current financial liabilities	149	(149)	–	–	–	168	168

in kEUR	31 December 2022	Cash flows	Non-cash changes: Acquisition	Fair value changes	Foreign exchange movement	Other	31 December 2023
Finance lease liabilities	14,233	(5,720)	–	–	(151)	1,381	9,743
Borrowings	20,122	(1,226)	–	–	–	1,186	20,081
Other current financial liabilities	242	(4)	–	(93)	–	4	149

The paid interests in the cash flow statement include interests for factoring in an amount of kEUR 292 (2023: kEUR 310) and interest for leasing in an amount of kEUR 501 (2023: kEUR 540). The “Other” column includes additions to the lease liability due to new lease agreements.

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.

None of the borrowings mentioned in Note 4.9 are subject covenants.

6.2 Financial risk management

hGears Group's operating activities expose the Group to a variety of financial risks such as market risks, credit risks and liquidity risks. hGears Group's finance department has created controlling instruments and key metrics to identify and evaluate such risks in close co-operation with the operating units.

6.2.1 Market risk

6.2.1.1 Foreign exchange risk

The exposure to the risk of changes in foreign exchange rates arises from commercial activities conducted by Group companies in currencies other than the respective functional currency, and in particular for expected sales made in USD and in EUR (other currencies are used for negligible amounts). These revenues in foreign currencies can be affected by fluctuations in the respective exchange rate impacting on the commercial margins. The Group's companies also hold immaterial debts in foreign currency as well as foreign currency bank accounts.

The Group is primarily exposed to changes in RMB/Euro and RMB/US Dollar exchange rates due to its Chinese subsidiary. The Group also has exposures to changes in USD/EUR exchange rates due to its Italian subsidiary. The measures implemented to hedge against these currency risks are defined at Group level. To mitigate the foreign currency risks and limiting the variability of turnover, the Group enters into foreign exchange forward contracts to partially hedge its planned sales in USD on the basis of approved commercial budget. The derivative contracts are concluded exclusively with independently highly rated financial institutions.

In 2024 the Group didn't enter in any new derivative contracts.

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 USD and EUR-denominated non-derivative financial instruments as well as from the non-designated components of derivatives. The impact on other components of equity arises from the components of foreign currency forward contracts designated as cash flow hedges.

The effects of a ten percent increase/decrease in RMB against foreign currencies were as follows as of the balance sheet date:

in kEUR	31 December 2024			
	Equity		Profit for the period	
Exchange rate	10%	(10%)	10%	(10%)
RMB/EUR	–	–	77	(77)
RMB/USD	–	–	684	(684)

in kEUR	31 December 2023			
	Equity		Profit for the period	
Exchange rate	10%	(10%)	10%	(10%)
RMB/EUR	–	–	96	(96)
RMB/USD	–	–	575	(575)

The effects of a 10% increase/decrease in USD against Euro were as follows as of the balance sheet date:

in kEUR	31 December 2024			
	Equity		Profit for the period	
Exchange rate	10%	(10%)	10%	(10%)
USD/EUR	–	–	(41)	51

in kEUR	31 December 2023			
	Equity		Profit for the period	
Exchange rate	10%	(10%)	10%	(10%)
USD/EUR	–	–	(83)	104

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 avai-lable cash in bank deposits. Changes in market interest rates influence the cost and the performance of various forms of financing and utilization, thus impacting on the level of charges and finance income and financial expenses of the Group.

The measurement of the interest rate risk of the Group has been carried out through a sensitivity analysis that shows the effects on the consolidated statement of profit or loss and net equity which would be encountered during the year as of 31 December 2024 in the case of a hypothetical change in market interest rates. The effects to profit or loss results from floating rate financing that is not hedged, impact to equity results from the fair value changes of the interest rate swaps designated as hedging instruments (at the reporting date no contract in place).

in kEUR	31 December 2024	
	Equity	Result for the period
+200 bps	–	(376)
−200 bps	–	376

in kEUR	31 December 2023	
	Equity	Result for the period
+100 bps	–	(400)
−100 bps	–	400

For further information on derivatives and hedge accounting refer to Notes 2.6.14 and 7.3.

6.2.2 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 (Probability of Default) and LGD (Loss Given Default) received from the provider. Moreover, the information given are adjusted in order to evaluate the macroeconomic estimates to consider forward looking information.

As of 31 December 2024 due to the fact, that not all customers are blue chip, no trade receivables are covered by the insurance company. The credit risk from (non-derivative) financial assets is covered by loss allowances for financial assets without objective evidence of impairment as well as by value adjustments for already impaired financial assets.

The default risk from (non-derivative) financial assets is covered by loan loss provisions for financial assets without objective proof of impairment and by impairments on financial assets that have already been impaired.

The table below shows the gross carrying amounts of trade receivables by credit risk rating grades depending on the days past due as well as the respective loss allowances as of the balance sheet date:

in kEUR	31 December 2024		31 December 2023	
	Gross	Provision	Gross	Provision
Amounts undue	6,685	(33)	9,782	(106)
Past due 0 – 30 days	863	–	676	–
Past due 31 – 60 days	56	–	75	(4)
Past due 61 – 90 days	7	–	133	–
More than 91 days	–	–	355	(383)
Total	**7,611**	**(33)**	**11,021**	**(493)**
Trade receivables, net	**7,578**		**10,528**	

The table below shows the gross carrying amounts by credit risk rating classes for each class of other financial assets measured at amortized cost and measured at fair value through profit hand loss as of 31 December 2024 and 2023.

in kEUR **31 December 2024**	Other non-current receivables (deposits)	Other non-current financial assets	Other receivables	Cash and cash equivalents (bank balances)
Credit risk rating class 1	118	340	95	17,127
Credit risk rating class 2	–	–	–	–
Credit risk rating class 3	–	–	–	–
Total	**118**	**340**	**95**	**17,127**

in kEUR **31 December 2023**	Other non-current receivables (deposits)	Other non-current financial assets	Other receivables	Cash and cash equivalents (bank balances)
Credit risk rating class 1	114	-	281	26,597
Credit risk rating class 2	–	–	–	–
Credit risk rating class 3	–	–	–	–
Total	**114**	**–**	**281**	**26,597**

For these financial assets the identified expected credit losses as of 31 December 2024 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.

in kEUR

Financial liability description	**Carrying amount**	**31 December 2024**	**< 1 year**	**1 – 5 years**	**> 5 years**
Trade payables	16,996	16,996	16,996	–	–
Other payables	8,787	8,787	8,553	234	–
Borrowings	18,476	21,380	9,194	12,103	84
Borrowings – capital portion	–	–	7,876	10,827	80
Interest expenses on Borrowings	–	–	1,318	1,275	4
Finance lease liabilities	7,845	8,678	2,608	6,063	7
Total	**52,104**	**55,841**	**37,351**	**18,400**	**91**

in kEUR

Financial liability description	**Carrying amount**	**31 December 2023**	**< 1 year**	**1 – 5 years**	**> 5 years**
Trade payables	21,290	21,290	21,290	–	–
Other payables	9,482	9,482	9,209	273	–
Derivatives (with gross settlement)	–	(0)	–	–	
Cashoutflow	–	–	(181)	–	–
Cashinflow	–	–	181	–	–
Borrowings	20,081	21,491	21,491	–	–
Borrowings – capital portion	–	–	20,000	–	–
Interest expenses on Borrowings	–	–	1,491	–	–
Lease liabilities	9,743	10,724	2,890	7,748	86
Total	**60,596**	**62,987**	**54,880**	**8,021**	**86**

For further information on leasing, we refer to Sections 3.8, 4.1, 4.8 and 5.

7. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

7.1 Fair value measurement

The fair value of financial instruments follows a fair value hierarchy based on input factors. The fair value of financial instruments can be categorized following the hierarchical levels:

- Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2;
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and current borrowings are assumed to be the same as their fair values, due to their short-term nature.

Specific valuation techniques used to determine the fair value of financial instruments include:

- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined as a present value by using forward exchange rates at the balance sheet date;
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis based on observable market data.

The Group's policy is to recognize transfers into and transfers out of the different levels as of the end of the reporting period. There were no transfers between levels 1 and 2 and from level 2 and 3 for recurring fair value measurements during the year.

The fair values of the derivative financial instruments and the fair values of the trade receivables measured at fair value through profit or loss (FVPL) are assigned to level 2. Financial instruments not measured at fair value are assigned to level 2.

7.2 Carrying amounts, amounts recognized, and fair values by class and measurement category

The tables below show the carrying amounts of financial instruments by category as well as the fair values of financial instruments by class.

in kEUR	Classification IFRS 9	Carrying amount 31 December 2024	Fair Value 31 December 2024
ASSET			
Non-current assets			
Other non-current assets	AC	118	118
Other non-current financial assets	AC	340	340
Current assets			
Trade receivables			
Trade receivables	AC	6,825	n/a*
Trade receivables subject to factoring	FVPL	731	731
Other receivables		952	n/a*
Cash and cash equivalents	AC	17,127	n/a*
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	n/a	5,606	n/a**
Borrowings	FLAC	9,694	9,694
Current liabilities			
Finance lease liabilities	n/a	2,240	n/a**
Borrowings	FLAC	8,782	8,782
Other current financial liabilities			
Accrued interest	FLAC	168	168
Trade and other payables			
Trade payables	FLAC	16.996	n/a*
Other payables			
Other current non-financial payables	n/a	8,552	n/a*

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

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

Carrying amounts per category (kEUR)	Classification IFRS 9	31 December 2024
Financial Assets measured at Amortized costs	AC	**25,362**
Financial Liabilities measured at Amortized Cost	FLAC	**35,640**
Financial Assets & Liabilities measured at Fair Value through Profit or Loss	FVPL	**731**

in kEUR	Classification IFRS 9	Carrying amount 31 December 2023	Fair Value 31 December 2023
ASSET			
Non-current assets			
Other non-current assets	AC	114	114
Current assets			
Trade receivables			
Trade receivables	AC	11,648	n/a*
Trade receivables	FVPL	–	–
Trade receivables subject to factoring	FVPL	651	651
Other receivables	AC	765	n/a*
Other current financial assets			
Other current financial assets	AC	–	–
Derivatives without hedge accounting	FVPL	–	–
Cash and cash equivalents	AC	26,597	n/a*
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	n/a	7,227	n/a**
Current liabilities			
Finance lease liabilities	n/a	2,516	n/a**
Borrowings	FLAC	20,081	20,081
Other current financial liabilities			
Derivatives with hedge accounting	–	n/a	n/a
Derivatives without hedge accounting	FVPL	0	0
Accrued interest	FLAC	148	148
Trade and other payables			
Trade payables	FLAC	21.290	n/a*
Other payables	n/a	–	–
Other current non-financial payables	n/a	9,154	n/a*

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

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

Carrying amounts per category (kEUR)	Classification IFRS 9	31 December 2023
Financial Assets measured at Amortized Costs	AC	**39,124**
Financial Liabilities measured at Amortized Cost	FLAC	**41,519**
Financial Assets & Liabilities measured at Fair Value through Profit or Loss	FVPL	**651**

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 – in 2024 the contracts fully expired. The Group manages its interest rate risk from long-term borrowings with variable interest rates using floating-to-fixed interest rate swaps.

7.4 Offsetting of financial instruments

The Group did not offset any amounts of financial assets and liabilities in the consolidated statement of financial position. As of 31 December 2024 and 31 December 2023, 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	2024	2023
Financial Assets measured at Amortised Costs	(158)	(2,117)
Financial Liabilities measured at Amortised Costs	(1,924)	(1,385)
Financial Assets & Liabilities at FVPL	(324)	(310)

Net gains/losses on financial assets at amortized cost include changes in gain and loss allowance from foreign exchange valuation and the impairment of financial assets according to IFRS 9. See Section 3.8 for further information on the value adjustments included.

Net gains/losses on financial liabilities at amortized cost include mainly gains and losses from interest expenses on borrowings and shareholder loans and the adjustment of amortized cost due to changes in estimated cash flows for the Group's bank loans as well as from foreign exchange gains and losses. Net gains/losses for FVPL include fair value changes. The total interest income and total interest expense for financial assets measured at amortized costs as well as financial liabilities measured at amortized cost comprise of the following:

	31. Dezember 2024	
in kEUR	**Financial Assets AC**	**Financial Liabilities AC**
Interest income	199	–
Interest expense	–	(1,931)
Total	**199**	**(1,931)**

	31. Dezember 2023	
in kEUR	**Financial Assets AC**	**Financial Liabilities AC**
Interest income	126	–
Interest expense	–	(1,399)
Total	**126**	**(1,399)**

8. OTHER DISCLOSURES

8.1 Contingencies and commitments

8.1.1 Future obligations from short-term and low-value leases

The Group leases machinery and other minor assets under non-cancellable short-term or low value leases agreements. The lease terms are less than 5 years and the agreements are not renewable at the end of the lease term. The future aggregate minimum lease payments under non-cancellable short-term and low value leases and existing purchase commitments are as follows:

in kEUR	31 December 2024	31 December 2023
No later than 1 year	46	73
Later than 1 year and no later than 5 years	60	67
Total	**106**	**140**

8.1.2 Other commitments

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

8.1.3 Contingencies

As of 31 December 2024, there were no contingent liabilities.

8.2 Related party transactions

Finatem III GmbH & Co. KG, Frankfurt am Main, is the largest shareholder with an interest of 34.62 % in the capital of the Company as of 31 December 2024.

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

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

The following transactions were carried out with related parties:

8.2.1 Transactions with shareholders

The transactions with minority shareholders are summarized below:

- Building rent: kEUR 506 (2023: kEUR 444).

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 27 April 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 hGears Padova S.p.A. and thus hold key management positions in the Group:

Management Board

- Sven Arend (Chairman)
- Daniel Basok (CFO)

Supervisory Board

Name	Member since	Appointed until	Principal occupation	Other mandates
Prof. Volker Michael Stauch	27 April 2021 (Chairman)	2026	Freelance consultant	Storopack Hans Reichenecker GmbH, Metzingen, Germany: Member of the Supervisory Board
Christophe Hemmerle	27 April 2021 (Deputy Chairman)	2026	Finatem Fonds Management Verwaltungs GmbH, Bad Homburg, Germany: Managing Partner	Kavaliers, Neuenhaus, Germany: Deputy Chairman of the Advisory Board FEG Palmer GmbH (Gruppe F&S), Mülheim an der Ruhr, Germany: Deputy Chairman of the Advisory Board
Daniel Michael Kartje	27 April 2021	2026	Gitone Beteiligungs-verwaltungs GmbH, Wien: Managing Director	
Christoph Mathias Seidler	27 April 2021	2026	Entrepreneur	
Dr. Gabriele Fontane	27 April 2021	2026	Lawyer and Partner of the law firm Oppenhoff	

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

in kEUR	2024	2023
hGears AG	197	197
Padova	75	75
Total	**273**	**272**

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

in kEUR	2024	2023
Salaries and other short-term employee benefits	819	764
Share-based payments	3	0
Total	**822**	**764**

The unpaid liabilities to the management board are shown below:

in kEUR	31 December 2024	31 December 2023
Payroll liabilities	129	135
Total	**129**	**135**

There are no long-term employee benefits for key management to report for 2024 and 2023.

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

Shares	31 December 2024	31 December 2023
Sven Arend	33,800	29,800
Daniel Basok	20,000	20,000
Management board	**53,800**	**49,800**
Volker Stauch	53,472	51,680
Christophe Hemmerle	5,769	5,769
Daniel Kartje	4,000	4,000
Mathias Seidler	11,538	11,538
Dr. Gabriele Fontane	3,846	3,846
Supervisory Board	**78,625**	**76,833**
Total	**132,425**	**126,633**

A previous chairman of the management board received in 2018 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 2024 the loans were fully repaid.

Additional information related to the managing directors as of 31 December 2024 is as follows:

Sven Arend:
- CEO
- Residence: Düsseldorf (Germany)
- Master of Science in Economics

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

8.3 Share-based payments

8.3.1 Stock Option Programme 2023

On 13 June 2023, the General Meeting of the Company authorised the Management Board, with the consent of the Supervisory Board and – to the extent that members of the Management Board are among the participants entitled to stock options – the Supervisory Board of the Company to grant up to 738,400 subscription rights (Stock Option Programme 2023).

Each stock option right granted under the Stock Option Programme 2023 entitles the holder of the stock option right to subscribe to one company share with a pro rata amount of the share capital of EUR 1.00 from the Contingent Capital 2023 created for this purpose against payment of the exercise price in accordance with these conditions. Alternatively, the Company may grant treasury shares against payment of the exercise price.

The share option rights will be issued over a period of three years in three equal tranches per year (tranches 2023 A/B/C, tranches 2024 A/B/C and tranches 2025 A/B/C).

The following performance targets and exercise price apply to the **2023 A/B/C** tranches:

Tranche	Performance target in EUR	Excercise price in EUR
2023/A	8.00	6.00
2023/B	10.00	6.00
2023/C	12.00	6.00

The following performance targets and exercise price apply to the **2024 A/B/C** tranches:

Tranche	Performance target in EUR	Excercise price in EUR
2024/A	14.00	12.00
2024/B	16.00	12.00
2024/C	18.00	12.00

The following performance targets and exercise price apply to the **2025 A/B/C** tranches:

Tranche	Performance target in EUR	Excercise price in EUR
2025/A	20.00	18.00
2025/B	23.00	18.00
2025/C	26.00	18.00

By resolution of the Annual General Meeting of 13 June 2023, the Stock Option Programme 2023 was resolved in order to grant subscription rights to shares in the Company (stock option rights) to members of the Management Board of the Company and selected executives of the Company and of companies affiliated with the Company within the meaning of Sections 15 et seq. AktG. The Management Board was authorized, with the consent of the Supervisory Board, to grant up to 738,400 subscription rights (stock option rights) to up to 738,400 no-par value bearer shares of the Company within the framework of the Stock Option Programme 2023 until the expiry of 30 November 2025. Only the Supervisory Board was authorized to grant stock option rights to the members of the Management Board of the Company. The Management Board of the Company (with the consent of the Supervisory Board) and – insofar as the members of the Management Board are concerned – the Supervisory Board of the Company have initially made use of the authorization to the extent that a total of 212,950 (Tranches 2023 A/B/C) were issued in August 2023 as part of the 2023 Stock Option Programme, whereby 142,000 stock option rights were issued to the members of the Management Board and 70,950 stock option rights were issued to selected executives of the companies affiliated with the Company within the meaning of Sections 15 et seq. AktG were issued. The performance target set in the Stock Option Programme 2023 was not achieved for the 212,950 stock option rights issued as part of the Tranches 2023 A/B/C. In this respect, the stock option rights of the Tranches 2023 A/B/C can no longer be exercised. The Management Board and the Supervisory Board of the Company do not intend to issue any further stock option rights for the outstanding Tranches 2024 A/B/C and Tranches 2025 A/B/C under the 2023 AOP.

By resolution dated 11 June 2024 the Annual General Meeting authorized the Management Board to cancel the issue of stock options to members of the Management Board and selected executives of the Company and affiliated companies under the Stock Option Programme 2023. All the granted stock options under the Stock Option Programme 2023 forfeited on 31 December 2023, and therefore the cancellation had no impact on the financial statements.

8.3.2 Stock Option Programme 2024

On 11 June 2024, the General Meeting of the Company authorised the Management Board, with the consent of the Supervisory Board and – to the extent that members of the Management Board are among the participants entitled to stock options – the Supervisory Board of the Company to grant up to 525,450 subscription rights (Stock Option Programme 2024).

Each stock option right granted under the Stock Option Programme 2024 entitles the holder of the stock option right to subscribe to one company share with a pro rata amount of the share capital of EUR 1.00 from the Contingent Capital 2024 created for this purpose against payment of the exercise price in accordance with these conditions. Alternatively, the Company may grant treasury shares against payment of the exercise price.

The share option rights will be issued over a period of two years in three equal tranches per year (tranches 2024 A/B/C and tranches 2025 A/B/C).

The following performance targets and exercise price apply to the **2024 A/B/C** tranches:

Tranche	Performance target in EUR	Excercise price in EUR
2024/A	3.78	2.78
2024/B	4.78	2.78
2024/C	5.78	2.78

The following performance targets and exercise price apply to the **2025 A/B/C** tranches:

Tranche	Performance target in EUR	Excercise price in EUR
2025/A	1.62 + 1 = 2.62	2.78
2025/B	1.62 + 2 = 3.62	2.78
2025/C	1.62 + 3 = 4.62	2.78

The reference price (EUR 1.62) for determining the performance target for the Tranches 2025 A/B/C is the EUR amount that corresponds to the arithmetic average of the closing prices of the Company's share in Xetra trading (or a comparable successor system) of the Frankfurt Stock Exchange during the 20 trading days prior to 31 December 2024 (Reference rate).

By resolution of the Annual General Meeting of 11 June 2024, the Stock Option Programme 2024 was resolved in order to grant subscription rights to shares in the Company (stock option rights) to members of the Management Board of the Company and selected executives of the Company and of companies affiliated with the Company within the meaning of Sections 15 et seq. AktG. The Management Board was authorized, with the consent of the Supervisory Board, to grant up to 525,450 subscription rights (stock option rights) to up to 525,450 no-par value bearer shares of the Company within the framework of the Stock Option Programme 2024 until the expiry of 30 November 2025. Only the Supervisory Board was authorized to grant stock option rights to the members of the Management Board of the Company. The Management Board of the Company (with the consent of the Supervisory Board) and – insofar as the members of the Management Board are concerned – the Supervisory Board of the Company have initially made use of the authorization to the extent that a total of 262,725 (Tranches 2024 A/B/C) were issued in August 2024 as part of the 2024 Stock Option Programme, whereby 142,000 stock option rights were issued to the members of the Management Board and 120,725 stock option rights were issued to selected executives of the companies affiliated with the Company within the meaning of Sections 15 et seq. AktG were issued. The performance target set in the Stock Option Programme 2024 was not achieved for the 262,725 stock option rights issued as part of the Tranches 2024 A/B/C. In this respect, the stock option rights of the Tranches 2024 A/B/C can no longer be exercised.

8.3.3 Overview of the Stock Option Programme

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

	2024		2023	
	Average exercise price per share option	**Number of options**	**Average exercise price per share option**	**Number of options**
As at 1 January	–	–	–	–
Granted during the year	2.78	262,725	6.00	212,950
Exercised during the year	–	–	–	–
Forfeited during the year	2.78	(262,725)	6.00	(212,950)
As at 31 December	**–**	**–**	**–**	**–**
Vested and exercisable at 31 December	–	–	–	–

The performance targets for the stock options granted in 2024 were not achieved. Therefore, these options expired on 31 December 2024.

At the end of the year, the share options outstanding have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Share options 31 December 2024	Share options 31 December 2023
3 August 2023	31 December 2023	6.00	–	212,950
25 July 2024	31 December 2024	2.78	262,725	–

The fair value of the options granted in fiscal year 2024 amounted to EUR 0.05 per option at the grant date 25 July 2024 (31 December 2023: EUR 0.01). The fair value at grant date is independently determined using an adjusted form of the Black-Scholes model which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option, discount for lack of marketability and the correlations and volatilities of the peer group companies.

The model inputs for options granted during the reporting period ended 31 December 2024 include the following:

	SOP 2024 (*)
Exercise price	2.78
Grant date	25 July 2024
Expire date	24 July 2028
Share price at grant date	2.36
Expected price volatility of the company's shares	40 %
Expected dividend yield	0 %
Risk-free interest rate	2.5 %

(*) The options are granted for no consideration and vest based on hGears AG's share price. Vested options are exercisable for a period of two years after vesting period.

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

The total expenses from the options issued under the employee option plan in the amount of kEUR 5 (2023: EUR 344) were recognized in personnel expense.

8.4 WpHG notifications

The voting rights notifications are reflected in the annual financial statements for the fiscal year 2024 of hGears AG. These are published in the electronic Company Register.

8.5 Declaration on the Corporate Governance Code

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

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

8.6 Subsequent events

There were no subsequent events that required recognition or disclosure.

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 management board of hGears AG released the consolidated financial statements to the Supervisory Board, which will decide on them on 24 March 2025.

Schramberg, 24 March 2025.

Sven Arend
Chairman of the
Management Board

Daniel Basok
Member of the
Management Board

ANNEX 1 – FIXED ASSET MOVEMENT SCHEDULE TANGIBLE ASSETS, PART 1

		Change occurred during the current year						
	31 December 2023	Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	31 December 2024
Gross value	21,020	348	–	–	–	–	139	21,507
Provisions for amortisation and depreciation	(10,083)	–	–	(1,930)	–	–	(96)	(12,109)
Land and Buildings	**10,937**	**348**	**–**	**(1,930)**	**–**	**–**	**43**	**9,398**
Gross value	138,629	683	(1,100)	–	2,693	–	312	141,217
Provisions for amortisation and depreciation	(93,120)	–	995	(7,075)	–	(202)	(184)	(99,586)
Plants and Machinery	**45,509**	**683**	**(105)**	**(7,075)**	**2,693**	**(202)**	**128**	**41,631**
Gross value	19,857	512	–	–	15	–	23	20,407
Provisions for amortisation and depreciation	(15,162)	–	–	(886)	–	(4)	(23)	(16,075)
Tools and Dies	**4,695**	**512**	**–**	**(886)**	**15**	**(4)**	**–**	**4,332**
Gross value	19,020	397	(416)	0	68	–	129	19,198
Provisions for amortisation and depreciation	(14,004)	–	400	(1,363)	–	–	(90)	(15,057)
Other assets	**5,017**	**397**	**(16)**	**(1,363)**	**68**	**–**	**39**	**4,141**
Fixed assets under construction and down-payments	**4,394**	**570**	**(391)**	**–**	**(2,776)**	**–**	**3**	**1,800**
Property, plant and equipment	**70,552**	**2,510**	**(512)**	**(11,254)**	**–**	**(206)**	**213**	**61,302**

The table above is integral part of the notes to the consolidated financial statements. Figures in the tables may be rounded.

ANNEX 1 – FIXED ASSET MOVEMENT SCHEDULE TANGIBLE ASSETS, PART 2

		Change occurred during the current year						
	31 December 2022	Addition	Dismissal	Depreciation	Reclassifi-cation	Writedown	Exchange rate differences	31 December 2023
Gross value	20,693	452	–	–	139	–	(264)	21,020
Provisions for amortisation and depreciation	(8,324)	–	–	(1,832)	(66)	–	139	(10,083)
Land and Buildings	**12,369**	**452**	**–**	**(1,832)**	**73**	**–**	**(125)**	**10,937**
Gross value	135,872	2,780	(5,737)	–	6,306	–	(592)	138,629
Provisions for amortisation and depreciation	(89,892)	–	4,765	(6,949)	(241)	(1,150)	347	(93,120)
Plants and Machinery	**45,982**	**2,780**	**(972)**	**(6,949)**	**6,064**	**(1,150)**	**(245)**	**45,509**
Gross value	18,418	1,352	(26)	–	156	–	(43)	19,857
Provisions for amortisation and depreciation	(14,047)	–	26	(1,022)	–	(157)	38	(15,162)
Tools and Dies	**4,371**	**1,352**	**–**	**(1,022)**	**156**	**(157)**	**(5)**	**4,695**
Gross value	18,550	1,137	(531)	–	111	–	(247)	19,020
Provisions for amortisation and depreciation	(13,276)	–	529	(1,397)	–	–	140	(14,004)
Other assets	**5,276**	**1,137**	**(2)**	**(1,397)**	**111**	**–**	**(107)**	**5,017**
Fixed assets under construction and down-payments	**7,803**	**3,230**	**(202)**	**–**	**(6,405)**	**–**	**(32)**	**4,394**
Property, plant and equipment	**75,798**	**8,950**	**(1,176)**	**(11,200)**	**–**	**(1,307)**	**(513)**	**70,552**

The table above is integral part of the notes to the consolidated financial statements. Figures in the tables may be rounded.

ANNEX 2 – FIXED ASSET MOVEMENT SCHEDULE INTANGIBLE ASSETS, PART 1

		Change occurred during the current year						
	31 December 2023	Addition	Dismissal	Depreciation	Reclassification	Writedown	Exchange rate differences	31 December 2024
Gross value	5,890	89	–	–	12	–	16	6,007
Provisions for amortisation and depreciation	(5,189)	–	–	(251)	–	–	(15)	(5,455)
Software and licences	**701**	**89**	**–**	**(251)**	**12**	**–**	**1**	**552**
Gross value	1,941	1	–	–	–	–	–	1,942
Provisions for amortisation and depreciation	(1,903)	–	–	(14)	–	–	–	(1,917)
Brands and trademarks	**38**	**1**	**–**	**(14)**	**–**	**–**	**–**	**25**
Intangible assets under construction and down-payments	**142**	**38**	**–**	**–**	**(12)**	**(93)**	**1**	**76**
Gross value	4	–	–	–	–	–	–	4
Provisions for amortisation and depreciation	(4)	–	–	–	–	–	–	(4)
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Goodwill and Intangible assets	**881**	**128**	**–**	**(265)**	**–**	**(93)**	**2**	**653**

The table above is integral part of the notes to the consolidated financial statements. Figures in the tables may be rounded.

ANNEX 2 – FIXED ASSET MOVEMENT SCHEDULE INTANGIBLE ASSETS, PART 2

		Change occurred during the current year						
	31 December 2022	Addition	Dismissal	Depreciation	Reclassifi-cation	Writedown	Exchange rate differences	31 December 2023
Gross value	5,719	141	–	–	58	–	(28)	5,890
Provisions for amortisation and depreciation	(4,619)	–	–	(592)	–	–	22	(5,189)
Software and licences	**1,100**	**141**	**–**	**(592)**	**58**	**–**	**(6)**	**701**
Gross value	1,562	1	–	–	379	–	–	1,941
Provisions for amortisation and depreciation	(1,560)	–	–	(14)	(331)	–	2	(1,903)
Brands and trademarks	**2**	**1**	**–**	**(14)**	**48**	**–**	**2**	**38**
Down-payments	**157**	**46**	**–**	**–**	**(58)**	**–**	**(3)**	**142**
Gross value	383	–	–	–	(379)	–	–	4
Provisions for amortization and depreciation	(335)	–	–	–	331	–	–	(4)
Other	**48**	**–**	**–**	**–**	**(48)**	**–**	**–**	**–**
Intangible assets	**1,307**	**188**	**–**	**(606)**	**–**	**–**	**(9)**	**881**

The table above is integral part of the notes to the consolidated financial statements. Figures in the tables may be rounded.

RESPONSIBILITY STATEMENT BY THE COMPANY'S LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and results of operations of the Group, and the Group Management Report includes a fair review of the business and position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Schramberg, 24 March 2025
hGears AG
The Management Board

Sven Arend, CEO
Chairman of the
Management Board

Daniel Basok, CFO
Member of the
Management Board

INDEPENDENT AUDITOR'S REPORT

Note: This is a convenience translation of the German original.
Solely the original text in German is authoritative.

To the hGears AG, Schramberg

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of hGears AG, Schramberg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2024, the consolidated statement of profit or loss, the consolidated statement of com-prehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2024 to 31 December 2024, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the combined management report (report on the position of the Company and of the group) of hGears AG for the financial year from 1 January 2024 to 31 December 2024. In accordance with the German legal requirements, we have not audited the content of those parts of combined management report listed in Section "Other Information".

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 IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) (hereafter "IFRS Accounting Standards") as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and,
- in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the group as at 31 December 2024, and of its financial performance for the financial year from 1 January 2024 to 31 December 2024, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined 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 opinion on the combined management report does not cover the content of those parts of the combined management report listed in Section "Other Information".

Pursuant to Section 322 (3) sentence 1 HGB (German Commercial Code), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and 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 Combined 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) letter (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 combined management report.

Material uncertainty related to the ability of the Group to continue as a going concern

We refer to the statements in Section 2.1 of the consolidated notes and the Section "Opportunities and Risk Report", subsection "Financing from the 2026 financial year and declining customer demand" of the combined management report, in which the legal representatives describe that the continued existence of hGears AG and it's Group is at risk if – contrary to their expectations – no further external financing can be secured for the year 2026. As outlined in the statements, these events and circumstances indicate a significant uncertainty that may cast substantial doubt on the Company's and the group's ability to continue as a going concern and constitute a going concern risk within the meaning of Section 322 (2) sentence 3 of the German Commercial Code (HGB).

In accordance with Article 10 (2) (c) (ii) of the EU Audit Regulation, we summarize our audit response to this risk as follows:

With the involvement of our restructuring specialists, we assessed the integrated business and liquidity plan prepared by the legal representatives and evaluated whether the assumptions con-tained therein are comprehensible. To this end, we first gained an understanding of the planning process and discussed the most significant planning assumptions with those resposible. Furthermore, we examined the accuracy of previous forecasts by comparing past business plans with the actual results achieved and analyzing any deviations. We assessed the most significant assumptions, such as future revenue development, and validated them based on past trends and current indus-try-specific market expectations. Additionally, we reviewed their appropriate consideration in the integrated business and liquidity plan. Moreover, we ensured the consistency of the integrated business and liquidity plan with the multi-year plan approved by the supervisory board.

We discussed the cost optimization and liquidity security measures with those responsible, assessed their feasibility, and evaluated the legal representatives' assessment of the financial impact. The existing external financing arrangements were reviewed based on the underlying contracts. We questioned the legal representatives about discussions with potential financing partners and as-sessed their evaluation of securing financing for the 2026 financial year based on already available documents.

Our audit opinions on the consolidated financial statements and the combined management report are not modified with respect to this matter.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2024 to 31 December 2024. 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 addition to the matter described in Section "Material Uncertainty Related to the ability of the group to continue as a going concern", we have identified the following matter as key audit matter to be disclosed in our audit opinion:

Recoverability of Propert, Plant & Equipment

Matter

In the consolidated financial statements of the hGears AG, Schramberg, property, plant, and equipment amounting to EUR 61.3 million are reported, representing 57.2 % of the total consolidated balance sheet. These assets are allocated to cash-generating units, which correspond to the individual entities of the hGears Group.

If there are indications of impairment, the Company subjects the affected cash-generating units to an impairment test. If the carrying amount of a cash-generating unit exceeds its recoverable amount, an impairment loss is recognized in the amount of the difference, which is then allocated to the individual long-term assets. The recoverable amount is determined based on the value in use, which is derived from the expected future cash flow surpluses of the respective entity using the discounted cash flow method.

Assessing the recoverability of property, plant, and equipment is complex and requires estimates and discretionary judgments by management, particularly concerning the amount of future cash flow surpluses, the growth rate for forecasting cash flows beyond the detailed planning period, and the discount rate to be applied. Additionally, there is a risk that the sensitivity of the impairment test is not adequately disclosed in the consolidated notes. Due to the significance of property, plant, and equipment to the consolidated financial statements of the hGears AG and the consider-able uncertainties associated with its valuation, this constitutes a key audit matter.

The disclosures of the hGears AG regarding property, plant, and equipment can be found in Section „2. Summary of Significant Accounting Policies" subsection „2.6.6 Property, Plant, and Equipment" (within the summary of significant accounting policies) and in Section „4. Notes to the Consolidated Balance Sheet" subsections „4.1 Property, Plant, and Equipment" (within the Notes to the consolidated balance sheet) as well as „4.15 Impairment of Assets or Cash-Generating Units" of the consolidated notes.

Auditor's Response and Observations
As part of our audit, we gained an understanding of the planning methodology, the planning process, and the key assumptions made by management in their planning. We assessed the appropriateness and implementation of relevant controls. The reasonableness of key assumptions, judgment-based parameters, and the methodology used in the impairment tests were evaluated with the involvement of our valuation specialists.

We reconciled the forecasted future cash flow surpluses during the detailed planning period with the multi-year plan approved by the supervisory board. Furthermore, we assessed the accuracy of past planning by analyzing deviations between previous forecasts and actual results in both prior and current financial years. We verified the assumptions underlying the forecasts and the growth rates applied for cash flows beyond the detailed planning period by comparing them with past trends and current industry-specific market expectations. Additionally, we critically reviewed the discount rates used by benchmarking them against the average cost of capital of a peer group.

Our audit also included verifying the mathematical accuracy of the sensitivity analyses performed by the hGears AG and assessing the related disclosures in the notes.

Overall, we were able to confirm that the assumptions made by management in the impairment tests and the valuation parameters used are reasonable and fall within an acceptable range. The presentation in the consolidated notes is appropriate.

Other Information
The executive directors or the supervisory board are responsible for the other information.
The other information comprises:

- The separately published non-financial group report, which is referenced in the Section "Non-Financial Report" of the combined management report
- The corporate governance statement included in the Section "Corporate Governance Statement Pursuant to Section 289f and Section 315d HGB" of the combined management report
- The non-management report-related information contained in the combined management report that is marked as unaudited. This includes the Section "Executive Board's Assessment of RMS and IKS"
- The remaining parts of the annual report, excluding the audited consolidated financial statements, the combined management report, and our auditor's report

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

- In connection with our audit, our responsibility is to read the other information and thereby acknowledge whether the other information
- is materially inconsistent with the consolidated financial statements, with the combined management report, or our knowledge obtained in the audit or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors an the Supervisory Board for the Consolidated Financial Staements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the IFRS Accounting Standards as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (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 (i. e. fraudulent financial reporting and misappropriation of assets) 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 combined 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 combined 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 combined 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 combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined 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 combined 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 opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined 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 combined 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 the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined 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 the internal controls or these arrangements and measures.
- 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 combined 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 the IFRS Accounting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming the audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial s tatements, 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 combined 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 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 controls 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 actions taken or safeguards applied to eliminate independence threats.

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 Combined Management Report, Prepared for Publication Purposesin Accordance with Section 317 (3a) HGB

Assurance Opinion

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the electronic file "hGears_KAuZLB_2024-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Section 328 (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 combined 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 file identified above.

In our opinion, the rendering of the consolidated financial statements and the combined management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (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/combined management report for the financial year from the 1st of January 2024 to the Fehler! Verweisquelle konnte nicht gefunden werden. contained in the "Report on the audit of the consolidated financial statements and of the combined 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 file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the combined management report contained in the file identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (06.2022)). Our responsibility in accordance therewith is further described in the "Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm has applied the requirements of the IDW Quality Management Standards, which implement the IAASB's International Standards on Quality Management.

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 with the electronic renderings of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal controls that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

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 intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB.

We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also

- identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, 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 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 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 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 combined 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 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 auditor by the consolidated general meeting on 11 June 2024. We were engaged by the supervisory board on 16 July 2024. We have been the auditor of the consolidated financial statements of the hGears AG without interruption since the financial year of 2024.
- 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).

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 combined management report as well as the assured ESEF documents. The consolidated financial statements and the combined management report converted to the ESEF format – including the versions to be published in the German Company Register – are merely electronic renderings of the audited consolidated financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents provided in electronic form.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Andreas Gebert.

Stuttgart, 24 March 2025

BDO AG Wirtschaftsprüfungsgesellschaft

Andreas Gebert
Public Auditor

FINANCIAL CALENDAR 2025

26 March 2025	Publication financial report 2024
13 May 2025	Publication 1Q 2025
11 June 2025	Annual General Meeting (AGM)
13 August 2025	Publication 1H 2025
11 November 2025	Publication 9M 2025

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