



Corporate Responsibility Report

2022

Content

Sustainability at hGears	3
Sustainability Management	4
Corporate Values	6
Products and Business Areas	7
Environment	8
Employees	11
Compliance with Labour Law and Human Rights	13
Social Activities	14
Corporate Governance	14
EU-Taxonomy	16

SUSTAINABILITY AT HGEARS

Sustainable thinking and sustainable actions are key to a company's success. Sustainable management seeks to balance the interests of all stakeholders involved in and affected by the business process. In this way, hGears assumes responsibility towards society and contributes to ensuring that future generations can also live in an intact social, economic and ecological environment. The main contribution of hGears in this regard is to develop high-quality and high-performance components for e-mobility and to improve the circular economy. Reducing energy demand and greenhouse gas emissions, as well as using recyclable materials, are key sustainability concerns for hGears.

Business model

hGears develops and manufactures high-precision gears and components as well as complex system solutions with a focus on e-mobility and e-drive applications. hGears has established a particularly strong market position in the area of e-bikes. As a company, hGears dates back to 1958 and has more than 60 years of experience and unique knowledge of both metal cutting and sintering technology, always state of the art.

With its three production sites in Schramberg (Germany), Padua (Italy) and Suzhou (China), hGears is one of the few companies that can offer customers worldwide both metalworking processes. hGears is expanding its position, especially in the fast-growing global e-mobility business, by offering its customers goal-oriented and flexible development services, even in highly specialised and complex design areas. Thanks to these services, customers are able to design more sustainable products, introduce

their products to the market faster, or expand their product range. The business approach supports the profitable organic growth of hGears.

Reporting

This presentation of sustainability performance covers hGears AG, its subsidiaries Herzog GmbH and mG miniGears S. p. A, as well as its second-tier subsidiary mG miniGears (Suzhou) Co., Ltd. The presentation was prepared on the basis of the systematic Global Reporting Initiative (GRI) approach and also fully complies with the requirements for a non-financial statement as set out in sections 315b and c in conjunction with sections 289b to e of the German Commercial Code (HGB) and Regulation (EU) 2020/852 of the European Parliament. This includes the information required under the CSR Directive Implementation Act on material environmental, employee and social issues, respect for human rights and the fight against corruption and bribery.

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

The non-financial group statement was reviewed by the Supervisory Board for lawfulness, correctness and expediency in accordance with section 171 (1) sentence 4 of the German Stock Corporation Act (AktG). In accordance with

section 317 (2) sentence 4 of the German Commercial Code (HGB), it was submitted to the auditor, but was not subjected to a substantive audit. hGears is committed to transparency towards its stakeholders and reports on all sustainability-relevant aspects of the business and the corporate environment.

SUSTAINABILITY MANAGEMENT

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

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

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

* The "IATF 16949" (International Automotive Task Force) standard combines existing general requirements for quality management systems in the automotive industry. They were jointly developed by IATF members and published based on EN ISO 9001.

Prerequisites

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

Due to the high degree of specialisation of its products, hGears always works closely with their customers in development to adapt product design to requirements and optimise the manufacturing process in terms of quality and cost. hGears is constantly improving its co-development capabilities, as this is one of the key differentiators for winning new orders, especially in the fast-growing e-mobility industry. Moreover, the co-developer role strengthens long-standing relationships with customers.

Key sustainability issues

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

results from the analysis of competitors and other comparable companies.

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

- **Impact:** How strongly does the (business) activity of hGears impact the environment with regard to the respective sustainability aspect ("inside-out view")?
- **Business relevance:** How significant is the effect of the respective sustainability aspect from the market and/or stakeholders' viewpoint on the business development of hGears ("outside-in view")?

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

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

Non-financial aspect	German Commercial Code (HGB)	Key action areas	Chapter
Environmental matters	Section 289c (2) no. 1	<ul style="list-style-type: none"> • Performance-enhancing, energy-saving components • Innovation and development • Improving the circular economy 	05
Employee-related matters	Section 289c (2) no. 2	<ul style="list-style-type: none"> • Culture of cooperation • Diversity 	06
Social matters	Section 289c (2) no. 3	<ul style="list-style-type: none"> • Product quality & safety • Customer satisfaction 	04, 05
Respect for human rights	Section 289c (2) no. 4	<ul style="list-style-type: none"> • Supply chain monitoring • Respect for labour law and human rights 	07
Combating corruption and bribery	Section 289c (2) no. 5	<ul style="list-style-type: none"> • Corporate governance • Compliance • Code of Conduct 	09

Sustainability organisation

In November 2022, hGears established a high-level ESG Committee (Environmental, Social, Governance), which coordinates and decides on all major sustainability activities and measures within the company. The committee currently consists of five members who advise and support the chairperson in the implementation of all activities related to the achievement of sustainability goals, environmental protection, good corporate governance and social responsibility. The six company values, which are described in a separate chapter, receive special attention in the work of the committee.

Members of the ESG Committee (March 2023):

Sven Arend, Chief Executive Officer (CEO)

Daniel Basok, Chief Financial Officer (CFO)

Federico Mangolini, Chief Operating Officer (COO)

Gianluca Bordin, Group HR Director

Christian Weiz, Head of IR

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

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

Selected campaigns of the "Energy & Environment Team"

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

Market expectations

Sustainability is becoming a key business differentiator. Crucial stakeholders such as employees, customers, investors, regulators, partners and municipalities no longer judge companies solely on the basis of their creditworthiness and profitable growth; social and environmental aspects are equally important. Based on its corporate values, hGears responds to the changing expectations of market players and other stakeholders by changing products and processes and setting new business goals, also taking sustainability requirements into account.

hGears expects sustainability to develop into an even stronger differentiator in the marketplace over the coming years. Currently, there is no clear sustainability front runner in the industry. Nevertheless, sustainable innovations will be an essential factor to be successful in the market in the medium to long term. hGears is striving to institutionalise sustainable action even more.

"One hGears"

CORPORATE VALUES

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

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

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

Diversity means creating a truly inclusive environment that is characterised by acceptance and is about much more than just tolerance. What is needed are new assessments, new approaches and new ideas that stimulate and inspire. These developments usually stem from different backgrounds, training, lifestyles and origins. Standing out from the crowd is important for both personal and company growth.

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

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

At hGears, **Sustainability** is a prerequisite for every decision about entrepreneurial action. Every action does not only impact the present but also the future. In this way, even if only to a marginal extent, hGears impacts the shaping of

One hGears

Anything is possible
when we work together!

Integrity

Integrity matters:
We are honest and transparent!

Diversity

We are diverse:
We empower everyone!

Growth

Passion for growth:
Development is in our DNA!

Innovation

Driven by innovation:
Our curiosity creates opportunities!

Sustainability

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

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

PRODUCTS AND BUSINESS AREAS

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

The e-Tools business area focuses on components used in the drive mechanism of electric power-tools and gardening tools (e-drive). It includes the production of precision components used in the part of the gearbox that connects the electric motor to the actual tool (e.g., cutting and trimming tools). The Other Automotive and Industrial Applications (Conventional) business area produces gearboxes for various applications such as premium and luxury automotive vehicles, motorbikes, ventilation and air conditioning, as well as precision parts for roller shutters and heating systems. This area includes the production of various precision parts for conventional transmission applications – such as drive, steering and braking systems and the body of the vehicle – and other industrial applications.

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

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

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

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

ENVIRONMENT

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

Production process

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

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

In 2022, hGears generated additional revenue of more than one million euros from the sale of metal chips. The oils are also delivered to specialised service companies for processing and recycling. Most of the materials supplied to hGears arrive on wooden pallets, which in turn are used for shipping the finished products. Wooden pallets are also subject to a process of ageing or wear. Usually, pallets that are too badly damaged are taken out of service and shredded. hGears does, however, deliver damaged pallets to appropriate service providers for reconditioning in order to be able to keep these transport aids in use for as long as possible. This saved the purchase of 4.3 million tonnes of fresh wood in 2022. Other packaging materials are only consumed in very small quantities.

Energy consumption

hGears uses only a few types of energy. These include electricity and natural gas for heating and production. Diesel fuel is purchased for the vehicle fleet. Sustainability management is working successfully to reduce energy consumption continuously. In 2022, the amount of energy purchased decreased by nine percent compared to the previous period despite an increase in production output.

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

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

Greenhouse gas emissions

hGears strives to continuously reduce emissions of carbon dioxide (CO₂) and other greenhouse gases (GHG) both in relation to the production volume but more importantly also in absolute terms. This has been successfully achieved so far for scope 1 emissions. With regard to scope 2 emissions, the German utility supplied mainly fossil fuel-generated electricity to hGears during the energy crisis in 2022. This was the trigger for hGears to switch to sourcing all-green electricity from 2023 onwards.

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

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

** without steel at the Italian site in 2020

Water use

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

Water use in millions of litres	2020	2021	2022
Drawn from the public mains	51,501	49,556	42,456

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

Wastewater

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

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

Waste

Despite increasing production volumes, hGears has managed to reduce the amount of waste and residual materials in recent years. The main residual material is metals, which are fully recycled. The recycling rate for lubricants and packaging materials is similarly high. As a result, the recycling rate of residual materials at hGears was 84 %. Most of the remaining waste volume was incinerated.

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

EMPLOYEES

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

Personnel development

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

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

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

In the coming years, hGears will increasingly focus on the training and further education of its own employees in order

to be able to fill positions that require special skills or management positions internally and not be dependent on the availability of adequately suited candidates in the market.

Employee structure

As at 31 December 2021, hGears had 727 employees at all three locations. During 2022, about 100 employees left the company. At the same time, hGears signed a slightly higher number of new employment contracts, resulting in a total of 835 employees at all locations on 31 December 2022.

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

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

Professional education and training

In 2022, 885 employees participated in further education programmes for a total of 18,982 hours; this corresponded to an average of 21.4 hours of further education per employee. Further education and training programmes covered areas such as accounting, information technology (IT), quality management, communication and presentation techniques or languages.

In the reporting year, hGears again conducted a large number of compulsory training courses for all employees, provided the respective contents were relevant for their activities: occupational safety in offices, General Equal Treatment Act, IT security, data protection, prevention of corruption, handling of gifts, invitations, benefits, sponsoring.

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

Market and performance-oriented remuneration

All hGears employees receive competitive, market-rate remuneration that is in line with national industry standards and always ensures a living wage. Remuneration is based on position, responsibility and tasks, not on personal characteristics such as gender or origin. In addition to the fixed basic salary, variable performance-related salary

components are designed to create incentives. The level of remuneration is reviewed regularly and adjusted, if necessary, within the framework of personnel development discussions. In order to ensure fair remuneration at all times, hGears continuously compares remuneration to representative reference values in the industry and the market.

High level of occupational health and safety

The health and safety of employees is a top priority for hGears. A safe, healthy, adequately protected and productive working environment, including a strong safety culture, is a matter of course. All employees are required to perform their duties safely and to immediately report any circumstances that pose a risk to health, safety or the environment. The Padua site is certified according to ISO 45001 (occupational health and safety management systems). The Schramberg and Suzhou sites will also receive this certificate by 2024 at the latest. All sites have already been certified according to ISO 9001 (quality management).

hGears has a dedicated (Occupational) Safety Commission, whose main task is to develop, update and implement safety standards and preventive measures for the purposes

of avoiding occupational accidents. The Safety Commission supports and coordinates regular risk assessments, training, safety briefings and on-site inspections at the company's various sites. It also serves as an active forum for questions or concerns related to occupational safety. The Commission members regularly analyse the current status quo of hGears' health and safety activities and report to the CEO on progress in this area.

Positive employee response

hGears conducts regular performance reviews with employees. In addition to discussing individual goals and expectations, employees express their satisfaction with their work at hGears. In 2022, very positive feedback was again given with regard to motivation, willingness to stay or recommending hGears as an employer.

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

Occupational safety	2020	2021	2022
Number of accidents at work*	19	10	6
Number of hours worked	1,508,789	1,729,901	1,679,638
LTAR**	2.52	1.16	0.72
LWDR***	13.4	5.8	9.3
Work-related diseases	0	0	0
Work-related fatalities	0	0	0

* Accidents with lost time of more than one day

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

*** LWDR = days lost due to accidents at work in relation to 200,000 working hours

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

Diversity as a strength

For hGears, diversity does not only mean equal opportunities and tolerance, not only equal and fair treatment of all employees regardless of individual characteristics. For hGears, diversity also means an appreciation of other ways of thinking, assessing and evaluating. Open, respectful, intercultural communication promotes mutual understanding and helps to avoid diversity-specific barriers in professional development.

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

COMPLIANCE WITH LABOUR LAW AND HUMAN RIGHTS

Compliance with internationally agreed labour law and human rights is a matter of course for hGears. The basis is the "Universal Declaration of Human Rights" (United Nations Guiding Principles on Business and Human Rights), which have been codified by the signatory states in the

"International Covenant on Civil and Political Rights" (CCPR) and the "International Covenant on Economic, Social and Cultural Rights" (CESCR).

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

Supply chain monitoring

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

hGears explicitly commits to respecting, complying with and enforcing the United Nations Universal Declaration of Human Rights with its 30 articles and the eight fundamental principles (conventions, core labour standards) of the ILO. This commitment relates both to employees in the company's

own business areas – irrespective of the nature of their employment contract – and to employees in the value chain.

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

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

- hGears protects the freedom of workers indiscriminately to form and join organisations/unions of their own choosing without prior authorisation, subject only to the condition that they comply with their statutes.
- hGears respects the right of workers to form associations, i. e. their right to organise (trade unions) and to carry out their activities freely and without restriction or interference. There is protection against any measures to counter this activity.
- hGears is always open to collective bargaining, i. e. negotiations with one or more trade unions on wages and working conditions (collective agreement).

Abolition of Forced Labour (1957 Convention No. 105)

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

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

- hGears outlaws any distinction, exclusion or preference based on race, colour, gender, creed, political opinion, national origin or social origin which has the effect of eliminating or impairing equal opportunities or treatment in employment or occupation.
- hGears has adopted its own anti-discrimination policy against this background.

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

- hGears is committed to eliminating any form of child labour in its supply chain that endangers the physical, moral or psychological well-being of children. This includes any work that makes children physically ill or exposes them to sexual abuse, such as working with dangerous machinery or tools and for long hours.
- hGears supports initiatives that remove children from any of the aforementioned types of work and seek their rehabilitation and social inclusion while addressing the needs of their families; this includes providing free basic education to children.

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

SOCIAL ACTIVITIES

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

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

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

At all three locations, hGears works together with local institutions both to ensure acceptance of the environment with regard to the production and operating facilities and to provide appropriate support to the local economy in social or cultural matters in the spirit of corporate responsibility. Against this background, it is also important

for hGears to strive to source as much locally as possible in order to also make a positive contribution to the development of the regions in which the sites are located.

Support for youth sports

hGears supports the junior athletics team of the SG Schramberg sports club in particular because of the great importance of sport in the development of children. hGears has strong roots in the region – around 90 % of employees live within a ten-kilometer radius of the plant – and wishes to make a regional contribution to helping children develop skills that will better prepare them for life: teamwork, resilience, problem-solving and the ability to cope with success and disappointment. The SG Schramberg team trains twice a week and actively participates in competitions. In October 2022, hGears presented the children with new training jackets bearing the hGears logo during their last factory visit.

CORPORATE GOVERNANCE

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

Compliance and transparency

hGears has established an efficient system with governance structures, risk management and compliance organisation (GRC) in order to achieve their declared corporate and sustainability goals and to deal with risks and uncertainties in the markets as well as in business operations in a professional manner. The system ensures the efficient use of resources in this respect and guarantees the comprehensive exchange of information within the company. This area reports directly to the Chief Financial Officer of hGears AG and is also in direct communication with the Chair of the Supervisory Board.

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

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

hGears encourages all employees and also third parties such as business partners or customers to openly address compliance concerns and to report possible misconduct immediately. To this end, a reporting office has been established. Here, suspected violations of the hGears Code of Ethics or other legal regulations can be reported confidentially by e-mail. In 2022 – as in previous years – hGears did not become aware of any events or incidents of compliance violations.

Integrity through awareness and control

hGears respects the integrity of marketplaces and fair competition and prohibits anti-competitive behaviour as a matter of principle. In the 2022 reporting period, as in previous years, no allegations were made known that hGears had violated any regulations under competition or antitrust law.

Sustainability as a component of risk management

Social-ecological risks are part of hGears' risk management system. The system is designed in such a way that risks can be identified and remedied at an early stage. The risk management system is explained in detail in the opportunities and risk report section of the annual report. In the group, the Management Board members and the operational managers reporting to them are responsible for the risk management system. Risk management is supported by the internal control system (ICS).

The risk analysis has identified climate change as a relevant non-financial risk for hGears. Climate change can lead to

abrupt changes in market conditions, disruptions in supply chains due to extreme weather events, rising energy and supply costs, or disruptions in production conditions due to more significant temperature and weather changes at production facilities.

At the same time, this offers hGears new opportunities. hGears is a market leader for precision gear parts and axles in the future-oriented and fast-growing area of e-mobility applications, especially with e-mobility being heavily promoted due to climate change. hGears customers in this area currently include market leading producers of e-bike engines.. Cooperation is characterised by long-standing, stable and sustainable relationships. Several key customers have been supplied by hGears for over 15 years. Frequently, a joint development process brings a wide variety of components to market maturity with the technologically optimal solution.

Stakeholder dialogue

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

EU-TAXONOMY

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

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

sustainable in accordance with Articles "Corporate Values" and "Corporate Governance" of this Regulation.

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

3.3. Manufacture of low-CO₂ transport technologies (including low-CO₂ vehicles)

3.6. Manufacture of other low-CO₂ technologies

For fiscal 2022, the percentage of economic activities that are both taxonomy-eligible and taxonomy-compliant must be reported. Economic activities are expressed in terms of turnover as well as capital and operating expenditures. In addition, qualitative information on safety with regard to a possible negative effect of economic activities on other goals and areas worthy of protection must be provided.

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

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

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

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

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

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

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

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

Taxonomy-compliant economic activities

An economic activity can be classified as (environmentally) sustainable or taxonomy-compliant if it meets both the requirements laid down in the formal description and all technical assessment criteria. These evaluation criteria consist of the criteria for a substantial contribution and the DNSH criteria ("do no significant harm"). In addition, the minimum safeguards set out in the EU Taxonomy Regulation must be complied with. In this context, hGears has only identified the environmental objective of climate change mitigation. The further analyses presented in the following have therefore been limited to Annex I of the EU Taxonomy Regulation.

Substantial contribution

hGears' products, in particular gears, axles and similar components, make a substantial contribution to both supporting a higher degree of electric mobility ("3.3: Manufacture of low-carbon technologies for transport", including low-CO₂ vehicles) and replacing internal combustion engines with electric motors ("3.6: Manufacture of other low-carbon technologies"). hGears makes a contribution to the latter, for example, by way of manufacturing key components for small vehicles and tools for outdoor applications.

Compliance with minimum safeguards

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

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

Determination of taxonomy key ratios

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

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

Capital expenditure Capital expenses or capital expenditure (CapEx) within the meaning of the EU taxonomy comprise the additions to tangible and intangible assets during the financial year under consideration before depreciation and revaluations, including those resulting from revaluations and impairments for the financial year concerned and excluding changes in fair value. This also includes additions to property, plant and equipment and intangible assets resulting from business combinations. Capital expenditure includes costs incurred on the basis of IFRS Standards IAS 16 Property, Plant and Equipment, paragraph 73 (e) (i) and (iii); IAS 38 Intangible Assets,

paragraph 118 (e) (i); IAS 40 Investment Property, paragraph 79 (d) (i) and (ii) (for the cost model); IAS 41 Agriculture, paragraph 50 (b) and (e); and IFRS 16 Leases, paragraph 53 (h). Taxonomy-eligible and compliant capital expenditure relates to assets associated with taxonomy-eligible and compliant economic activities, or is part of a plan to expand taxonomy-eligible and compliant economic activities, or to convert taxonomy-eligible economic activities into taxonomy-compliant economic activities.

Operating expenses Operating expenses (OpEx) within the meaning of the EU taxonomy include direct, non-capitalised costs relating to research and development, building refurbishment, short-term leasing, maintenance and repair and all other direct expenditure related to the day-to-day maintenance of tangible fixed assets necessary to ensure their functionality. Taxonomy-eligible and taxonomy-compliant operating expenses may relate to assets or processes associated with taxonomy-eligible and taxonomy-compliant economic activities, or may be part of a plan to expand taxonomy-compliant economic activities, or to convert taxonomy-eligible economic activities into taxonomy-compliant economic activities.

In order to determine the taxonomy-eligible and taxonomy-compliant operating expenses of hGears, the expenses in the reporting year were analysed in a first step to determine which proportion relates to assets or processes associated with the taxonomy-eligible and taxonomy-compliant economic activities 3.3 and 3.6 (numerator). The taxonomy-eligible and taxonomy-compliant operating expenses determined in this way were divided by the total operating expenses covered by the taxonomy (denominator). The taxonomy regulation does not provide for a direct allocation to operating expenses in the consolidated financial statements.

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Disclaimer

This report contains forward-looking statements. These statements are based on current experience, estimates and projections of the Management Board and the information available at the time this financial report was prepared. They are not guarantees of future performance and results and are subject to risks and uncertainties that are beyond hGear's ability to control or predict, such as future market conditions, regulatory changes or the behaviour of other market participants, for instance. These and other factors can cause the actual results, performance and financial position to deviate significantly from the estimates stated herein. hGears does not assume any obligation to update the forward-looking statements contained in this report. Certain numerical data, financial information and market data, including percentages, in this document have been rounded according to established commercial standards. Furthermore, in tables and charts, these rounded figures may not add up exactly to the totals contained in the respective tables and charts. In the event of any deviations, the German version takes precedence. When persons are mentioned in this publication, this always refers to female, male and diverse (for example transsexual and intersexual) persons. For reasons of better readability and/or formal or technical reasons such as limited space or the better findability of web texts, not all variants are always mentioned.

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