Overview of ElringKlinger's Activities and Structure

ElringKlinger operates as a global technology Group with an emphasis on the development, production, and distribution of components used in the automotive industry. Drawing on its innovative products, the Group is committed to playing its part in shaping the transition within the mobility sector. In this context, ElringKlinger is helping to evolve new drive technologies, while also further optimizing the efficiency of conventional mobility with the aim of contributing to global decarbonization.

Company profile

ElringKlinger is a global technology Group with a focus on the development, manufacture, and sale of systems and components for the automotive industry. Its portfolio also includes products and services for customers operating in other industries. The Group's capability as an innovator forms an integral part of ElringKlinger's corporate strategy, the aim being to support sustainable and, to the largest extent possible, climate-neutral mobility.

The Group, headquartered in Dettingen/Erms, Germany, employs around 10,000 people worldwide and operates from 45 international sites within all the key vehicle markets. In the 2021 financial year, ElringKlinger generated revenue of EUR 1.6 billion (2020: EUR 1.5 billion). The history of the Group dates back to 1879.

Business model and core competencies

The trend toward sustainable and safe mobility is reflected in the company's scope of products and services. As an automotive supplier, ElringKlinger is committed to providing product solutions aimed at reducing CO_2 emissions. Fundamentally, all newly developed products are targeted at modern, climate-friendly drive systems or relate to areas of the vehicle that are drivetrain-independent.

In strategic terms, ElringKlinger is focused on four areas: e-mobility, lightweighting, established forms of mobility, and non-automotive applications. Within the long-standing fields of business encompassing, among other things, sealing systems, plastic housing modules, and shielding systems, ElringKlinger has honed its skills as a technological innovator and carved out a formidable market position over a period spanning several decades. These form a solid basis when it comes to aligning the Group's product portfolio more strongly with the field of electromobility. In recent years, ElringKlinger has been driving battery and fuel cell* technology forward with a substantial level of innovation, while also evolving its business in the area of electric drive units. ElringKlinger is now entering the phase of industrial series production for e-mobility components and modules. Within the area of Lightweighting, ElringKlinger supplies components made from state-of-the-art materials consisting of plastic and/or metal.

ElringKlinger's core competencies comprise extensive know-how relating to materials and processes in the field of metal and plastics processing as well as expertise when it comes to engineering tools for efficient series production. This includes high-precision metal processing, encompassing stamping, embossing, and coating, as well as a proven track record in plastic injection-molding. Within the Engineered Plastics segment, ElringKlinger can draw on far-reaching materials and processing expertise relating to high-performance machinable thermoplastics and applications in a wide range of industrial sectors.

Group structure and organization

The parent company of the Group is ElringKlinger AG, which has its registered office in Dettingen/Erms, Germany. In addition to strategic management, it is responsible for the central functions of Purchasing, IT, Communication, Finance, Legal Affairs, and Human Resources. To a large extent, sales activities as well as research and development are also concentrated within the parent company. As the parent company, ElringKlinger AG performs a financing function for the affiliated companies. At the same time, however, it also forms the largest operating Group company in respect of revenue and production volume. As of December 31, 2021, the ElringKlinger Group comprised 39 fully consolidated companies in 20 countries (cf. Notes, "Scope of Consolidation").

The Management Board of ElringKlinger AG consists of four members. The responsibilities of the Management Board are divided into the areas of accountability of the CEO, the CFO, the COO, and the CTO.

Sales markets and locations

ElringKlinger has manufacturing sites in all of the world's key vehicle markets. The Group operates at 45 locations worldwide, 39 of which are manufacturing sites. In terms of sales, Europe leads the way with a 51.4% share of Group revenue, followed by North America (24.2%) and Asia-Pacific (20.0%).

In the majority of cases ElringKlinger holds a Tier 1* supplier position within the automotive industry value chain. This means that it maintains a direct line of contact with vehicle and engine manufacturers. Within the Engineered Plastics segment, which boasts a wide range of products, ElringKlinger operates as a supplier to various sectors. In the Aftermarket segment, the customer base consists of wholesalers and group purchasing organizations.

Segments and business units

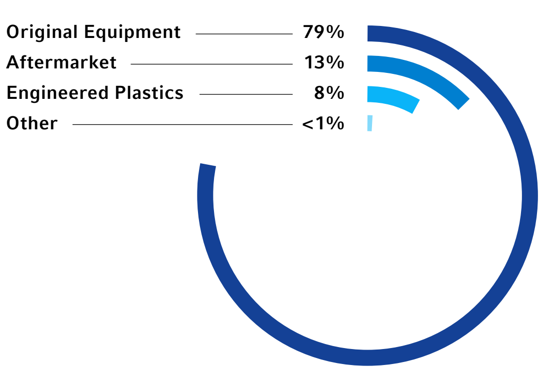
The ElringKlinger Group's operating business is divided into four segments: Original Equipment, Aftermarket, Engineered Plastics, and Other. The segments specified above also constitute the reportable segments under IFRS*.

Within the **Original Equipment** segment, ElringKlinger develops, manufactures, and sells products and assemblies destined for the automotive industry. It is subdivided into the five business units Metal Sealing Systems & Drivetrain Components, Lightweighting/Elastomer* Technology, Shielding Technology, E-Mobility, and Exhaust Gas Purification.

In the **Aftermarket** segment, ElringKlinger offers an extensive range of gaskets, gasket sets, and service parts for the repair of engines, transmissions, exhaust systems, and auxiliary units in cars and commercial vehicles. They are marketed under the "Elring – Das Original" brand. The Aftermarket segment supplies a global network of wholesalers and major group purchasing organizations. Among the markets with the highest revenues are Western and Eastern Europe. ElringKlinger has been expanding its sales activities in North America and China in recent years.

Within the **Engineered Plastics** segment, ElringKlinger develops, manufactures, and markets a wide range of customized products made of various plastics. Revenue is attributable primarily to sales within the mechanical engineering sector and the medical devices, chemical, and energy industries as well as the vehicle industry. ElringKlinger is pushing ahead with efforts to expand its business in this segment at an international level and also operates production sites in the United States and China.

Group revenue by segment 2021



in EUR million (previous year)

Original Equipment Car, truck, and engine manufacturers, automotive suppliers, non-automotive	**1,280**	(1,186)
Aftermarket Independent aftermarket business	**215**	(182)
Engineered Plastics Automotive industry, mechanical engineering, medical technology	**125**	(108)
Other Unspecified industries	**4**	(4)

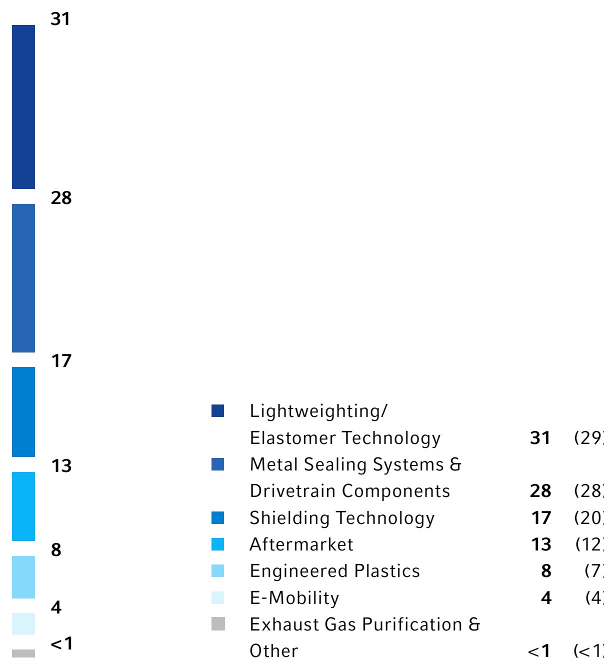
* Cf. glossary

As from the 2020 financial year, the segment referred to as **Other** comprises the activities of the former Services and Industrial Parks segments. Services directed at vehicle manufacturers and automotive suppliers include the operation of state-of-the-art engine test benches and measuring equipment for tests on engines, transmissions, and exhaust systems. It also offers logistical services for the Aftermarket business. In addition, this segment includes the Group's catering service company. Accounting for less than one percent of Group revenue, this segment is of subordinate importance.

Business units in the Original Equipment segment

ElringKlinger is a supplier of components for all types of drive system – whether combustion engine or electric mobility. The competencies of the business units are deployed across all areas as needed and synergies are utilized within the Group. In the previous year, this resulted in the establishment of the Metal Sealing Systems & Drivetrain Components business unit. Thus, Cylinder-Head Gaskets and Specialty Gaskets, which had previously operated as independent units, were brought together in a single business unit. The product portfolio includes a broad range of gaskets for various locations in the vehicle, including batteries and electric motors as well as transmission control plates and complex formed parts engineered from sheet metal.

Group revenue by business unit[1] 2021
(previous year) in %



[1] Presentation supplemented by the segments Aftermarket, Engineered Plastics, and Other.

The Lightweighting/Elastomer Technology business unit develops and produces components made of thermoplastics for drivetrain, body, and underbody applications. A variety of manufacturing processes, including hybrid technology that combines metal and plastic, as well as numerous materials or material-specific innovations provide the basis for tailor-made solutions with high functional integration and/or weight savings.

Within the Shielding Technology business unit, ElringKlinger offers customized shielding packages for the entire vehicle – from the engine to underbody and exhaust tract. The shielding systems include thermal, acoustic, and/or aerodynamic functionality for a wide range of tasks relating to temperature and acoustic management or the vehicle underbody.

The E-Mobility business unit, featuring fuel cell and battery technology as well as electric drive units, brings together all technologies currently of relevance to the electrification of vehicle propulsion.

ElringKlinger can draw on many years of development expertise and has positioned itself for industrial-scale series production in this field. The Group has placed a strong focus on this line of business in recent years, as evidenced by substantial investments. In 2019, ElringKlinger established a technology center for e-mobility at its Dettingen/Erms site. ElringKlinger has been operating its own battery technology site in Neuffen, Germany, since 2021. The subsidiary EKPO Fuel Cell Technologies, Dettingen/Erms, Germany, in which ElringKlinger holds a 60% stake and automotive supplier Plastic Omnium, Levallois, France, a 40% interest, has been operating since 2021 and plays a significant role in future marketing and industrialization efforts relating to fuel cell systems. In 2021, ElringKlinger recorded high-volume orders within the area of E-mobility (cf. "Significant Events"). Finally, the E-mobility portfolio includes complete electric drive units, supplied as part of the company's collaboration with hofer AG, Nürtingen, Germany, and the joint production companies ("hofer powertrain products").

Group activities within the Exhaust Gas Purification business unit are mainly restricted to the production of components on the basis of contract manufacturing.

Economic and legal factors

Generating the largest proportion of revenue, ElringKlinger's Original Equipment segment mainly supplies vehicle manufacturers. Demand for products is closely linked to global vehicle production trends, which in turn are influenced by the sales markets and the economy as a whole. Primary drivers include, for example, the employment situation and purchasing power in the various regions, consumer behavior, fuel prices, and government funding.

Regulations governing climate protection are considered to be a key influencing factor in terms of legislation. Due to the ever stricter directives regarding emission levels, vehicle concepts are having to become increasingly climate-friendly. International trading conditions and the customs policies of individual countries can also have an impact on business development.

Internal Control Criteria

For the purposes of corporate management, the Group management refers to meaningful key figures and other indicators that are regularly available. The planning and control process at ElringKlinger is based on financial indicators and non-financial performance indicators as well as economic and sector-specific leading indicators.

The management uses a wide range of key figures, leading indicators, and market observations as the basis for strategic considerations, planning, and ongoing decision-making. To this end, the management of ElringKlinger makes recourse to a regular reporting system with key internal control criteria.

To support the Group's efficiency stimulus program pursued over the past three years, the Group management has continued to enhance its company-specific system of indicators. This incorporates targets that span business units and is monitored by the Management Board and Vice Presidents (i.e., the first line of management below the Board) on a monthly basis. The dependencies between individual indicators in operational business areas and between operational progress and financial effects are shown in transparent reporting and are regularly communicated. The internal system of indicators helps the management achieve corporate goals and pursue company strategy by making developments quantifiable and visible, and thus easier to control.

Key financial control criteria

Among the financial indicators, the internal control criteria of revenue, earnings before interest and taxes (EBIT*), operating free cash flow*, and return on capital employed (ROCE*) are of major importance to the management of the ElringKlinger Group and the parent company ElringKlinger AG. Given its integration into the Group, the parent company is also measured by IFRS*-based indicators. Sales revenue and EBIT are budgeted, calculated, and continually monitored for the Group and the individual Group companies as well as for the four reportable segments and the respective business units. As regards the compensation system applicable to the Management Board, year-on-year changes in EBIT and operating free cash flow constitute parameters for variable compensation.

Key financial control criteria of the ElringKlinger Group

	Guidance 2021[1]		2021	2020	2019	2018	2017
Revenue	Organic approximately roughly at global market level[2]	(in EUR million)	1,624.4[3]	1,480.4	1,727.0	1,699.0	1,664.0
EBIT[4]		(in EUR million)	102.0	27.7	63.2	100.2	141.8
	Margin of around 4 to 5%	Margin:	6.3%	1.9%	3.7%	5.9%	8.5%
ROCE	Visible year-on-year improvement		6.4%	1.7%	3.4%	5.5%	8.2%
Operating free cash flow	Positive in double-digit million euro range	(in EUR million)	72.0	164.7	175.8	-86.2	-66.6
Equity ratio	40 to 50% of total assets		47.0%	41.4%	41.5%	42.8%	44.0%
Net debt/EBITDA	Year-on-year improvement		1.7	2.5	3.3	3.7	2.7

[1] Original guidance as per 2020 annual report; adjustments made during the 2021 financial year – if any – are not presented.
[2] Organic sales revenue is adjusted for currency and M&A* effects.
[3] Revenue reported; revenue adjusted for currency and M&A effects (organic): EUR 1,630.6 million (+10.1%/market growth: 3.4%)
[4] EBIT up to 2019 adjusted for depreciation/amortization relating to purchase price allocation* (2019: EUR 1.9 million, 2018: EUR 4.0 million, 2017: EUR 4.5 million)

As an indicator, ROCE refers to the return on capital employed. This illustrates the level of the return on capital employed, and is calculated by putting EBIT in relation to capital employed. In this context, ElringKlinger uses average capital employed as a basis of calculation. This includes shareholders' equity, financial liabilities, and provisions for pensions. In the 2021 financial year, ElringKlinger met its forecast by achieving ROCE of 6.4%, a clear improvement on the 2020 value of 1.7%.

Operating free cash flow is an indicator expressing internal financing capability and capital inflow from the operational activity of the company. It comprises cash flow from operating activities and investment activities. In this context, non-operational capital flows from acquisitions, disinvestments, and from financial assets are not included in the operating free cash flow.

Calculating ROCE for the Group

in EUR million

EBIT	102.0	
	Dec. 31, 2021	Dec. 31, 2020
Equity	982.3	812.9
Financial liabilities	492.6	597.2
Provisions for pensions	140.7	156.9
Total	**1,615.6**	**1,567.0**
Average capital employed	**1,591.3**	
ROCE[1]	**6.4%**	

[1] EBIT/average capital employed

The equity ratio and the debt ratio as a ratio of net debt* to EBITDA* are also important indicators in respect of corporate management.

The table shows the four most important (and other) financial control criteria for the ElringKlinger Group.

Non-financial and other internal control criteria

ElringKlinger also uses non-financial indicators for corporate management purposes. These include personnel, quality, and environmental indicators, such as CO_2 emissions and energy consumption.

Further information on non-financial indicators can be found in the combined non-financial report, which has been published in the 2021 Annual Report under the heading "To Our Shareholders" in the separate section "Combined Non-Financial Report." The 2021 Annual Report will be published on March 29, 2022, on ElringKlinger's website at www.elringklinger.com/en/investor-relations/publications/financial-reports.

Company- and market-specific leading indicators

ElringKlinger uses economic and sector-specific leading indicators (such as forecast growth rates in gross domestic product and forecasts concerning the development of global vehicle markets) to appraise the future development of revenue and business. Order intake and order backlog are key company-specific leading indicators. Revenue budgeting and forecasting are based on planned quantities requested by customers as part of their scheduling less a safety margin and agreed product prices. Leading indicators specific to the market, sector, and the company are continually monitored, forming the basis for reviews of the forecast for the remainder of the respective year and the annually compiled business plan, which includes mid-term planning with a timescale of five years.

Research and Development

Emissions regulations are not the only reason why ElringKlinger is targeting sustainable mobility – it also wants to make an active contribution to protecting the climate. The ElringKlinger Group has been conducting research into alternative drive types for many years now and, both under its own steam and in partnership with customers, is developing products that help shrink the environmental footprint. Battery and fuel cell technology remained the focus of these research and development activities in the 2021 financial year.

Research and development ratio at 5.0%

In the 2021 financial year, modifications and new developments were introduced both in the traditional areas of Metal Sealing Systems & Drivetrain Components, Shielding Technology, and Lightweighting/Elastomer* Technology and in the E-Mobility business unit. As a technology-driven company and a strong innovator, ElringKlinger mainly focuses on transferring its own existing expertise to new applications. The Group's research and development (R&D) activities are largely centralized and concentrate primarily on reducing emissions, be this through battery-electric or hydrogen-based drive concepts, structural lightweighting, or other products. This prevents a "brain drain." Development activities are concentrated at the German sites for the Original Equipment and Engineered Plastics segments and at the US site in Southfield, Michigan. Additional expertise was built up in battery and fuel cell* technology in particular during the year under review, resulting in 591 (2020: 623) staff being employed in R&D as of December 31, 2021. The year-on-year decline is mainly due to a number of employees switching from ElringKlinger AG's research and development team to Aerostack GmbH, Dettingen/Erms, Germany, in which ElringKlinger AG holds a 10% stake.

R&D costs (including capitalized development costs) amounted to EUR 82.1 million in the 2021 financial year (2020: EUR 76.1 million). This equates to an R&D ratio of 5.1% (2020: 5.1%), which is thus within the target range of around 5–6% (including capitalized development costs). Out of this total, the amount capitalized was EUR 17.2 million (2020: EUR 12.4 million), giving a capitalization ratio of 21.0% (2020: 16.2%). Amortization and impairment losses of capitalized development costs amounted to EUR 4.2 million in the year under review (2020: EUR 12.8 million).

* Cf. glossary

Key R&D figures

in EUR million	2021	2020
Research and development spending	82.1	76.1
Capitalized development costs	17.2	12.4
Capitalization ratio[1]	21.0%	16.2%
Research and development costs	**64.9**	**63.8**
Amortization/impairment of capitalized development costs	4.2	12.8
Research and development costs recognized through profit or loss	69.1	76.6
Research and development ratio[2]	**5.1%**	**5.1%**

[1] Capitalized development costs as a proportion of total R&D costs, including capitalized development costs
[2] R&D costs, including capitalized development costs, in relation to sales

ElringKlinger always seeks legal protection for new developments on both a product and a process level. The centralized patent department is tasked with protecting the company's technological expertise and intellectual property rights. In 2021, it applied for a total of 105 (2020: 86) new patents, particularly in the strategic fields of the future.

Traditional know-how meets fields of the future

ElringKlinger has set itself the objective of supporting and supplying its customers in line with their needs and following a technology-agnostic approach. Economic experts expect the market for conventional combustion engines to shrink only gradually and demand for alternative drive systems to increase considerably at the same time. It is precisely this market demand that ElringKlinger is meeting. Optimizing and increasing the efficiency of modern combustion engines is thus still an important factor for ElringKlinger's engineers. The other main focus of its development activities is battery and fuel cell technology. ElringKlinger supplies components, modules, and entire systems that help to significantly reduce the environmental footprint of new generations of vehicles. The use of battery and fuel cell technology is not restricted to the automotive industry, meaning that ElringKlinger's products will also be capable of cutting emissions in other sectors in the future.

Making a vehicle lighter helps to reduce the propulsion energy it needs. This is why the Group's structural lightweighting components, which make vehicles weigh less, are one of its strategic fields of the future. The fact that these lightweighting components can be used with any drive type is one of their most important properties.

The share of revenue attributable to the various strategic fields of the future – batteries, fuel cells, electric drive units, and structural lightweighting – was roughly 12% in 2021 (2020: around 11%). This largely mirrors the ratio of new to traditional drive types on the global vehicle market.

Expertise in new drive technologies

ElringKlinger has been conducting research and development in the field of fuel cell technology for over two decades. During the 2021 financial year, the Group incorporated its fuel cell business and expertise into its subsidiary EKPO Fuel Cell Technologies GmbH, an entity jointly operated with the French automotive supplier Plastic Omnium. ElringKlinger has been supplying customers with battery components for series production for around ten years now. It also manufactures electric drive units in partnership with the engineering specialist hofer. With regard to the new drive technologies, ElringKlinger applies its knowledge of developing and manufacturing components for traditional drive technologies to solutions for new mobility.

As well as launching its business activities, EKPO Fuel Cell Technologies GmbH, based at the Group's headquarters in Dettingen/Erms, also took some important steps in order to drive forward the production of fuel cell components and stacks over the past financial year. Further developing its three existing stack modules – Nm5-evo, NM12, and NM12-twin – played a particularly key role. ElringKlinger is also focusing on the proton exchange membrane (PEM), a low-temperature fuel cell used in mobile applications. The NM12 and NM12-twin stack series are particularly suitable for leveraging the application and cost benefits of fuel cell technology in a first step owing to their performance range for the commercial vehicle sector. The NM5-evo series, which is ideal for use in passenger cars and light-duty commercial vehicles, is already capable of being produced in large batches. Development work required to procure additional tools and series equipment was carried out in 2020. This ensures that quality requirements can be met over the long term, even with sizable quantities in fully automated production, thanks to full traceability of the stack being supplied. Investments in the 2021 financial year included expanding the test field for fuel cells manufactured in this way.

The series production of cell contact systems* for lithium-ion batteries gives ElringKlinger the chance to establish itself as a supplier in the electromobility segment of the market. During the past financial year, the Group secured a large-scale order for this component from a global battery manufacturer for the series platform of a premium German manufacturer. In the components segment, meanwhile, research and development activities during the financial year focused on developing a cell cover for round cells. ElringKlinger was awarded funding during the financial year for its innovative battery cell housing design as part of the second European IPCEI* (Important Project of Common European Interest). This funding, which is provided by the German Federal Ministry for Economic Affairs and Energy and the state of Baden-Württemberg and will amount to a total of EUR 33.8 million by 2026, demonstrates the success of ElringKlinger's development work. Besides single components, the Group also supplies modules and complete battery systems. Development work in this area in the financial year focused in particular on customer-specific battery systems as well as ElringKlinger's own battery systems – the "ElringKlinger standard" – fitted with both prismatic and round cells. One brand-new project that was initiated revolved around developing a battery system based on a pouch cell.

Having entered a strategic partnership in 2017 with the engineering specialist hofer, as a result of which ElringKlinger holds a non-controlling interest in hofer AG, Nürtingen, Germany, and majority interests in the production subsidiaries, the Group began developing electric drive units. While hofer AG contributes its electric drive know-how, ElringKlinger brings to the table its skills in scaling up customer orders for series production. Manufacturing operations at the UK subsidiary have already begun based on this expertise. The four electric drive systems were evolved further during the past financial year, and an initial prototype of a drive system designed in-house at ElringKlinger was developed.

Metal Sealing Systems & Drivetrain Components: development focus on e-mobility applications

The research and development done by the Metal Sealing Systems & Drivetrain Components business unit in the financial year focused in particular on taking its existing expertise in component sealing and applying it to the new drive concepts. This is done, for instance, using metallic sealing systems with electric motor housing coatings that are designed specifically for the purpose, which improve electromagnetically compatible protection. To this end, it continued to use its expertise in coating and punching thin sheet metal and gluing components to develop metal assemblies and sealing systems for rotors and stators in electric motors. These can be produced efficiently and reduce losses when used inside the electric motor. Standardizing the sealing systems and optimizing their design also played a major role in the past financial year as this allows cost-efficiency to be improved even further.

Shielding Technology: focusing on the system as a whole

Shielding systems have been very much in demand for many years for the purpose of protecting heat-sensitive parts and the passenger compartment against high temperatures generated inside the engine compartment, within underbody area, and in the exhaust tract. These are the result of tightly packed assemblies, more compact engines, and minimized cooling air flows.

Research and development work in the Shielding Technology business unit in the past financial year was concentrated on the overall system, i. e., on linking up the various shielding methods. Elements borrowed from acoustic engineering were added to thermal shielding systems in order to minimize noise levels and optimize acoustic behavior. Since the choice of materials plays an important role in making a shielding system more efficient, work on refining these materials continued in this area too during the financial year.

* Cf. glossary

Lightweighting/Elastomer Technology: using innovative plastic solutions to reduce weight

Making vehicles lighter is key to cutting their emissions. Although a lower weight primarily decreases fuel and energy consumption, reduced tire wear also relieves the burden on the environment. This is why manufacturers consider every single ounce when developing new components. ElringKlinger's approach is to take components such as cylinder-head covers and oil sumps, which traditionally used to be made mostly from metal, and replace them with innovative plastic solutions.

Research and development work in the 2021 financial year focused on further refining cockpit cross-car beams* and front-end modules as well as the ElroSafe underbody protector for battery systems. Besides thermal and acoustic protection, the underbody protector also provides the battery with particularly strong protection at high speeds. Thanks to its sandwich structures, featuring cover layers with a high continuous glass fiber content, this protection solution is by no means restricted to vehicle batteries; it can also be applied outside the automotive industry. The benefits it can offer in terms of high strength, the potential for weight savings, and improved thermal insulation compared with metallic components have been proven in a wide range of very different areas.

The cockpit cross-car and front-end beams have been mass-produced since 2015 and permit a significant weight reduction thanks to their hybrid plastic/metal design. Besides the lower weight, new customers are particularly impressed by the cost/benefit ratio and the design of the product range, as reflected in rising order levels. Computer-driven load simulations are used to facilitate large-scale production safely and reliably despite short development cycles.

Development work in the area of sealing technology focused primarily on products for battery-electric vehicles. In particular, the emphasis was on further evolving pressure equalization elements for batteries in the financial year under review. As well as helping to develop complex metal/elastomer gaskets for battery technology, the Group's expanded knowledge of materials development, production technology, and tool engineering also makes it better able to offer sealing solutions for fuel cell stacks*.

Engineered Plastics: expertise in all manner of industries

In the field of engineered plastics, innovation begins at an early stage – with the material. The chemical and temperature resistance of the high-performance plastics enable a high level of manufacturing precision – an essential factor, because the high-performance plastics are adapted individually to the requirements of specific customers and sectors. These plastics are used in all manner of different industries, such as medical technology, mechanical engineering, the food industry, and the automotive industry.

As in previous years, the Engineered Plastics segment focused on the main trends in the individual industry sectors in the 2021 financial year. Research in this area is especially important due particularly to the growth of electromobility, the much tougher requirements in medical technology, and the new trends in industrial sensor systems in the food and pharmaceutical industries. Developing ultra-flexible fluoropolymer materials in the medical and life sciences sector was one area on which research and development focused, while the technique of enhancing medical tubes, e.g., to make them radiopaque, was also fine-tuned. Another key area of development work centered on the issue of electrical corrosion affecting electric vehicle drives, a form of corrosion that requires a discharge function to be integrated into existing dynamic gaskets.

Macroeconomic Conditions and Business Environment

The direction taken by the global economy in 2021 was again heavily influenced by the coronavirus pandemic. Although world production output increased significantly over the course of the year, with the gross domestic product (GDP) standing at 5.9%, the overall momentum of growth was relatively modest. In this context, economic performance was dampened by rising prices and supply-side bottlenecks. The automotive industry was also impacted by shortages of materials such as semiconductors. After a bifurcated year – characterized by growth in the first six months and a significant downturn in the second half – the automotive industry saw global car production expand slightly by 3.4% to 77.1 million new vehicles.

Muted recovery of global economy

Against the backdrop of the coronavirus-induced slump a year earlier, the economy was somewhat sluggish and inconsistent in its recovery over the course of 2021. Impacted by factors such as material-related shortages, supply chain problems, and rising inflation rates, the economy as a whole lost much of its forward momentum in the second half of the year. The divide between industrialized and emerging nations remained very much in evidence, due in part to differences in the overall coverage of vaccinations aimed at containing the coronavirus pandemic.

GDP growth projections

Year-on-year change (in %)	2020	2021
World	**-3.1**	**5.9**
Advanced economies	-4.5	5.0
Emerging and developing countries	-2.0	6.5
Eurozone	-6.4	5.2
Germany	-4.6	2.7
USA	-3.4	5.6
Brazil	-3.9	4.7
China	2.3	8.1
India	-7.3	9.0
Japan	-4.5	1.6

Source: International Monetary Fund (Jan. 2022)

Global production output increased significantly in 2021, as reflected in a 5.9% increase in GDP, after having contracted by 3.1% in 2020 as a result of the coronavirus pandemic. However, the trajectory of growth was relatively modest. While industrial production in the advanced economies expanded slightly in the period up to mid-2021, it was already trending lower in the emerging economies. Rather than being entirely demand-driven, this weakness in economic performance was attributable to supply-side bottlenecks relating to raw and primary materials. Alongside logistical disruptions, e.g., in the area of maritime transportation, production capacity was often insufficient when it came to meeting buoyant demand. Downward pressure on the Chinese economy – with multiple factors leading to production cutbacks – had a negative impact on the global availability of materials.

Extensive fiscal measures continued to be implemented in many economies for the purpose of propping up the economy and mitigating the impact of the pandemic. In 2021, the focus was increasingly on public investment and programs aimed at meeting structural challenges such as climate change or demographic trends.

Spiraling prices were attributable, among other things, to the higher cost of energy. In Europe, the hike in gas prices was particularly pronounced. At the same time, in November the price of oil reached its highest level since 2014. In response to more intense inflationary pressure, central

* Cf. glossary

Light vehicle production

Region	Million units 2020	2021	Year-on-year change
Europe[1]	15.2	14.4	-5.5%
China	23.6	24.8	5.3%
Japan/Korea	11.2	10.9	-3.1%
Middle East & Africa	1.8	2.1	15.6%
North America	13.0	13.0	0.2%
South America	2.2	2.6	16.1%
South Asia	6.2	7.9	27.4%
World	**74.6**	**77.1**	**3.4%**

Source: IHS (Feb. 2022)
[1] Excluding Russia

banks in the United States and the euro area pursued different monetary policies, especially in the second half of the year. While the US Federal Reserve announced that it would abandon its expansionary monetary policy sooner than originally planned, the European Central Bank remained committed to its ultra-loose monetary approach. As a result, the US dollar appreciated against many other currencies.

Global vehicle production declines due to supply-side bottlenecks

Emerging from the coronavirus-induced quagmire of the previous year, global automotive markets rallied quite significantly during the first six months of 2021 – before experiencing a visible decline in production output and sales volumes in the second half of the year. Ongoing problems within supply chains and especially the shortage of semiconductors had a dampening effect on vehicle production and the automotive supply industry.

On the back of the very low level recorded in the crisis year of 2020, car production expanded by 3.4% to 77.1 million light vehicles (passenger cars and light commercial vehicles) in 2021. Thus, the total volume of output was still 13.4% short of the pre-crisis level recorded in 2019, when vehicle production had totaled 89.0 million units.

After initial signs of encouraging growth in the first half of the year, the European market slipped sharply into negative territory. The North American market developed along similar lines. While the Chinese market trended downwards from the second quarter onward, it still managed to post some growth for the annual period as a whole. Only the region encompassing South Asia, which includes the Indian market, recorded strong growth in production output.

Sales markets in slightly better shape

The picture was slightly more favorable within the various sales markets, which were partly served from stock. After significant growth in the first half of the year as a result of catch-up effects, but also due to the low year-on-year comparative base, the markets entered choppy waters in the second half of the year as the negative factors described above took their toll.

For the full year, Europe (EU27, EFTA*, UK) recorded a 1.5% drop in sales to 11.8 million newly registered cars. At the end of the year, the more widespread presence of the Omicron variant in Europe led to renewed containment measures. In December, the region as a whole saw a decline of around 22% in new vehicle registrations. Germany recorded a downturn of 10.1% in 2021. As a result, Europe has not yet been in a position to compensate for the decline caused by the pandemic. At 14.9 million units, light vehicle sales in the United States also remained well below the pre-crisis level of around 17.0 million vehicles. Having said that, the market did manage to achieve a slight increase in sales of 3.1% in 2021 as a whole. China recorded a more significant increase of 6.6%, taking the figure to 21.1 million cars.

Strong demand for commercial vehicles

Buoyed by strong demand for goods and a brimming logistics sector, the commercial vehicle markets in Europe, NAFTA*, and the key South American market of Brazil grew significantly in the 2021 financial year. Heavy-duty truck registrations increased by around 20% in Europe, 15% in North America (NAFTA), and around 45% in Brazil.

Significant Events

In the period under review, as in the previous year, the ongoing coronavirus pandemic had a major impact on the social, political, and economic environment in which ElringKlinger operates, and thus also on the company itself. Irrespective of these circumstances, the Group remained resolute in pursuing its strategic course, as evidenced by significant activities in the E-Mobility business unit. Other important events include the Annual General Meeting, which was once again held in a virtual format.

EKPO Fuel Cell Technologies commences business activities

The subsidiary EKPO Fuel Cell* Technologies GmbH ("EKPO" for short), based at the main site in Dettingen/Erms, Germany, commenced its business operations on March 1, 2021. These activities encompass the development, manufacture, and distribution of fuel cell stacks* and components. The applications are primarily designed for commercial vehicles and buses, but also for passenger cars. Specialist vehicles, trains, and ships are among the other suitable fields of application with growth potential. Upon commencing operations, French automotive supplier Plastic Omnium, based in Levallois, France, acquired a stake in the company, which is fully consolidated within the ElringKlinger Group. ElringKlinger contributed its fuel cell technology unit to the entity, while Plastic Omnium committed itself to a contribution of EUR 100 million.

Also with effect from March 1, 2021, ElringKlinger sold to Plastic Omnium its subsidiary ElringKlinger Fuelcell Systems Austria GmbH, which specializes in the integration of hydrogen systems and is based in Wels, Austria. The entire transaction was concluded as planned on the basis of the agreement reached between ElringKlinger AG and Plastic Omnium on October 28, 2020.

E-Mobility unit based at new Neuffen location

At the beginning of 2021, ElringKlinger established a new site in Neuffen, located around ten kilometers from its Group headquarters in Dettingen/Erms. Its key focus is on evolving the company's business activities in the field of battery technology. At the same time, however, the site also accommodates other sub-areas such as the production of electric drive units.

High turnout at second virtual Annual General Meeting

Against the backdrop of the coronavirus pandemic, ElringKlinger once again conducted its Annual Shareholders' Meeting as a virtual event. In total 63.2% of the voting share capital was represented. In his Management Board speech, CEO Dr. Stefan Wolf looked back on the challenging 2020 financial year and presented an outlook on the strategic direction to be taken by the Group. All items on the agenda were approved by a large majority of shareholders. The Annual General Meeting also approved the new compensation system for the Management Board, in addition to resolving in favor of the compensation system for the Supervisory Board. The new system of compensation for the Management Board stipulates that the targets to be set annually by the Supervisory Board may also include sustainability targets.

Significant contracts and collaborative efforts in the field of E-mobility

In the 2021 financial year, ElringKlinger received several high-volume purchase orders that are of particular importance to the rapidly expanding E-Mobility unit. In some cases, the contracts cover a period of several years and include substantial revenue contributions.

In March 2021, ElringKlinger AG received a purchase order from a global battery manufacturer covering cell contact systems*. It encompasses a total volume in the mid-triple-digit million euro range and spans a contractual period of around nine years. The systems are intended for the series platform developed by one of Germany's premium carmakers; production ramp-up in Neuffen is scheduled for 2022.

* Cf. glossary

Furthermore, in May 2021 the Group subsidiary EKPO received a notable series production order from Aachen-based mobility company AE Driven Solutions GmbH, Aachen, Germany, for the supply of fuel cell stacks. The contract covers a total volume in the high double-digit million euro range over a period of several years. The fuel cell stacks of the type NM5-evo ordered by the company will be used in delivery vehicles, the aim being to offer environmentally friendly drive technology in urban areas. Here, too, series production is scheduled to commence in 2022.

In December 2021, the Group subsidiary EKPO entered into a cooperation agreement with German-Chinese system integrator DR Powertrain System Co. Ltd. based in Jiaxing, China, for the purpose of stepping up efforts to cultivate the Chinese market in the field of fuel cell technology. EKPO will supply DR Powertrain with fuel cell stacks for integration into local manufacturers' systems for automotive and non-automotive applications.

In December 2021, ElringKlinger was awarded a contract to develop and supply prototypes of a battery system for an all-electric high-end sports car manufactured by Piëch Engineering AG, Zürich, Switzerland. In addition to the battery modules, the battery units also include the battery management system. The project initially covers a volume in the mid-single-digit million euro range and commenced as early as 2021.

ElringKlinger technologies selected for European IPCEI funding project

ElringKlinger is involved in two projects as part of the European Union's IPCEI* (Important Projects of Common European Interest) funding initiative. At the end of April 2021, ElringKlinger received notification of funding from the German Federal Ministry for Economic Affairs and Energy and the state of Baden-Württemberg for its innovative battery cell housing components. Thus, ElringKlinger has become one of eleven German companies tasked to establish a European battery value chain as part of this initiative. Additionally, the German government has selected ElringKlinger to develop a new generation of fuel cell stacks for the commercial vehicle sector in the context of the so-called Hydrogen IPCEI. The stacks are also to be used in buses as well as in maritime applications, in the rail sector, or as stationary units. The selection made by the German federal government still has to be confirmed at the European level.

Additional subsidiaries established in United States

Two new Group companies were established in the USA effective from July 1, 2021. Alongside the holding company ElringKlinger Holding USA, Inc., based at the existing ElringKlinger site in Buford, Georgia/USA, ElringKlinger Texas, LLC, based in San Antonio, Texas/USA, was established as a further production company.

Pooling forces within the Shielding Technology business unit

Committed to further enhancing the competitiveness of the Shielding Technology business, ElringKlinger plans to pool its operating activities within this area and optimize its production sites. As communicated by ElringKlinger at the end of October 2021, the intention is to gradually discontinue the production of shielding components at one of the German sites and to transfer any remaining orders to other sites. Research and development activities are to be continued in close proximity to the site. The Group's goal is to further improve the competitiveness of its Shielding Technology unit and to be in a position in which it can offer its customers high-end solutions tailored to their needs well into the future.

Sales and Earnings Performance

Global automotive markets recovered slightly in the 2021 financial year, growing by 3.4% worldwide. The ElringKlinger Group saw its revenue expand by around 10% in the financial year just ended. Revenue growth was driven by all key segments in the period under review. The efficiency stimulus program pursued since 2019 was again reflected in an improved financial performance in 2021. The Group generated earnings before interest and taxes (EBIT) of EUR 102.0 million, which corresponds to a margin of 6.3%.

Group revenue up after crisis year

The 2021 financial year saw significant revenue growth despite difficult underlying conditions such as bottlenecks relating to semiconductors, supply chain issues, raw material shortages, and the coronavirus pandemic. Overall, the ElringKlinger Group generated revenue of EUR 1,624.4 million (2020: EUR 1,480.4 million), up EUR 144.0 million or 9.7% on the previous year. Compared to the pre-crisis year of 2019, revenue was still down by 5.9%. Currency translation had a negative impact equivalent to EUR -6.2 million or -0.4% in the financial year under review, primarily due to the exchange rate movements of the Turkish lira, the US dollar, and the Japanese yen. No adjustments with regard to M&A* activities were applicable in the period under review. Excluding these effects from exchange rate changes, the increase in revenue amounted to EUR 150.2 million or 10.1%. The projected trend for the market as a whole had been revised several times in the year under review. At 3.4%, ultimately, this figure was much lower than the figure of +13% predicted at the beginning of 2021 by industry institute IHS. Thus, the Group's organic revenue growth exceeded the increase in global car production by several percentage points.

While the previous year had been heavily impacted by the coronavirus pandemic, on the whole the global economy rebounded in the 2021 financial year. Despite new waves of infection, economic activity was upheld without far-reaching production stoppages induced by lockdown measures – unlike the year before.

Revenue growth in almost all regions

The Rest of Europe, which is ElringKlinger's largest sales region in terms of revenue, recorded strong growth as a proportion of total revenue in the 2021 financial year. With growth of EUR 65.4 million or 15.4%, revenue amounted to EUR 488.8 million (2020: EUR 423.4 million). As a result, the share of revenue increased by 1.5 percentage points to 30.1% (2020: 28.6%). Thus, this region continues to represent the highest proportion of sales revenue within the ElringKlinger Group. Adjusted for currencies, sales revenues expanded by as much as EUR 69.2 million or 16.3%. By contrast, automobile production in the region of Europe (including Germany) declined by 5.5%, according to data provider IHS.

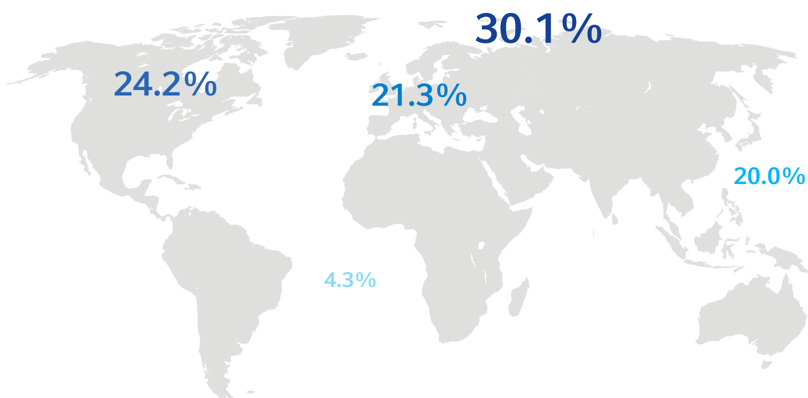
Revenue generated in North America rose by 7.1% or EUR 26.0 million in the 2021 financial year. The Group thus

Factors influencing Group revenue

in EUR million	2021	2020	Change, absolute	Change, relative
Group revenue	**1,624.4**	**1,480.4**	**144.0**	**9.7%**
of which FX effects			-6.2	-0.4%
of M&A activities			0.0	0.0%
of which organic			150.2	10.1%

* Cf. glossary

Group revenue by region 2021



in EUR million (previous year)

Rest of Europe	**488.8**	(423.4)
North America	**393.7**	(367.7)
Germany	**346.7**	(355.6)
Asia-Pacific	**325.4**	(274.8)
South America and Rest of World	**69.8**	(58.9)

achieved revenue of EUR 393.7 million (2020: EUR 367.7 million) in this region. On this basis, the region accounts for 24.2% of Group revenue (2020: 24.8%). The Group's business expansion in North America was significantly stronger than overall market growth, which amounted to just 0.2%. Adjusted for currencies, sales revenues rose by EUR 27.1 million or 7.4%.

Due to the government's zero-covid strategy, as part of which any outbreak is to be restricted locally, the coronavirus pandemic had no wide-ranging impact on the Chinese economy. ElringKlinger generated revenue of EUR 325.4 million (2020: EUR 274.8 million) in the Asia-Pacific region in the 2021 financial year, which corresponds to growth of EUR 50.6 million or 18.4%. The share of total revenue stood at 20.0%, compared to 18.6% in the previous year.

There was a slight decline in revenue in the sales region of Germany, which was attributable to production-specific constraints at some of the plants operated by car manufacturers. In total, ElringKlinger generated domestic sales revenue of EUR 346.7 million (2020: EUR 355.6 million), which corresponds to a decline of EUR -8.9 million or -2.5%. The share of revenue was down on the prior-year figure, amounting to 21.3% (2020: 24.0%).

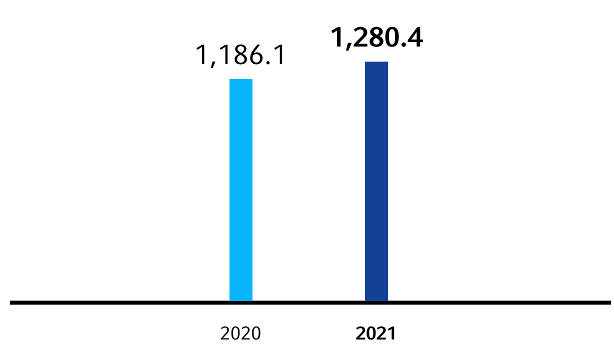
The region comprising South America and Rest of the World recorded the most pronounced percentage increase in revenue in the 2021 financial year. Here, the Group saw revenue expand by EUR 10.9 million or 18.6% to EUR 69.8 million (2020: EUR 58.9 million). Revenue growth was even more significant after adjustments for currency effects. If exchange rates had remained unchanged, revenue would have been up by EUR 13.1 million or 22.3%. Overall, the share of Group revenue stood at 4.3%, compared to 4.0% in the previous year.

The share of domestic revenue decreased to 21.3% (2020: 24.0%) in the financial year under review. Correspondingly, the proportion of foreign sales amounted to 78.7% (2020: 76.0%).

Original Equipment segment records growth in all future-facing areas

Accounting for 78.8% (2020: 80.1%) of total revenue, the Original Equipment segment constitutes the largest segment of the ElringKlinger Group. In the 2021 financial year, this segment generated revenue of EUR 1,280.4 million

Revenue in the Original Equipment segment
in EUR million



(2020: EUR 1,186.1 million), representing an increase of EUR 94.3 million or 8.0%. The segment thus grew quite significantly compared to global car production, which expanded by only 3.4%.

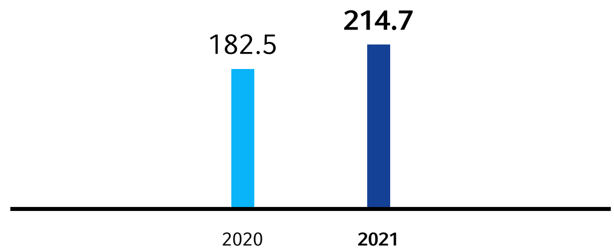
Within the Original Equipment segment, the Metal Sealing Systems & Drivetrain Components business unit, which had been newly established in the preceding year, generated revenue of EUR 448.2 million (2020: EUR 410.7 million), an increase of EUR 37.5 million or 9.1%. The largest business unit calculated on the basis of share of revenue, Lightweighting/Elastomer* Technology, saw a sizeable increase in revenue of EUR 77.5 million or 18.3%, thus posting revenue of EUR 500.1 million (2020: EUR 422.6 million) in the 2021 financial year. With a decline in revenue of EUR -21.8 million or -7.5%, Shielding Technology was the only business unit within the Original Equipment segment, along with the Exhaust Gas Purification unit, that failed to record growth in revenue in the 2021 financial year. It generated revenue of EUR 269.3 million (2020: EUR 291.1 million).

On the back of a particularly strong performance in the previous year, the E-Mobility business unit saw a further expansion in revenue in the period under review. This unit brings together the Group's business activities in the field of battery and fuel cell* technology as well as in the area of electric drive units. At EUR 58.7 million (2020: EUR 54.7 million), the business unit managed to lift its revenue by EUR 4.0 million or 7.3% compared to the previous year. After adjusting the prior-year figure for the proceeds of around EUR 25 million attributable to a fuel cell partnership, revenue was actually almost doubled.

The Exhaust Gas Purification business unit saw a decline in revenue by EUR 2.9 million or 41.4% to EUR 4.1 million in the 2021 financial year (2020: EUR 6.9 million). Activities within this area of the business are mainly centered around the construction of housings as a component for exhaust gas purification systems.

Having been unable to fully cover its fixed costs in the previous year due to the effects of the coronavirus pandemic, the Original Equipment segment achieved earnings before interest and taxes of EUR 36.9 million in the financial year under review (2020: EUR -23.7 million) as a result of a favorable sales performance and sustained cost discipline. The EBIT margin* was 2.9% (2020: -2.0%).

Revenue in the Aftermarket segment
in EUR million



Further growth in Aftermarket segment after strong prior-year performance

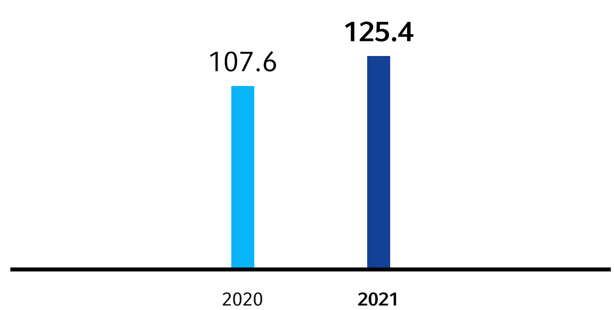
The Aftermarket segment succeeded in further expanding its revenue in the period under review – on the back of a strong performance in the previous year. At EUR 214.7 million, revenue generated in 2021 was up by EUR 32.2 million or 17.7% on the prior-year level (2020: EUR 182.5 million). The segment managed to drive revenue forward in Eastern Europe, in particular, but also in North and South America, Western Europe, Africa, and Asia as well as in the Middle East/Indian subcontinent. Of the major sales regions, only Germany recorded a slight decline.

Segment earnings before interest and taxes were up slightly at EUR 42.2 million (2020: EUR 39.0 million), which corresponds to an EBIT margin of 19.7% (2020: 21.4%).

Significant upturn for Engineered Plastics segment

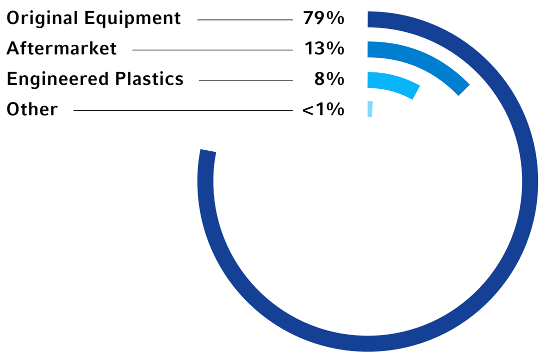
At EUR 125.4 million, revenue generated in the Engineered Plastics segment in the 2021 financial year was up markedly on the prior-year figure (2020: EUR 107.6 million). Revenues increased by EUR 17.8 million or 16.6% in the financial year under review, driven in particular by sales in

Revenue in the Engineered Plastics segment
in EUR million



* Cf. glossary

Group revenue by segment and business unit 2021



in EUR million (previous year)

Original Equipment	**1,280.4**	(1,186.1)
– Lightweighting/Elastomer Technology	**500.1**	(422.6)
– Metal Sealing Solutions & Drivetrain Components	**448.2**	(410.7)
– Shielding Technology	**269.3**	(291.1)
– E-Mobility	**58.7**	(54.7)
– Exhaust Gas Purification & Other	**4.1**	(7.0)
Aftermarket	**214.7**	(182.5)
Engineered Plastics	**125.4**	(107.6)
Other	**4.0**	(4.3)

Europe and Asia, while revenue generated in North America was lower.

At EUR 23.7 million (2020: EUR 14.0 million), the segment recorded a significant increase in earnings before interest and taxes. This was also attributable to savings in non-personnel, travel, and staff costs. The segment's EBIT margin was 18.9% (2020: 13.0%).

Slight decline in revenue for "Other" segment

In the 2021 financial year, the segment referred to as "Other," which combines the activities of services and industrial parks, generated revenue of EUR 4.0 million (2020: EUR 4.3 million). The segment loss before interest and taxes amounted to EUR -0.8 million. This represents a slight improvement on the previous year's figure of EUR -1.6 million.

Successful execution of efficiency stimulus program

The global efficiency stimulus program that management rolled out across the Group at the beginning of the 2019 financial year has now been successfully completed. Covering various dimensions, it was aimed at positioning the Group more effectively for the process of transformation. This included the objective of strengthening profitability, for which the Group, in addition to streamlining staff, material, and non-personnel costs, also made adjustments to its current prices when concluding contract extensions. The Group also took a committed approach to avoiding additional costs, e.g., for special freight movements or extra shifts, from the outset by means of process optimization, staff training, and the elimination of inefficiencies. In parallel, ElringKlinger pursued a disciplined plan of action relating to investments and optimized its net working capital* in order to generate positive operating free cash flow* at a sustainable level. These measures were aimed at significantly reducing the Group's net financial liabilities and perceptibly lowering its net debt* ratio.

Further improvement in gross profit margin

The cost of sales increased at a lower rate in relation to revenue growth in the 2021 financial year, up by 6.5% on the prior-year level. In total, they amounted to EUR 1,273.4 million, compared to EUR 1,195.5 million in the previous financial year. As a result, gross profit improved significantly compared to the previous year, standing at EUR 351.0 million. This figure was EUR 66.1 million or 23.2% higher than in the 2020 financial year (2020: EUR 284.9 million). Correspondingly, the gross profit margin increased by 2.4 percentage points to 21.6% (2020: 19.2%).

Driven by various factors, commodity prices increased markedly in the financial year under review. For example, the price of one ton of aluminum on the London Metal Exchange surged by 42% in 2021.

As part of its manufacturing processes, ElringKlinger mainly uses raw materials such as aluminum, alloyed high-grade steels (and especially chromium-nickel alloys), carbon steel, polyamide*-based polymer granules, i.e., pellets, such as PA6.6, and elastomers as well as polytetrafluoroethylene (PTFE*) in the Engineered Plastics segment. In addition, materials and components required for the production of battery and fuel cell systems are also becoming increasingly important. The Group uses aluminum primarily in the production of shielding parts within the Shielding Technology business unit. High-grade steels and their alloys are deployed in the Metal Sealing Systems & Drivetrain Components business unit, while plastic granules, i.e., pellets, are used in the Lightweighting/Elastomer Technology business unit.

ElringKlinger employs a range of instruments to limit volatility and the general upward trend in prices. These include, for example, price escalation clauses in customer contracts through which price changes relating to commodities are passed on to the customer. In addition, the Group also concludes hedging transactions where this is possible on the basis of corresponding reference figures. Purchasing, as a corporate unit, also pursues various strategies to optimize material costs via contract parameters such as duration and volumes.

Overall, the Group recorded a 13.9% increase in the cost of materials, taking this figure to EUR 709.2 million in the period under review (2020: EUR 622.7 million). Against the backdrop of revenue growth of around 10% and commodity price increases of around 40% in some cases, the Group was able to cushion significant inflationary effects. In view of the fact that the cost of materials nevertheless increased at a more pronounced rate than revenue, the cost-of-materials ratio stood at 43.7% (2020: 42.1%).

Staff costs, which are accounted for in various functional categories of the income statement, amounted to EUR 526.6 million in 2021. This item also includes costs associated with the planned site optimization, which were accounted for in the fourth quarter of 2021. As in the case of the Group's cost of materials, staff costs thus trended upward again compared to the previous year (2020: EUR 472.1 million), but without reaching the level of EUR 544.4 million recorded in the pre-pandemic year. The Group had also targeted its efficiency stimulus program, initially launched in 2019, at reducing staff costs. Expressed as a ratio, staff costs in relation to Group revenue were only up slightly on the prior-year figure at 32.4% (2020: 31.9%).

With the economy becoming more buoyant, selling expenses increased by EUR 13.7 million or 12.8% to EUR 120.8 million in 2021 (2020: EUR 107.0 million), but were still well below the pre-pandemic level of EUR 133.4 million recorded in 2019. This is attributable to the fact that travel and exhibition activities are still limited to the minimum level necessary as part of protective measures. At the same time, the Group has benefited from the structural optimization of additional costs attributable to sorting and special freight movements as well as extra shifts as part of measures implemented in the context of the efficiency stimulus program.

General and administrative expenses also increased in 2021 as business picked up and amounted to EUR 83.6 million (2020: EUR 72.6 million).

Research and development ratio remains steady

In an effort to help shape the transformation process within the automotive industry, ElringKlinger has been focusing its research and development activities on alternative drive technologies, i.e., primarily on the area of E-Mobility, encompassing battery and fuel cell technology as well as electric drive units as part of its partnership with hofer AG.

Compared to the previous year, the Group's research and development costs were slightly up at EUR 64.9 million in 2021 (2020: EUR 63.8 million). In addition, it recorded EUR 17.2 million (2020: EUR 12.4 million) in capitalized costs meeting the relevant criteria for recognition. This resulted in a capitalization ratio of 21.0% (2020: 16.2%). Amortization and impairment losses relating to capitalized development costs totaled EUR 4.2 million (2020: EUR 12.8 million). Including capitalized development costs, the ratio of R&D costs to Group revenue was 5.1%, i.e., exactly the same as in the previous year (2020: 5.1%).

ElringKlinger again received public-sector funding in the financial year under review in support of its research and development activities. This was granted in respect of research projects primarily centered around the fields of battery and fuel cell technology as well as lightweight construction. Funds granted with regard to R&D projects and recognized in profit or loss totaled EUR 3.7 million (2020: EUR 3.6 million). As the Group does not receive any funding without its own expenses, all funding recognized in profit or loss in 2021 was again offset by project-related expenses for development and prototyping in the corresponding amount.

Other operating income totaled EUR 32.7 million in the reporting period, which was EUR 22.8 million above the level recorded in the previous year (2020: EUR 9.8 million). This includes the proceeds from the sale of the Austrian subsidiary to French automotive supplier Plastic Omnium in the first quarter of 2021. Other factors included the reversal of impairment losses on receivables, third-party reimbursements, and insurance recoveries.

* Cf. glossary

Other operating expenses almost halved in the 2021 financial year, falling by EUR 11.2 million or 47.3% to EUR 12.5 million (2020: EUR 23.6 million). The previous financial year had included a higher loss allowance for receivables as well as more pronounced losses from the disposal of non-current assets.

EBIT margin at upper end of expectations

The efficiency stimulus program was also reflected in improved earnings before interest, taxes, depreciation, and amortization (EBITDA*) in 2021. The Group achieved EBITDA of EUR 216.1 million (2020: EUR 181.5 million). In this context, the previous year had included instruments such as short-time work in Germany as well as proceeds from a fuel cell partnership. Write-downs totaled EUR 114.1 million in the financial year under review (2020: EUR 153.7 million). In the previous year, this item had been impacted by impairment tests conducted in accordance with IAS 36. After deducting depreciation and amortization, earnings before interest and taxes (EBIT*) amounted to EUR 102.0 million (2020: EUR 27.7 million), which corresponds to a margin of 6.3% (2020: 1.9%). The Group's EBIT margin thus exceeded the original guidance figure published in March 2021 and was at the upper end of expectations outlined in October 2021, when the projected margin for the financial year had been around 6%.

Net finance costs down markedly

The reduction in financial liabilities is also reflected in the net interest result. Interest expenses were lower compared to the previous year, as a result of which the Group's net interest result improved significantly by 46.0%. In contrast to the previous financial year, the volatility of exchange rates did not result in a loss from currency translation in the period under review. Unrealized foreign exchange losses resulting from the translation of the balance sheet items denominated in a foreign currency into EUR – as the reporting currency – at the year-end rate were offset by higher foreign exchange gains. Therefore, the net result of foreign exchange gains and losses improved by EUR 23.9 million in total. As losses from associates also decreased, net finance costs* fell by EUR 40.0 million to EUR -1.3 million (2020: EUR -41.3 million).

At EUR 100.8 million, therefore, the result before income taxes was up by EUR 114.3 million (2020: EUR -13.6 million) on the previous year.

Earnings per share at EUR 0.88

In view of the positive pre-tax result, income tax expenses increased to EUR 46.2 million in 2021 compared to the previous year (2020: EUR 26.4 million), which corresponds to an effective tax rate of 45.9%. The previous year had seen a negative tax rate due to the pre-tax loss. The tax expenses reflect the global positioning of the Group with heterogeneous profitability relating to the subsidiaries. This has different effects on the taxes payable in the respective countries.

After deducting income tax expenses, net income for the financial year under review was EUR 54.6 million (2020: EUR - 40.0 million). Taking into account the share of net income attributable to non-controlling interests, net income attributable to the shareholders of ElringKlinger AG amounted to EUR 55.7 million in 2021 (2020: EUR - 40.8 million). This results in earnings per share* of EUR 0.88 (2020: EUR - 0.64), which is significantly above the level recorded in the previous year. As of December 31, 2021, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Balanced dividend policy

The annual financial statements of ElringKlinger AG prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB*) and relevant for the dividend payment showed a net income of EUR 70.1 million (2020: net loss of EUR 11.6 million). After accounting for the accumulated loss carried forward from the previous year and the allocation of EUR 26.6 million to the revenue reserves of ElringKlinger AG, the unappropriated surplus ("Bilanzgewinn", i.e. the distributable profit) stands at EUR 9.5 million (2020: accumulated loss of EUR 34.0 million).

In view of the unappropriated surplus generated in the period under review, ElringKlinger is again in a position to pay a dividend for the financial year just ended. Taking into consideration the process of far-reaching transformation and the opportunities resulting therefrom, the Management Board and the Supervisory Board have jointly decided to take a balanced approach with regard to ElringKlinger's dividend policy, particularly when viewed against this backdrop. While shareholders should benefit from the company's profitability, there is also a commitment to strengthening the company in support of the further transformation process. Both Boards therefore propose to the Annual General Meeting that a dividend of EUR 0.15 be paid for the 2021 financial year.

Financial Position

At the end of the 2021 financial year, the ElringKlinger Group's financial position and cash flows continued to be in a solid shape. The efficiency stimulus program launched in 2019 led to a further improvement in the Group's financial situation. In the financial year just ended, net debt was scaled back by around EUR 90 million to EUR 369.2 million, which represents another significant year-on-year reduction. With a ratio of 47.0% at the end of the reporting period, equity provides a strong foundation within the capital structure.

Total assets up, robust asset structure

Total assets reported by ElringKlinger Group as of December 31, 2021, increased by EUR 126.9 million year on year, the carrying amount standing at EUR 2,090.0 million (Dec. 31, 2020: EUR 1,963.1 million). The ratio of non-current to current assets remained almost unchanged at around 60:40 percent. Currency-related influences, which usually and among other factors result from the translation of individual balance sheets into the Group currency, the euro, are reflected in almost all items of the statement of financial position, and had a slightly accretive effect on total assets at the end of the 2021 financial year.

Fuel cell technology incorporated into Group subsidiary EKPO

The increase in total assets is attributable in part to the Group company EKPO Fuel Cell* Technologies GmbH, Dettingen/Erms, Germany, ("EKPO" for short). With the commencement of the entity's operations on March 1, 2021, French automotive supplier Plastic Omnium, based in Levallois, France, acquired a 40% stake. While ElringKlinger incorporated its fuel cell technology unit as a non-cash contribution, the co-owner committed itself to a contribution of EUR 100 million over a period of four years. The latter was divided into an initial installment of EUR 30.0 million paid in 2021 and a non-current and current receivable for the remaining amount, each of which was recognized in other non-current and current assets as of the end of the 2021 financial year. On the liabilities side, equity increased accordingly. EKPO is fully consolidated within the ElringKlinger Group (cf. "Significant Events").

As planned, ElringKlinger sold its Austrian subsidiary ElringKlinger Fuel Cell Systems Austria GmbH, Wels, to

Financial position

in EUR million	Dec. 31, 2021	Dec. 31, 2020
Total assets	2,090.0	1,963.1
Equity ratio	47.0%	41.4%
Net working capital[1]	402.2	402.8
in relation to Group revenue	24.8%	27.2%
Net debt[2]	369.2	458.8
Net debt/EBITDA	1.7	2.5
ROCE[3]	6.4%	1.7%

[1] Inventories as well as trade receivables less trade payables
[2] Current and non-current financial liabilities less cash and cash equivalents and short-term securities
[3] Return on capital employed

* Cf. glossary

Plastic Omnium as part of the agreement. The assets and liabilities disposed of as a result had already been recognized as non-current assets (Dec. 31, 2020: EUR 5.2 million) and liabilities (Dec. 31, 2020: EUR 1.9 million) held for sale as of the end of the 2020 financial year.

Non-current assets of EUR 1.3 billion

Non-current assets increased by EUR 54.8 million year on year as of December 31, 2021, with a carrying amount of EUR 1,267.1 million (Dec. 31, 2020: EUR 1,212.2 million). In addition to other non-current assets, which were up by a total of EUR 38.0 million to EUR 42.3 million (Dec. 31, 2020: EUR 4.3 million), mainly due to the aspect of EKPO mentioned above, intangible assets also increased significantly. Their carrying amount at the end of the year was EUR 215.6 million (Dec. 31, 2020: EUR 201.1 million), the increase being attributable mainly to the capitalization of development costs of EUR 17.2 million (2020: EUR 12.4 million). The majority of intangible assets consisted of goodwill with a carrying amount of EUR 165.2 million (Dec. 31, 2020: EUR 161.9 million).

The key item within non-current assets is property, plant, and equipment. Its carrying amount at the end of the year was EUR 938.6 million (Dec. 31, 2020: EUR 940.0 million). The Group continued to maintain a highly disciplined approach to investments in 2021, which led to a slight reduction in the overall volume of property, plant, and equipment. There were no impairments from impairment tests conducted on the basis of future earnings expectations at Group companies in the financial year under review, whereas in the previous year impairment testing had necessitated write-downs of EUR 24.2 million, attributable in part to the effects of the coronavirus pandemic.

The Group's financial assets, which include a non-controlling interest in Aerostack GmbH, Dettingen/Erms, Germany, remained stable with a carrying amount of EUR 15.5 million (Dec. 31, 2020: EUR 15.1 million). The investments in associates relate to interests in hofer AG, Nürtingen, Germany. These are accounted for using the equity method and amounted to EUR 13.7 million at year-end 2021 (Dec. 31, 2020: EUR 17.2 million).

Working capital proportionate to revenue growth

The favorable route taken by business in 2021 also had an impact on inventories of raw materials as well as semi-finished and finished products. In addition, developments within the commodity and material markets had an impact on inventory planning, the objective being to ensure the availability of materials, while at the same time keeping cost increases as low as possible against the background of an upward trend in market prices. Compared to year-end 2020, the Group's inventories increased by 17.9% or EUR 53.8 million to EUR 354.3 million (Dec. 31, 2020: EUR 300.5 million).

In contrast, trade receivables remained close to stable year on year at EUR 233.5 million (Dec. 31, 2020: EUR 231.2 million). As a result, working capital*, which encompasses inventories and trade receivables, stood at EUR 587.8 million at the end of 2021 (Dec. 31, 2020: EUR 531.8 million). Viewed in relation to organic revenue growth of 10.1%, the change in working capital was proportionate despite the challenging conditions seen within procurement markets. Among other things, this was attributable to targeted measures implemented as part of the efficiency stimulus program pursued since 2019. The key elements include optimization efforts with regard to stockpiling, receivables management, and trade payables.

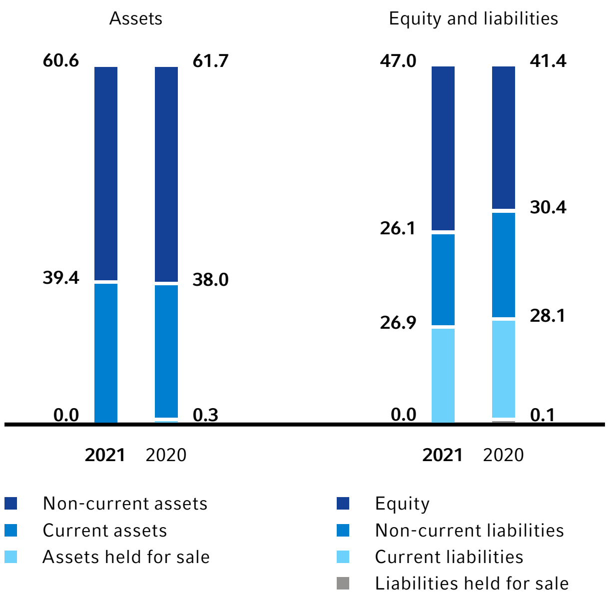
Cash and cash equivalents held by the ElringKlinger Group amounted to EUR 109.9 million as of December 31, 2021 (Dec. 31, 2020: EUR 127.9 million).

In total, the carrying amount of the Group's current assets was EUR 822.9 million at the end of the reporting period (Dec. 31, 2020: EUR 745.7 million), which represented 39.4% of total assets (Dec. 31, 2020: 38.0%).

Equity ratio at 47%

Equity held by the ElringKlinger Group amounted to EUR 982.3 million as of December 31, 2021, up from EUR 812.9 million at the end of the 2020 financial year. This corresponded to a share of 47.0% (Dec. 31, 2020: 41.4%) of total assets and continues to represent a strong foundation within the Group's capital structure. The equity ratio thus remains within the management's target range of 40 to 50%. The increase in equity in the financial year under review was attributable primarily to the positive bottom-line result of EUR 54.6 million and to additions associated with the investment of Plastic Omnium in the Group company EKPO, as mentioned above. This had an impact of EUR 99.0 million on the Group's equity. Other influencing factors relate to foreign exchange translation differences, distributions to shareholders with non-controlling interests, and the revaluation of pension provisions.

Structure of the ElringKlinger Group's statement of financial position
as of December 31, 2021
in %



The pension provisions of EUR 140.7 million (Dec. 31, 2020: EUR 156.9 million) were scaled back by EUR 16.2 million compared to end of the 2020 financial year. This was attributable primarily to changes in parameters, such as higher discount rates, on which the regular revaluation of future obligations was based (cf. Note 24 in the Notes to the consolidated financial statements).

Other provisions totaled EUR 76.6 million at the end of 2021 (Dec. 31, 2020: EUR 46.7 million). While non-current provisions were slightly lower year on year at EUR 16.5 million (Dec. 31, 2020: EUR 19.8 million), the carrying amount of current provisions increased by EUR 33.1 million to EUR 60.1 million (Dec. 31, 2020: EUR 26.9 million). The largest addition was attributable to staff-related obligations due to the planned discontinuation of production activities at one of the German sites. Furthermore, warranty obligations were higher in the period under review. This increase is mainly due to changes in individual estimates of utilization. This took into account contractual fundamentals and adjustments to the individual business-unit-specific factor for lump-sum provisions based on past experience. Additionally, the Group recognized provisions for contingent losses from customer orders and items relating to other risks.

Net debt further reduced by EUR 90 million

In addition to financing investment activities, the Group used its substantial cash inflow from operating activities primarily for the purpose of scaling back financial liabilities. Net debt* (non-current and current financial liabilities less cash and securities) thus fell by EUR 89.6 million to EUR 369.2 million as of December 31, 2021, when compared to the level at the end of 2020 (Dec. 31, 2020: EUR 458.8 million). The carrying amounts of non-current and current financial liabilities amounted to EUR 357.1 million (Dec. 31, 2020: EUR 391.9 million) and EUR 135.5 million (Dec. 31, 2020: EUR 205.3 million), respectively, at the end of the reporting period. They also included lease liabilities from the application of IFRS* 16 amounting to EUR 63.7 million (Dec. 31, 2020: EUR 64.1 million).

Debt ratio improved markedly to 1.7

The Group performed well in 2021 with regard to the direction taken by both earnings and financial liabilities. As a result, the debt ratio was down substantially and the Group was able to meet its planned objective of a year-on-year improvement in this area. This Group financial indicator, which is calculated on the basis of net debt in relation to EBITDA*, was 1.7 at the end of the reporting period. Down from 2.5 at the end of 2020, the ratio has thus steadily improved since 2019.

Net working capital in relation to revenue reduced to 25%

Net working capital*, which is calculated on the basis of inventories and trade receivables less trade payables, remained at a level that was comparable to the previous year's figure. As of December 31, 2021, its carrying amount was EUR 402.2 million (Dec. 31, 2020: EUR 402.8 million). Against the backdrop of more expansive business, the ratio of net working capital as a share of Group revenue for the respective year decreased from 27.2% in 2020 to 24.8% at the end of the reporting period. In this case, too, the Group clearly achieved its objective for fiscal 2021 of a slight improvement in this ratio.

* Cf. glossary

The positive direction taken by net working capital was underpinned by an increase in trade payables. The latter amounted to EUR 185.6 million as of December 31, 2021, compared to EUR 128.9 million at the end of the previous financial year. The increase in trade payables was in line with the change in inventories and was attributable in part to measures implemented in the context of the efficiency stimulus program within the Group.

Return on capital employed (ROCE*) improved significantly in the 2021 financial year. As of December 31, 2021, ElringKlinger reported ROCE of 6.4%, compared to 1.7% a year earlier. This financial indicator expresses how high the return on capital employed is; it is determined from the relation of EBIT* to average capital employed (cf. "Internal Control Criteria"). In terms of ROCE, the Group thus also met its original forecast of a noticeable improvement in ROCE in the 2021 financial year.

Cash Flows

In the 2021 financial year, the ElringKlinger Group once again generated substantial operating free cash flow of EUR 72.0 million, thus further extending its liquidity headroom. Benefiting from extensive measures to improve cost structures, together with a disciplined approach to investment spending, financial resources have remained on a consistently positive trajectory in the last three years.

Strong operating cash flow exceeds EBIT

At EUR 156.1 million (2020: EUR 217.8 million), net cash from operating activities was again very solid in the 2021 financial year. In contrast to the bottom-line result, non-cash expenses such as depreciation, amortization, and impairments of non-current assets, which amounted to EUR 113.8 million (less write-ups) in 2021 (2020: EUR 153.7 million), or changes in provisions of EUR 26.3 million (2020: EUR 8.6 million) are of no relevance to cash flow* from operating activities. This, in particular, explains why operating cash flow was in excess of the visibly positive pre-tax result of EUR 100.8 million (2020: EUR -13.6 million). Additionally, operating cash flow does not include currency effects or the income from the sale of the Austrian subsidiary.

At the same time, cash flows related to changes in net working capital* (inventories and trade receivables less trade payables) also affect operating cash flow. Including other assets and liabilities not attributable to financing activities, changes in these items resulted in a cash inflow of EUR 5.6 million (2020: EUR 57.4 million) in the 2021 financial year.

Income tax payments reduced cash and cash equivalents by EUR 68.4 million in 2021 (2020: EUR 18.3 million).

Investment decisions remain targeted

The focus of Group investments is on the company's strategic fields of the future. Investing activity during the 2021 financial year was directed primarily at industrialization projects in the areas of fuel cell* and battery technology as well as lightweighting. These were mainly implemented at the sites in Dettingen/Erms, Germany, and the neighboring site for battery technology in Neuffen. At the same time, however, numerous measures were also put into place at plants around the world with regard to ramp-ups or automation within all business units.

As in the previous year, the Group took a highly disciplined approach to capital expenditure in 2021. Payments for property, plant, and equipment amounted to EUR 70.0 million in the financial year just ended (2020: EUR 57.3 million). The investment ratio (payments for investments in property, plant, and equipment relative to Group revenue) was

Key figures Cash Flows

in EUR million	2021	2020
Net cash from operating activities	156.1	217.8
Operating free cash flow[1]	72.0	164.7
Investments in property, plant, and equipment[2]	70.0	57.3
Investment ratio	4.3%	3.9%

[1] Cash flow from operating activities and cash flow from investing activities, adjusted for M&A activities and cash flows for financial assets
[2] Payments for investments in property, plant, and equipment

4.3% (2020: 3.9%) and thus slightly below the figure of approximately 6% projected in the original outlook for the financial year.

Payments for intangible assets, which mainly include capitalized development costs, amounted to EUR 17.9 million in the 2021 financial year (2020: EUR 13.7 million).

ElringKlinger recorded inflows of EUR 14.5 million in the first quarter of 2021 from the sale of the Austrian subsidiary.

ElringKlinger spent a net amount of EUR 73.0 million on total investing activities in 2021 (2020: EUR 60.6 million). In the previous year, cash flow from investing activities had, in addition, included a sale-and-leaseback transaction resulting in inflows of EUR 17.3 million.

Operating free cash flow at EUR 72 million

Operating free cash flow corresponds to operating cash flow less cash for investing activities and is adjusted for any M&A* activities and cash flows for financial assets. This does not include exceptional items such as the initial installment paid by Plastic Omnium for its interest in EKPO or inflows from the sale of the Austrian subsidiary. This, too, explains why the Group's operating free cash flow of EUR 72.0 million (2020: EUR 164.7 million), which was once again well within positive territory in fiscal 2021, can be considered an encouraging result with regard to business activity. In total, the Group has generated operating free cash flow of EUR 412.5 million in the last three years. This illustrates the success of the various measures of the efficiency stimulus program put in place for the purpose of cementing the Group's financial strength.

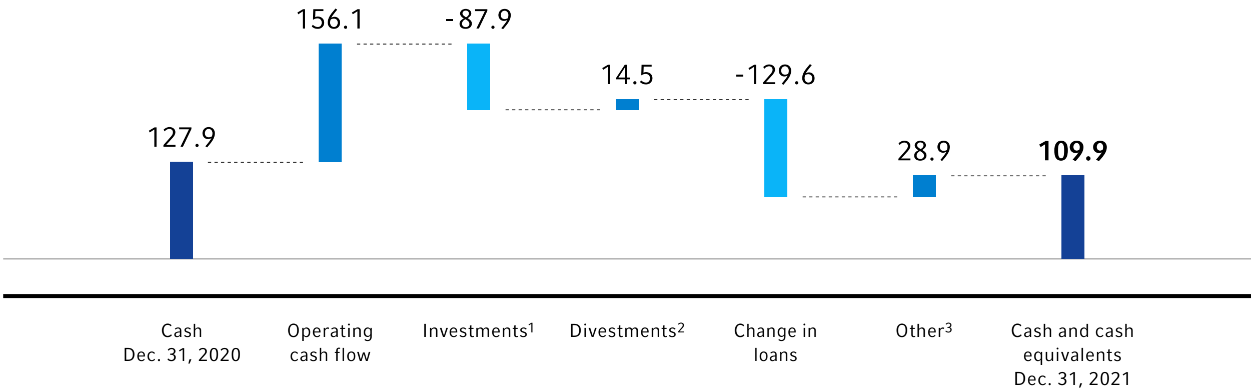
ElringKlinger again used the cash generated from operating activities to reduce liabilities to banks in the past financial year. In 2021, the Group spent EUR 111.6 million (2020: EUR 183.2 million) on the repayment of long-term loans (netted against borrowings). As regards short-term loans, there was an outflow of EUR 18.0 million (2020: inflow of EUR 29.2 million).

Overall, net cash used in financing activities amounted to EUR -106.8 million in the 2021 financial year (2020: EUR -155.8 million). This figure also includes the partial payment of EUR 30.0 million made by the co-owner with regard to its investment in EKPO Fuel Cell Technologies GmbH and distributions to non-controlling shareholders in the amount of EUR 7.2 million (2020: EUR 1.7 million).

As of December 31, 2021, the ElringKlinger Group had cash and cash equivalents of EUR 109.9 million (Dec. 31, 2020: EUR 127.9 million) and open, unused credit lines of EUR 299.7 million (Dec. 31, 2020: EUR 236.0 million). In addition to this comfortable level of liquidity, the Group's cash flow position was also strengthened by the fact that the existing syndicated loan* was increased by EUR 100 million to a volume of EUR 450 million in July 2021 and extended until 2026. ElringKlinger therefore considers itself well equipped financially for further business development and the process of transformation that lies ahead.

* Cf. glossary

Changes in cash 2021
in EUR million



[1] Payments for investments in property, plant, and equipment and intangible assets
[2] Sale of ElringKlinger Fuelcell Systems Austria GmbH, Wels, Austria
[3] "Other" includes, among other items, the partial payment of EUR 30.0 million by the co-owner for interests in EKPO and distributions to non-controlling shareholders of EUR 7.2 million.

Overall assessment by the Management Board of the financial position, financial performance, and cash flows of the Group

For the second year in succession, the business performance of the ElringKlinger Group was again influenced palpably by external factors in 2021. Against the backdrop of the ongoing coronavirus pandemic and the associated repercussions for the economy and supply chains, the company looks back on a financial year that was both inconsistent and yet again very challenging in nature. Mirroring the dynamic market recovery in the first half of the year, the first six months of fiscal 2021 were accompanied by considerable growth in sales, while the second half saw markets and demand within the automotive sector slow down sharply again, in part due to material-related shortages and logistical bottlenecks. Despite these circumstances, ElringKlinger succeeded in significantly outperforming the market as a whole, which expanded by 3.4% in terms of automobile production output (based on data presented by industry service provider IHS), with revenue rising by 10.1% organically in the full annual period. From the company's perspective, this serves as confirmation of the efficacy of the course taken by ElringKlinger with a portfolio centered around future-facing technologies.

Against the backdrop of these difficult conditions, the ElringKlinger Group's business performance can be considered thoroughly satisfactory. On the back of sales revenues of EUR 1,624.4 million (2020: EUR 1,480.4 million), earnings before interest and taxes amounted to EUR 102.0 million (2020: EUR 27.7 million), resulting in an EBIT margin* of 6.3%, compared to 1.9% in the previous year. The Group also saw a further improvement in other key financial indicators. In particular, operating free cash flow was again well within positive territory at EUR 72.0 million (2020: EUR 164.7 million). Furthermore, debt was scaled back once again. Totaling EUR 369.2 million at the end of the 2021 financial year, net financial liabilities were almost halved compared to the level recorded at the beginning of 2019 (Dec. 31, 2018: EUR 723.5 million). This favorable development reflects the success of the efficiency stimulus program implemented by the Group three years ago. It included a wide range of individual measures targeted at different points within the Group – from cost streamlining through process improvements to a disciplined investment policy. Overall, ElringKlinger Group has thus strengthened its position financially and extended its room for maneuver. This also establishes a solid foundation for future profitability and strengthens the company's resilience to external influences.

ElringKlinger continued its determined efforts to cement its strategic position in the context of the current transformation process within automotive industry. These include the alliance entered into in 2020 with the aircraft manufacturer Airbus in the field of fuel cell technology as well as the commencement of business of the Group company EKPO Fuel Cell Technologies GmbH at the site in Dettingen/Erms, Germany, and the concentration of battery technology at the site in Neuffen, Germany, established in 2021. ElringKlinger's portfolio now includes highly sophisticated products, components, and solutions both for classic applications and for vehicles that rely on alternative drive systems built around battery and fuel cell technology. Management is of the opinion that ElringKlinger's strong portfolio, broad customer base, which includes both established and new manufacturers, and global network of production sites, provide an excellent basis for consistently solid business development.

Financial Performance, Net Assets, and Cash Flows of ElringKlinger AG

The management report of ElringKlinger AG and the Group management report have been brought together in a combined format. The business performance relating to ElringKlinger AG, as outlined below, is based on its annual financial statements, which have been prepared in accordance with the provisions set out in the Commercial Code (Handelsgesetzbuch – HGB) and the Stock Corporation Act (Aktiengesetz – AktG) as well as in compliance with additional requirements of the Articles of Association.

Benefiting from an upturn in the economy, ElringKlinger AG significantly expanded its sales revenues in all regions and achieved a noticeable improvement in earnings. ElringKlinger AG recorded revenue growth of 10.7% and an operating EBIT margin of 9.5% in 2021. ElringKlinger AG's net assets and cash flows at the end of the 2021 reporting period were very solid, with an equity ratio of around 50%, a further significant positive inflow of cash from operating activities in 2021 compared to the previous year, and a comfortable level of credit lines available to the company.

Year-on-year revenue growth of over 10%

Buffeted in particular by supply-side bottlenecks within the semiconductor sector, the automotive market was again forced to operate under tense conditions. Against this challenging backdrop, however, ElringKlinger AG saw its sales revenue expand by 10.7% year on year. The latter amounted to EUR 718.1 million (2020: EUR 648.6 million). Compared to both global (3.4%) and European car production (-5.5%), the company recorded buoyant growth in revenue. For the parent company, the level of growth for the 2021 financial year had originally been expected to be within a single-digit percentage range. However, ElringKlinger was able to stand out from the market as a whole thanks to substantial orders placed as part of customer production scheduling, which suggests that the vehicle models in which ElringKlinger products can be found are not as badly affected by production cutbacks.

Revenue growth was driven by all regions. With a share of 42.3% (2020: 42.7%), the Rest of Europe represents the most important sales region for ElringKlinger AG. Revenue generated from sales in this region increased significantly

* Cf. glossary

again in the period under revenue, up by EUR 26.8 million or 9.7% to EUR 303.9 million (2020: EUR 277.1 million). In Germany, revenue expanded by 4.4% or EUR 10.3 million, rising from EUR 233.7 million to EUR 244.0 million. Revenue thus exceeded the level recorded in the pre-pandemic year of 2019. The region encompassing Germany also includes revenues from products fitted to vehicles and engines that are subsequently exported. North America also proved to be a growth driver in the financial year under review, with revenue expanding by EUR 21.8 million or 37.8% to EUR 79.6 million in 2021. This region had experienced the largest decline in revenue during the 2020 financial year amidst the initial impact of the coronavirus pandemic. The region comprising South America and Rest of the World also grew by a sizeable 16.2% in the 2021 financial year, accounting for revenue of EUR 29.9 million. In the Asia-Pacific region, meanwhile, the company generated EUR 60.6 million (2020: EUR 54.3 million) in revenue, which represents year-on-year growth of EUR 6.3 million or 11.7%.

Revenue from foreign sales saw a disproportionately large increase of 14.3%, taking this figure to EUR 474.1 million (2020: EUR 414.9 million). As a result, the share of foreign sales in total revenue expanded by two percentage points to 66% (2020: 64%).

Renewed growth for Original Equipment segment

After the crisis year of 2020, the Original Equipment segment was able to drive forward again in the period under review. At EUR 521 million, this segment grew by 7.8% or EUR 37.9 million (2020: EUR 483.1 million). Due to a significant surge in the company's Aftermarket business, Original Equipment's share of total revenue decreased by two percentage points from 74.5% to 72.5%, despite above-average growth achieved when compared to the market as a whole. The Lightweighting/Elastomer* Technology and Metal Sealing Systems & Drivetrain Components business units recorded the most pronounced levels of growth in revenue, while the Shielding Technology and Exhaust Gas Purification business units saw a slight decline in revenue. The previous year's revenue generated within the E-Mobility unit had included the proceeds from a partnership agreement relating to the company's fuel cell* activities and revenue from this line of business, which has now been transferred to EKPO Fuel Cell Technologies. Adjusted for these exceptional items, revenue in this area increased markedly in the period under review.

Aftermarket business remains growth driver

As in the crisis year of 2020, revenue continued to expand within the Aftermarket segment. At EUR 197.0 million, revenues were up by EUR 31.6 million or 19.1% year on year (2020: EUR 165.4 million). As a result, this segment's share of revenue was further expanded by 1.9 percentage points to 27.4% (2020: 25.5%).

At EUR +18.7 million or 27.7%, growth was particularly buoyant in Eastern Europe. Having said that, the Aftermarket segment also expanded in Western Europe, in North and South America as well as in Africa – in some cases significantly. As regards the key regions, only Germany saw a slight decline in revenue.

Visible improvement in total operating revenue

Due in part to the expansion in revenue, inventories of finished goods and work in progress decreased by EUR 7.3 million in the 2021 financial year (2020: EUR -4.3 million). At EUR 1.5 million, other own work capitalized was slightly above the previous year's level of EUR 1.3 million. Overall, total operating revenue amounted to EUR 712.3 million, a noticeable improvement on the figure posted in 2020, the first year of the pandemic (2020: EUR 645.6 million). The year-on-year increase stood at EUR 66.7 million or 10.3%.

At EUR 68.0 million (2020: EUR 36.9 million), other operating income increased significantly compared to the previous year. Among the significant factors driving this item were unrealized income from foreign exchange differences, especially in the USD area, as well as the sale of the Austrian subsidiary to French automotive supplier Plastic Omnium. In addition, the increase was attributable to write-ups on financial assets and financial receivables as well as income from the reversal of various small-scale provisions.

Other operating expenses were largely on a par with the previous year's figure, at EUR 112.8 million (2020: EUR 113.0 million). Lower expenses relating to foreign exchange differences as well as lower repair and cleaning costs contrasted with an increase in service expenses and higher special distribution costs – e.g., for special packaging – due to more expansive business. Administrative and travel costs increased slightly again, but remain at a comparatively low level, as the company's travel activities are currently still limited to the minimum level necessary as part of the protective measures put in place in response to the pandemic.

Rising raw material prices

On the back of economic recovery, the commodity markets saw an increase in demand in the financial year under review. At the same time, events such as torrential rain in Germany during the summer months, the winter storm in Texas, or the grounding of a vessel in the Suez Canal had a restrictive effect on supply chains, as a result of which the availability of raw materials was not guaranteed throughout. This led to higher raw material costs, particularly in the second half of the year. Against this backdrop and in the course of the revival in business, the cost of materials also trended higher again compared to the previous year. The latter totaled EUR 304.4 million in the financial year just ended, an increase of EUR 46.0 million or 17.8% compared to the previous year (2020: EUR 258.4 million). The cost-of-materials ratio, which puts the cost of materials in relation to total operating revenue, thus rose by 2.7 percentage points to 42.7% (2020: 40.0%).

Fewer employees, but higher expenses and larger social security contributions

The company had 2,963 employees as of December 31, 2021 (Dec. 31, 2020: 3,213 employees), which corresponds to a decrease of 250 employees. This is mainly due to the agreement with French automotive supplier Plastic Omnium, as a result of which 144 employees are no longer employed by the parent company. Instead, they are now employees of the subsidiary EKPO Fuel Cell Technologies GmbH. Employees were also transferred to Aerostack GmbH, Dettingen/Erms, Germany, as of January 1, 2021. Furthermore, the company essentially pursues a personnel policy that is as needs-based as possible; vacancies are filled internally whenever feasible. Additionally, the company did not make use of short-time work to the same extent or over a longer period of time during the 2021 financial year when compared to 2020, as a result of which social security contributions also increased again in the period under review. In total, personnel expenses for 2021 rose by EUR 31.0 million or 14.1% to EUR 250.5 million (2020: EUR 219.5 million). Correspondingly, the personnel expense ratio – i. e., personnel expenses in relation to total operating revenue – increased again to 35.2% (2020: 34.0%).

Lower levels of depreciation and amortization

Systematic depreciation and amortization of intangible and tangible fixed assets amounted to EUR 34.4 million in 2021, EUR 1.8 million or 5.0% below the level of the previous year (2020: EUR 36.2 million). Write-downs of current assets to the extent that they exceed the write-downs that are usual for the corporation were also lower than in the previous year at EUR 10.7 million (2020: EUR 16.6 million), which was mainly due to the improvement in underlying economic conditions.

Earnings before interest, taxes, and equity investments (operating EBIT) above expectations

Thanks to the marked improvement in its financial performance, ElringKlinger AG was able to significantly increase earnings before interest, taxes, and equity investments to EUR 67.5 million in the financial year under review (2020: EUR 38.8 million). This is equivalent to an operating EBIT margin* (as a proportion of total operating revenue) of 9.5% (2020: 6.0%). The company thus exceeded its original target of a slight year-on-year increase in its operating EBIT margin.

Significant improvement in net finance result

The upturn in the economy was also reflected in the company's other financial indicators in the financial year just ended. Income from equity investments increased by EUR 30.9 million to EUR 68.2 million in 2021 (2020: EUR 37.3 million), which was attributable to subsidiaries in Germany and abroad. While income from other securities and loans held as financial assets and other interest and similar income of EUR 0.3 million and EUR 7.4 million, respectively, changed only marginally compared to the previous year (2020: EUR 0.5 million and EUR 7.2 million, respectively), write-downs of financial assets of EUR 43.2 million were significantly lower than in the previous year (2020: EUR 65.7 million). At EUR 9.6 million, interest and similar expenses were also scaled back substantially compared to the previous year (2020: EUR 13.2 million). The company also noticeably reduced its net financial liabilities in the financial year just ended as part of its multi-year efficiency stimulus program. At EUR 23.2 million, the net finance result for the period under review was significantly higher than in the previous year, up by EUR 57.1 million (2020: EUR -33.9 million).

Company generates net income and reports unappropriated surplus

Due to the improvement in earnings before interest, taxes, and equity investments and a significant positive swing in the net financial result, the company succeeded in increasing its pre-tax result by a substantial margin. The latter amounted to EUR 90.7 million, an improvement of EUR 85.7 million compared to the previous year (2020: EUR 5.0 million). As a result, taxes on income were also

* Cf. glossary

higher than in the previous year at EUR 20.3 million (2020: EUR 16.2 million). This item includes taxes relating to other periods in the amount of EUR 1.8 million (2020: EUR 1.1 million). In total, post-tax profit at the end of the reporting period stood at EUR 70.4 million (2020: EUR -11.2 million). After deducting other taxes, ElringKlinger AG posted net income of EUR 70.1 million for the financial year under review (2020: EUR -11.6 million). Taking into account the loss carryforward of EUR 34.0 million from the previous year and the allocation of EUR 26.6 million to revenue reserves, ElringKlinger AG reported an unappropriated surplus ("Bilanzgewinn", i.e., the distributable profit) of EUR 9.5 million for the 2021 financial year (2020: accumulated loss of EUR -34.0 million).

Balanced approach to dividend distribution

In view of the unappropriated surplus generated in the period under review, ElringKlinger is again in a position to pay a dividend for the financial year just ended. Taking into consideration the process of far-reaching transformation and the opportunities resulting therefrom, the Management Board and the Supervisory Board have jointly decided to take a balanced approach with regard to ElringKlinger's dividend policy, particularly when viewed against this backdrop. While shareholders should benefit from the company's profitability, there is also a commitment to strengthening the company in support of the further transformation process. Both Boards therefore propose to the Annual General Meeting that a dividend of EUR 0.15 be paid for the 2021 financial year.

Net Assets of ElringKlinger AG

The asset structure of ElringKlinger AG reflects its dual role as a production company on the one hand and as the parent company of the ElringKlinger Group on the other: the balance sheet prepared in accordance with the provisions of the German Commercial Code (HGB*) includes both the operating assets necessary for the manufacture of its products as well as shares in and receivables from affiliated companies.

Total assets remain largely unchanged

As of December 31, 2021, total assets recognized by ElringKlinger AG amounted to EUR 1,197.8 million (Dec. 31, 2020: EUR 1,194.1 million). Fixed assets accounted for 53.0% (Dec. 31, 2020: 57.8%), i.e., more than half of the company's assets, while current assets accounted for 46.6% (31.12.2020: 41.9%) of total assets. Other balance sheet items of minor importance relate to prepaid expenses and an excess of plan assets over post-employment benefit liabilities.

Fixed assets, which consist of intangible assets, tangible fixed assets, and financial assets, decreased by EUR 55.0 million year on year to EUR 635.0 million as of December 31, 2021 (Dec. 31, 2020: EUR 690.0 million). Of this decrease, EUR -1.1 million was attributable to intangible assets, EUR -34.3 million to tangible fixed assets, and EUR -19.7 million to financial assets.

The change in fixed assets reflects several issues relating to the reporting period. In the case of intangible tangible assets, whose carrying amount was EUR 5.2 million as of December 31, 2021 (Dec. 31, 2020: EUR 6.3 million), systematic amortization exceeded additions relating to newly acquired assets. This is mainly due to the company's disciplined investment policy, through which investments over the course of the financial year were directed merely at new drive technologies. This policy had a more significant effect on tangible fixed assets, whose carrying amount was EUR 300.0 million at the end of the 2021 financial year, compared to EUR 334.3 million a year earlier. In addition, tangible fixed assets were affected by asset disposals in connection with the Group company EKPO Fuel Cell Technologies GmbH ("EKPO" for short), Dettingen/Erms, Germany, which was established within the ElringKlinger Group (cf. "Significant Events"). This subsidiary, in which ElringKlinger AG holds a 60% interest, commenced operations on March 1, 2021. Upon commencement of operations, among other things, ElringKlinger AG made non-cash contributions relating to the field of fuel cell technology.

ElringKlinger AG's financial assets amounted to EUR 329.8 million at the end of the 2021 financial year (Dec. 31, 2020: EUR 349.4 million). The largest proportion of these financial assets, with a carrying amount of EUR 295.0 million (Dec. 31, 2020: EUR 306.2 million), relates to shares in affiliated companies. Interests held in the above-mentioned Group company EKPO increased by EUR 13.7 million in the financial year due to the capital increase.

In the context of annual impairment testing, as part of which calculations in accordance with the income approach are performed on the basis of the medium-term budget of the respective company, write-downs totaling EUR 36.7 million (Dec. 31, 2020: EUR 63.2 million) were accounted for in respect of eight interests and write-ups of EUR 11.8 million

(Dec. 31, 2020: EUR 11.3 million) were recognized with regard to two interests. The equity investments held by ElringKlinger AG also decreased as a result of write-downs and amounted to EUR 24.8 million, as opposed to EUR 28.9 million at the end of the previous financial year. Loans to other long-term investees and investors amounting to EUR 6.3 million (Dec. 31, 2020: EUR 6.3 million) include a long-term receivable from Aerostack GmbH, Dettingen/Erms, Germany.

Current assets at around EUR 560 million

The inventories held by ElringKlinger AG mainly comprise raw materials and semi-finished and finished products for the manufacturing process as well as inventories relating to the aftermarket business. At the end of the 2021 financial year, they had a carrying amount of EUR 155.9 million (Dec. 31, 2020: EUR 141.2 million), which was EUR 14.8 million or 10.5% higher than a year earlier. The year-on-year increase reflects, on the one hand, the company's well-filled order books at the end of the year and, on the other hand, the rise in prices for raw materials. In parallel, measures aimed at optimizing inventories continued over the course of the financial year as part of the efficiency stimulus program.

As ElringKlinger AG is responsible for central finance and liquidity management within the Group, it also raises external funds and makes them available to affiliated companies for the purpose of financing. This is reflected in the area of fixed assets in the item encompassing loans to affiliated companies of EUR 3.0 million (Dec. 31, 2020: EUR 7.4 million) and, for the most part, in the item covering receivables from affiliated companies, as accounted for in current assets. Including receivables relating to deliveries, they amounted to EUR 312.0 million at the end of 2021 (Dec. 31, 2020: EUR 273.8 million). Net impairment losses and reversals of impairment losses on current receivables from affiliated companies totaled EUR -4.8 million.

Trade receivables amounted to EUR 56.4 million at the end of the reporting period (Dec. 31, 2020: EUR 64.5 million). In total, ElringKlinger AG recorded receivables and other assets of EUR 402.3 million as of December 31, 2021 (Dec. 31, 2020: EUR 358.6 million).

Equity ratio of ElringKlinger AG at around 50%

With a ratio of 49.2% (Dec. 31, 2020: 43.5%), the share of equity in total capital was at an extremely solid level. Due to net income of EUR 70.1 million in 2021 (2020: loss of EUR 11.6 million), equity rose from EUR 519.0 million on December 31 of the previous year to EUR 589.0 million at the end of 2021. No dividend was paid for the previous 2020 financial year.

Provisions for pensions rose to EUR 90.2 million in the period under review, up from EUR 84.7 million in the previous financial year. The increase was attributable primarily to the scheduled remeasurement conducted at the end of the year on the basis of predefined parameters, such as interest rates. As correspondingly high advance tax payments were made during the annual period in respect of the 2021 financial year, the tax provisions as of December 31, 2021, were significantly lower at EUR 1.5 million (Dec, 31, 2020: EUR 11.4 million) compared with the same reporting date in the previous year. Other provisions accounted for by ElringKlinger AG totaled EUR 64.6 million at the end of 2021 (Dec. 31, 2020: EUR 45.2 million). The year-on-year increase was attributable to various items, including personnel-related obligations recognized for the planned discontinuation of production activities at one of the sites in Germany. Furthermore, warranty obligations were higher in the period under review, in particular due to parameter changes in response to rapidly evolving economic conditions, as well as compensation obligations that do not relate to customers. In addition, a number of different circumstances led to smaller changes compared to the previous year's amounts, for example in the case of bonus credits that have not been settled, provisions for contingent losses, or provisions relating to other risks.

The substantial inflow of cash from operating activities in the 2021 financial year was used to scale back ElringKlinger AG's liabilities to banks by EUR 110.2 million, a significant reduction. As of December 31, 2021, they stood at EUR 283.2 million, down from EUR 393.4 million a year earlier. Trade payables increased by EUR 40.4 million year on year to EUR 73.0 million at the end of 2021 (Dec. 31, 2020: EUR 32.7 million). This increase is attributable to both the higher volume of business, reflected in higher revenues, inventories, and order backlogs compared with the previous year, and reporting-date effects and contractual adjustments in the area of procurement.

In total, liabilities recognized by ElringKlinger AG amounted to EUR 451.7 million at the end of the 2021 financial year (Dec. 31, 2020: EUR 533.6 million).

ElringKlinger AG achieved a visible improvement in its key profitability indicator ROCE*, which rose to 4.0% in the year

* Cf. glossary

under review (2020: 3.3%), thus exceeding the original forecast, which had projected a figure at a level similar to that of the previous year. This financial indicator expresses how high the return on capital employed is; it is determined from the relation of EBIT* to average capital employed (cf. "Internal Control Criteria"). Both parameters developed favorably in the period under review. As regards ElringKlinger AG, this performance indicator is calculated on the basis of IFRS* figures due to its integration within the Group (cf. "Internal Control Criteria").

Cash Flows of ElringKlinger AG

Cash flow from operating activities at a high level of EUR 158 million

Mirroring ElringKlinger AG's substantial net income generated in the 2021 financial year, the company recorded a particularly strong inflow of cash from operating activities of EUR 157.3 million (2020: EUR 70.8 million). The positive deviation from the result is explained by non-cash expenses and income that are not reflected in the cash flows*. In particular, this includes write-downs of tangible fixed assets and financial assets as well as of short-term intercompany loans, but also changes in provisions. In addition, changes in net working capital[1] (including other assets and liabilities not attributable to investing or financing activities) increased cash by EUR 17.3 million (2020: EUR -21.7 million).

Investment focus on e-mobility

Investment spending on tangible fixed assets amounted to EUR 28.0 million in the 2021 financial year (2020: EUR 33.0 million). Newly acquired assets were thus below the level of systematic depreciation of tangible fixed assets (net of write-ups) of EUR 32.8 million (2020: EUR 34.1 million). In line with the disciplined investment approach that has been pursued for the past three years, capital expenditure was managed in a highly targeted manner and focused on future-facing projects such as electromobility. Thus, in the period under review funds were again invested in production lines for battery modules or other manufacturing technology that was necessary for the ramp-up of new series production orders.

ElringKlinger AG recorded proceeds of EUR 14.8 million from the disposal of its interests in the Austrian subsidiary. The company was sold to the co-investor Plastic Omnium as part of the EKPO closing outlined earlier.

Overall, ElringKlinger AG recorded a cash outflow of EUR 11.1 million for investing activities (2020: EUR 23.1 million).

Operating free cash flow of EUR 130 million

ElringKlinger AG's operating free cash flow[2] also surged to an extremely high level of EUR 129.5 million in 2021 (2020: EUR 54.3 million). The company used this to further reduce its financial liabilities, resulting in a cash outflow of EUR 146.9 million (2020: EUR 62.0 million) for financing activities in the period from January to December 2021.

As of December 31, 2021, the undrawn lines of credit available to ElringKlinger AG totaled EUR 276.3 million (Dec. 31, 2020: EUR 192.9 million).

The statement of cash flows* in respect of the annual financial statements was again prepared according to the provisions set out in GAS 2.

[1] Inventories as well as trade receivables less trade payables
[2] Cash flow from operating activities and cash flow from investing activities, adjusted for cash flows in respect of acquisition activities and changes in financial assets

People

As of December 31, 2021, the ElringKlinger Group employed 9,466 people (Dec. 31, 2020: 9,724) at 45 locations worldwide. Due to the ongoing effects of the coronavirus pandemic, the digitalization of processes and mobile working became further established within the Group. Thus, complete production outages were avoided.

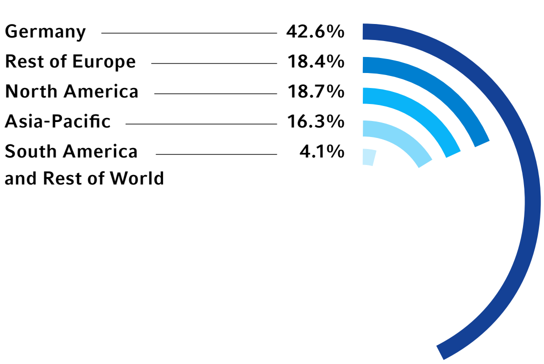
Slight reduction in headcount

As a result of the global efficiency stimulus program, recruitment activities were scaled back in specific areas over the course of the 2021 financial year. In contrast, new staff members were taken on in fields considered to be of strategic value to the fields of the future, such as fuel cell* and battery technology. In the 2021 financial year, instruments such as short-time work were only used in isolated cases. Mobile working continued to be implemented wherever possible in order to reduce the level of personal contact within the Group and minimize the impact on ElringKlinger. Thanks to the established digital infrastructures available within the Group, mobile working was possible at all times, and both staff development measures and business meetings with external business partners also took place virtually to an increasing extent, especially during the various waves of the pandemic.

Compared to the previous year, the headcount within the Group decreased by 258 to 9,466 as of December 31, 2021. The annual average number of employees within the ElringKlinger Group was 9,747 (2020: 10,013). The parent company ElringKlinger AG, which operates sites in Dettingen/Erms, Gelting, Runkel, Langenzenn, Idstein, Lenningen, and Thale, had a total of 2,963 (2020: 3,213) employees at the end of the reporting period.

In line with the economic trend, staff numbers in Europe and North America declined, whereas the headcount in Asia rose slightly. The headcount in Germany stood at 4,036 at the end of the year (Dec. 31, 2020: 4,149), representing 42.6% (Dec. 31, 2020: 42.7%) of the total workforce. The number of employees abroad was 5,430 (Dec. 31, 2020: 5,575), which represents a share of 57.4% (Dec. 31, 2020: 57.3%).

ElringKlinger Group employees



	Dec. 31, 2021	(previous year)
Germany	**4,036**	(4,149)
Rest of Europe	**1,739**	(1,824)
North America	**1,766**	(1,841)
Asia-Pacific	**1,541**	(1,512)
South America and Rest of World	**384**	(398)

* Cf. glossary

Report on Opportunities and Risks

By means of its comprehensive risk management system, ElringKlinger seeks to identify risks at an early stage, to assess them, and to mitigate them using instruments and measures. Both external factors, such as political ones, and internal factors, such as financial ones, impact the risk positions captured. The Group uses a comprehensive range of instruments to prevent risks from arising or, if they do arise, to minimize their effects on the company.

Risk management system

By monitoring markets, customers, and suppliers on a continual basis and maintaining detailed internal reporting and controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities. The effectiveness and suitability of the risk management system itself is continually adapted and refined in accordance with new requirements as they arise.

The risk management system is made up of various tools and control systems. Among the key components are strategic Group planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and significant decisions. All key areas within the Group are involved in strategic Group planning. Within this context, information is retrieved, collated, and evaluated in a standardized process. The Management Board bears overall responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the management of the respective domestic and foreign Group companies as well as the business units, which is performed on a half-yearly basis. It covers risk-related developments in all fields relevant to the Group that can affect business activity and, in particular, the continuation of the ElringKlinger Group as a going concern against the background of the specific risk-bearing capacity. The focus in particular is on changes to the economic or political situation, new regulatory requirements, technological developments, commodities markets, and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and mitigate them. The Chief Financial Officer is responsible for coordinating these activities. This approach is designed to ensure that risks are identified at an even earlier stage and measures aimed at avoiding or mitigating such risks can be implemented rapidly. The risk structure of the Group and the AG does not differ significantly overall.

In order to realize opportunities for the Group, the Management Board holds strategy meetings at regular intervals, at which it discusses market developments, customer requirements, and industry and technology trends. As an essential element of these meetings, the Management Board analyzes the Group's product portfolio and compares it with the framework requirements. As a result, conclusions for action are derived on this basis, which are implemented in the short, medium, and long term.

The Management Board assesses the aggregate risk and submits regular and comprehensive reports on its findings to the Audit Committee and the Supervisory Board. Another important aspect of the centralized risk and quality management system deployed at the ElringKlinger Group is that of tracking the implementation of defined measures. This occurs regularly as part of the committee meetings of the respective Group companies. The Group considers risk management to be an all-embracing activity that encompasses not only the identification and assessment of risk, as outlined above, but also a system of preventive measures and contingency planning that has proven to be very effective.

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and corporate units of ElringKlinger AG as well as at the Group companies. They are conducted by the Audit department in cooperation with external accountancy firms commissioned by ElringKlinger AG. The rationale behind the use of internal and external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed, and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. The execution of measures is monitored by the Management Board member whose remit covers this area; this Management Board member is also responsible for reviewing assessments conducted with regard to risk positions identified by the company. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weaknesses.

The consequences of the coronavirus pandemic also had an impact on the activities of the internal audit in the 2021 financial year. Due to the travel restrictions, the audits that had originally been scheduled to take place on site were primarily conducted digitally or remotely. A total of fourteen audits were carried out in the period under review. None of the audits conducted within this context gave rise to any significant objections. Both statutory regulations and internal requirements were consistently met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.

In accordance with the existing compliance management system, the Chief Compliance Officer reports directly to the Chief Executive Officer. Additional Compliance Officers have been appointed for individual regions in which ElringKlinger is active; they report to the Chief Compliance Officer. The ElringKlinger code of conduct forms an important part of the compliance management system. It sets out binding rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination, and the protection of confidential data. The code is distributed to all employees in the common language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. Training courses are held on a regular basis in order to prevent compliance-related infringements. In this context, the corresponding guidelines were also revised and, where necessary, defined in more specific terms.

ElringKlinger's Whistleblower System allows employees to report any irregularities they may come across. This gives them an anonymous line of communication in order to pass on information on misconduct, violations of statutory provisions, and policy infringements. The Chief Compliance Officer responded to all indications of compliance-related infringements in order to investigate the circumstances and initiate requisite measures. Where evidence suggested that an infringement may have occurred, the Management Board was informed accordingly. There are no significant breaches to report for 2021. The Management Board is committed to adapting and refining the existing compliance management system to changing circumstances and the possibility of evolving risk exposure.

In order to reduce the liability risk from potential damage and any associated losses, the Group has taken out appropriate insurance policies. The suitability of these policies, which also cover the Group companies, is subjected to regular review with regard to the actual risks covered and the level of cover provided. Where necessary, the policies are then amended.

Control and risk management system with regard to accounting

With regard to accounting or external financial reporting within the Group, the internal control and risk management system can be described in terms of the following main features: The system is geared toward identifying, analyzing, assessing, and managing risks as well as monitoring these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board.

In accordance with the distribution of responsibilities within the company, the Finance department, which is in charge of accounting, comes under the remit of the Chief Financial Officer. This area, which also includes the Financial Reporting and Controlling departments, coordinates accounting within the Group and ElringKlinger AG and compiles the information required for the preparation of the consolidated financial statements and the annual financial statements of ElringKlinger AG. In this context, Financial Reporting sets the standards within the Group and describes the processes, while Controlling takes on planning, steering, and monitoring tasks. The Group companies are supported by the Regional Finance Managers responsible for the respective region. The Group companies report to the Chief Executive Officer.

The principal risks associated with the accounting process derive from the need to provide accurate and complete information within the specified time frame. This presupposes that the requirements have been clearly communicated and the departments responsible are placed in a position where they can meet those requirements. ElringKlinger has compiled an accounting manual on the basis of International Financial Reporting Standards. All Group companies are required to apply the standards outlined in this manual as a basis of the financial reporting process. All the principal valuation standards such as those covering inventories, tools, and receivables under IFRS* are specified in mandatory form within the manual. Mandatory accounting standards are also in use across the Group as a way of ensuring uniform treatment of the same issues.

All Group companies are obliged to comply with a predefined schedule for preparation of the Group financial statements. All Group companies are responsible for drawing up their separate financial statements in accordance with local accounting rules and the reporting packages pursuant to IFRS and the ElringKlinger accounting manual. Financial reporting by all the Group companies is conducted by means of a Group reporting system. Internal Group clearing accounts are reconciled with the help of confirmation of balances and the Group reporting system. It contains not only financial data but also information that is of importance to the notes to the consolidated financial statements and the combined management report of the ElringKlinger Group and ElringKlinger AG. The data and information are checked by the Finance department prior to release and consolidation.

SAP is used by all the German and the majority of the foreign subsidiaries within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. In the short- to medium-term, SAP is to be introduced at other key companies within the Group. All implemented systems feature hierarchical access systems; all clearances are documented in the system. For companies that use SAP, access rights are managed centrally according to established rules and role profiles. Access decisions are the responsibility of the Chief Financial Officer. Local management makes decisions on access in those companies that use other systems.

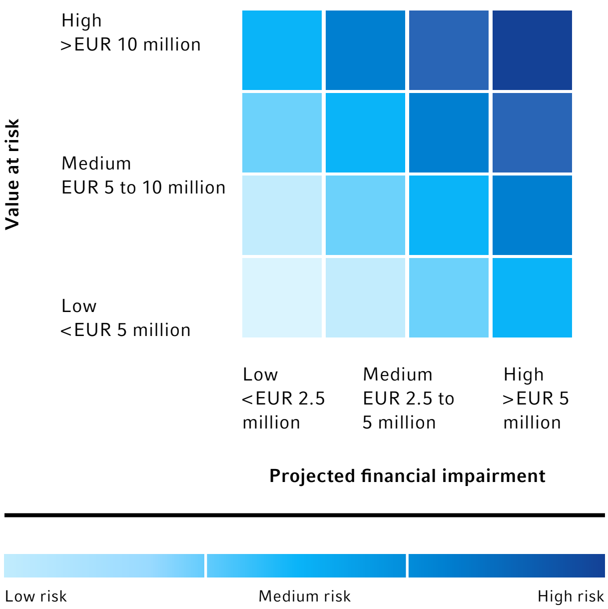
Among the risks that may affect the accounting process are, for instance, those associated with delays or errors in the entry of transactions or failure to observe the accounting manual and account allocation rules. In order to avoid mistakes, the accounting process is based on the separation of responsibilities and competencies, the automation of procedures, and plausibility checks for reporting purposes. Calculations are subject to continuous monitoring. Comprehensive and detailed checklists have to be worked through before the established reporting deadline.

The accounting process is also incorporated into the ElringKlinger Group's risk management system as a way of identifying accounting-related risks at an early stage, allowing the company to take prompt action to anticipate and address potential risks. As is the case with the other areas and functions of the Group, accounting is also subject to the investigations conducted as part of internal auditing.

Assessment of opportunities and risks

In order to assess risks, the ElringKlinger Group applies a comprehensive risk reporting system based on the application of statistical methods. Following the introduction of this new approach to risk in the preceding year, the categories previously referred to as higher-level risks were also transferred to the new methodology in the year under review. Overall, both the individual risks captured by the operating units according to the bottom-up principle and the Group risks assessed by the centrally managed units according to the top-down principle are now factored in. These risks are considered methodically on a uniform basis with respect to the probability of occurrence and categorized centrally by the Group's Corporate Risk Manager. Using the Monte Carlo method, a very wide range of possible risk scenarios relating to the company are then simulated and brought together in the form of a probability distribution of the overall risk situation. Each risk is calculated on the basis of the assessment conducted by the risk managers with its possible range of effects and its frequency in the period under consideration and, taking into potential interdependencies, combined to form the overall risk of the company. The wide range of calculated scenarios results in a profile of very probable and less probable outcomes that can be described with key indicators and provide the basis for quantitative risk assessment.

Risk matrix of the ElringKlinger Group



The following table presents an overview of material risks to which the ElringKlinger Group is currently exposed. Risks are recorded according to the net approach, i. e., the respective countermeasures are taken into account within the risk assessment. The respective risk categories comprise numerous individual risks and are elaborated further below. Based on the scenario analysis, the risks were assessed and classified into different classes. An anticipated financial impairment of up to EUR 2.5 million per category was classified as "low," a projected negative impact of more than EUR 2.5 million and up to EUR 5 million as "medium," and an expected financial loss of more than EUR 5 million as "high." At the same time, the value at risk was taken into account within the risk matrix. This statistical indicator determines the maximum loss that will not be exceeded in the specified period with a certain probability – in this case 95%. Thus, it does not describe the maximum potential loss, as a scenario beyond this probability is still considered possible. The same risk classes were formed with regard to value at risk. An expected maximum value of up to EUR 5 million per category at the stated confidence level of 95% was classified as "low," a projected value of more than EUR 5 million and up to EUR 10 million as "medium," and an anticipated value of more than EUR 10 million as "high." The assessment of opportunities and risks was performed as of the end of the reporting period, i. e., December 31, 2021. Reporting is always based on a period of one year.

Risks associated with the coronavirus pandemic

The coronavirus pandemic, which already dominated economic events in 2020, also had a significant effect on the global economic situation in the year under review. Following several waves of infection during the course of 2021, infection figures rose significantly worldwide, particularly at the end of the year, a trend that was largely attributable to the new Omicron variant. Although it was possible to avoid a comprehensive lockdown entailing plant closures of the kind seen in most countries in the spring of 2020, restrictions were often imposed during waves of infection, and this continued to adversely impact economic activity. According to initial findings, the vaccines that were developed rapidly and administered from the end of 2020

Risk profile of the ElringKlinger Group

Risk categories	Value at risk	Projected financial impairment
Risks associated with the coronavirus pandemic	High	Medium
Material and supplier risks	Medium	Low
Sales risks	Low	Low
Operational risks	Low	Low
Labor cost risks	Low	Low
Political risks	Low	Low
Customer risks	Low	Low
Inventory management risks	Low	Low
Financial risks	Low	Low
IT risks	Low	Low
Legal and compliance risks	Low	Low
Logistical risks	Low	Low

* Cf. glossary

managed to lower hospitalization rates in 2021 when compared to earlier waves. However, new mutations can also be spread by vaccinated individuals despite multiple inoculations, as long as vaccination rates in respective states and regions fall short of certain thresholds. Partly as a result of such still halting successes in combating the pandemic, the global economy was unable to recover to the extent originally anticipated for 2021. This is particularly true of the automotive markets, which fell short of expectations and ultimately grew by only 3.4% globally instead of around 13% as was estimated at the beginning of 2021.

Rising infection figures as well as vaccination rates that in some cases are below threshold values show that the risks created by the coronavirus pandemic remain. If new virus variants emerge, existing vaccines may also prove ineffective, which may well trigger more stringent protective measures once more. As a result, there is also a risk of plant closures at certain sites, and of demand volatility, supply chain disruptions, raw material shortages, customer or supplier insolvencies, or similar events that could impact ElringKlinger's economic situation. A possible outbreak of infections at individual plants within the Group is something that also cannot be ruled out.

For ElringKlinger, extensive preventive measures were part of the range of instruments deployed from the outset to counter the pandemic and keep its impact on the Group as low as possible. During the year under review, the measures implemented early on and now well established, such as hygiene regulations, the separation of work areas and the extremely restrictive handling of travel and visiting rules, remained in force. Employees were given the opportunity to undergo testing, including polymerase chain reaction (PCR) tests*, on a regular basis. Furthermore, the Group backed national vaccination campaigns by not only calling for vaccinations throughout the Group but also offering opportunities for first, second, or third vaccinations at numerous local sites.

Material and supplier risks

The prices of the raw materials primarily used by ElringKlinger remain on a persistently high level. Since September 2020 alone, for example, prices for aluminum have risen by over 50%. After tariff increases and rises connected with global trade conflicts contributed significantly to this trend in preceding years, general market volatility and disruptions in global supply chains now also play a causal role. The risks created by excessive rises in material prices would have a direct and – depending on the extent of any such increases – potentially considerable impact on the Group.

The Group employs a wide range of instruments to counteract potential increases in the prices of materials in a way that minimizes risk. For example, ElringKlinger's central purchasing department works continuously to identify and realize any potential for optimization. Internal processes are being improved and standardized across the Group, while the selection and classification of suppliers is being consistently refined. From a long-term perspective, ElringKlinger is optimizing product design and improving manufacturing processes to offset price spiral effects on commodity markets. The project to develop a new cell cover design, funded by "IPCEI* Battery 2", is a case in point. By means of this project, which is supported by the German federal and state governments, ElringKlinger is seeking to reduce component complexity and numbers. As a result, the use of energy-intensive raw materials such as aluminum and copper can also be scaled back and ultimately the CO_2 production footprint can be cut by about 40%.

On the procurement side, ElringKlinger negotiates contracts of optimal duration with its raw material suppliers based on its own market expectations. Long-term agreements are concluded in the case of rising prices. In order to be prepared for possible price reductions, contracts with shorter terms are also concluded. Alloying elements, such as nickel, which are used in high-grade steel alloys, can only be traded on the stock exchange. As a result, the overall prices of high-grade steel alloys cannot be fixed as part of framework agreements. In order to cushion volatility associated with nickel prices, hedging transactions are concluded in a targeted manner. Where hedging contracts are employed as a protective instrument against commodity price volatility, they are always based on the actual quantity of physical materials required by the company.

In order to become less exposed to increases in the prices of materials over the medium to long term, price escalator clauses are introduced into customer contracts whenever possible. If this is not possible, price rises that exceed cost estimates have to be passed on to customers where this is considered feasible. This involves a risk that additional costs cannot be passed on in full or only with some delay.

Although high material prices have an adverse impact on the Group's earnings, ElringKlinger benefits from the same high prices when it sells the metal residues produced during stamping processes. All metal residues are recycled and sold by the Group's in-house scrap management unit. Potential cost increases can be offset, at least in part, by the proceeds from scrap sold in this way.

For ElringKlinger, it is not only the development of material prices that plays a role in risk assessment, but also the availability of materials. In order to mitigate risks associated with bottlenecks or non-deliveries to the largest extent possible, ElringKlinger relies on close collaboration with its suppliers over the long term. The Group makes a point of planning its material requirements well in advance and is committed to a multi-supplier strategy in order to mitigate the risk of production-related disruption or downtime due to disruptions within the supply chain. The intention is that this shall also take effect if one of the suppliers runs into delivery difficulties for financial reasons. During the year under review, suppliers and customers with corresponding risk profiles continued to be closely monitored to facilitate a quick response in the event of potential defaults and minimize the risk for ElringKlinger. To the largest extent possible, ElringKlinger develops alternatives for commodities and materials that are either in short supply or that are subject to severe fluctuations in price.

Alongside the materials needed for its long-standing product portfolio, the Group uses other types of commodities and materials for battery and fuel cell* components and systems in its New Business Areas. With regard to these inputs, it is difficult to estimate future volumes, price movements, and supplier structures based on the information currently available, partly because of the lack of certainty over future demand for vehicles with alternative drive systems. Overall, ElringKlinger counters this uncertainty and therefore reduces its exposure to risk by minimizing its own inventories and by also requesting these input materials as required from the supplier's consignment warehouse, i.e., the supplier retains ownership of the goods until they are requested by ElringKlinger.

Sales risks

General sales risks are essentially linked to economic trends, as global vehicle markets tend to evolve in line with those trends as a rule. A substantial downturn in the economy represents a risk to demand and, ultimately, to vehicle production. This, in turn, could possibly result in lower demand for the product portfolio of the ElringKlinger Group. Such trends can be shaped by various factors. Last year, for example, supply chain restrictions or low raw material availability combined with high price levels at the same time had a noticeable impact, which is why the recovery did not materialize in the way that was initially expected at the beginning of the year. Added to this are sector-specific factors, such as semiconductor bottlenecks, which can affect the growth of global automobile production, as the past year has also shown. A key characteristic of the global automotive industry is a far-reaching transformation process, which is ongoing and has, in part, been accelerated by the coronavirus pandemic.

The ElringKlinger Group's business model is based on a robust culture of innovation and on the principle of technological leadership. The company seeks to develop technologically sophisticated products and to manufacture them with a high degree of productivity. The product portfolio was oriented toward technological change at an early stage. The Group has been conducting research into fuel cell technology for around 20 years and has now entered the marketing phase via the Group subsidiary EKPO Fuel Cell Technologies GmbH, Dettingen/Erms, in which ElringKlinger holds 60% of the interests and Plastic Omnium 40%. At the same time, ElringKlinger has established a position for itself as a supplier of battery system components over the past ten years and has now secured high-volume orders for cell contact systems* as well as complete battery systems. Moreover, the Group has a third strategic pillar in electromobility through its majority interest in the

* Cf. glossary

hofer powertrain products companies. Group subsidiaries manufacture electric drive units for the high-end sports and luxury car segment. Such broad positioning in new drive technologies will enable the Group to benefit from an accelerated pace of change within the automotive sector in the future. ElringKlinger will continue to pursue and develop this strategy as it moves forward.

Even if the pace of change were to slow down, and there is nothing to indicate that it should at the present time, the Group would still be able to act in a manner that is consistent with its current market position in combustion engine components. To lose such a position, new competitors would have to enter the respective markets or existing ones would have to expand their market position. Both approaches would entail high investment outlays on corresponding plant technology. The machinery used by ElringKlinger is usually designed according to particular specifications, i. e., it is not available as a standardized solution within the marketplace. To be financially viable, it is essential that plants produce large volumes as part of manufacturing operations. Experience has shown that initial orders placed with new suppliers tend to be relatively small in scale. However, these volumes are not sufficiently high to cover costs.

In addition to general sales risks, there are also customer- and order-specific risks. In essence, they reflect the status of various projects at individual sites. ElringKlinger is not dependent on individual customers, individual manufacturers, or individual projects. The Group has a global presence with production and sales sites in 20 countries and, given this broad base, it has largely secured itself against the possibility of stagnation or declining demand on individual vehicle markets. An economic downturn experienced in one region can at least in part be made up for by other regions. Given its cost structures, ElringKlinger is in a position to respond immediately to market conditions should any major economic upheaval occur. Instruments that can be used to this end include flexitime accounts and flexible shift models, as well as the option of applying for short-time work. Moreover, it is possible to respond to changing market conditions by aligning personnel levels with demand and by combining production volumes at individual plants. Procurement volumes are reviewed continuously and adjusted in close cooperation between central purchasing and suppliers. In addition, Sales continues to pursue its strategy of penetrating new sales markets and intensifying business with existing customers.

Essentially, ElringKlinger takes sufficient account of economic risks at the planning stage. As a rule, when budgets are drawn up, the respective macroeconomic scenario is interpreted cautiously.

Operational risks

ElringKlinger is a production company that manufactures products characterized by a high level of technological sophistication. These include, for example, multilayer cylinder-head gaskets with precision-stamped stopper geometries, thick-walled sheet metal formed parts with rolled serrations, thermoplastic fiber composites for structural applications, and structural components in hybrid technology. The production processes often require special machines that have to meet certain technical standards and cannot be supplied by every machine manufacturer. In some areas, these machines also lack redundancy in production and therefore constitute a risk for the Group. The failure of these machines could jeopardize contractually agreed output quantities and give rise to recourse claims from customers. There are also production bottlenecks caused by relocations. In order to counter operational risks, documentation is kept on production risks for each site and technical improvements are implemented along with other measures.

Furthermore, as a manufacturing company and supplier to the automotive industry, ElringKlinger is exposed to the warranty and product liability risks that are typical for the industry. The supply of non-compliant components may necessitate an exchange or recall of such parts, with corresponding costs and claims for damages. Furthermore, this may damage the company's reputation over the long term. This risk is potentially exacerbated by the development of entirely new products, such as products for applications outside the automotive industry or within the field of alternative drive technologies.

In order to counter risks relating to poor product quality in a manner that minimizes risk, ElringKlinger has implemented a wide range of improvement measures at both the project and process levels. Cases of deficient quality are tackled, for example, by tightening up procurement specifications for input materials and by continuously upgrading production equipment and increasing the level of automation. Furthermore, logistical processes are optimized on an ongoing basis.

Essentially, ElringKlinger implements appropriate quality assurance systems in order to mitigate and avoid the risks described above. They include, for example, ensuring that material warranty risks are covered by insurance policies, especially product liability insurance, for amounts that exceed deductibles. The nature and scope of insurance cover are reviewed at regular intervals and adjusted if necessary. Additionally, where possible, agreements on limitation of liability are concluded between ElringKlinger and the contracting party in question.

ElringKlinger addresses the potential risks associated with the relocation of production by drawing up a precise plan of action and involving all parties concerned early on. Early involvement allows for the differing requirements of individual stakeholders to be evaluated and coordinated. At the same time, pre-production, for example, helps to ensure delivery at any time until the relevant equipment is ready for operation at the new site.

Labor cost risks

Of the Group's 9,466 employees, 4,036 work at German sites. This corresponds to a share of 42.6% (2020: 42.7%). Collective agreements covering the metal and electrical industry in Germany expire at the end of September 2022. In the light of initial union statements, there is a risk of demands for significant wage increases that would have a tangibly negative impact on the earnings of ElringKlinger. In the event that disproportionate wage increases are pushed through, this will have an appreciable impact on Germany as an industrial location and on ElringKlinger's domestic sites as a result. Consequently, the competitive position of ElringKlinger AG would increasingly deteriorate when compared with its international competitors, as evidenced by the trend in staff cost ratios at its German sites. Moreover, there is a risk of strikes.

Essentially, similar risks associated with union-led bargaining also exist at foreign sites. The level of labor costs in emerging countries such as China, South Korea, India, or Turkey, where on average around 15% (2020: around 14%) of ElringKlinger's workforce is employed, is well below the Group average. Given that revenue and the number of employees in these regions will increase to a greater extent than in Germany, this will lessen the impact on the staff cost ratio. In these markets too, however, the dynamics of wage development are to be viewed critically with regard to the financial performance of the respective subsidiaries.

The Group has offset the more pronounced wage costs seen in recent years by making substantial capital investments and implementing continuous measures aimed at raising efficiency levels in production in order to safeguard its international competitiveness and retain jobs.

In the event of an unexpectedly strong downturn in customer demand, the staff cost ratio may increase dramatically. Capacity constraints caused by a possible outage of machinery may also result in higher staff costs (temporary labor, nightshifts, and weekend work). ElringKlinger has a number of instruments at its disposal with regard to strategic HR planning (such as working time accounts, shift systems, and temporary employment contracts) that allow the company to respond rapidly and flexibly to such scenarios.

Political risks

Fundamentally, there is the potential that political decisions taken by national or international lawmakers will have a significant impact on the future business activities of the ElringKlinger Group. The same consequences can cause unstable political situations. Additionally, new laws and regulations can have a direct or indirect impact on technology trends and on the Group's sales regions.

With climate change becoming increasingly apparent, social as well as political initiatives have been launched in many countries. These initiatives place a greater emphasis on environmental protection, resulting in the definition of appropriate measures and demands for their implementation. Legislative initiatives are therefore gradually expected to impact the automotive industry. These include time limits for new registrations of combustion engine vehicles as well as stricter emission guidelines. Events such as the flood disaster in Germany in July 2021 have shown that despite the coronavirus pandemic, unusual events are reviving debate. The political radicalization of this subject and/or far-reaching reactive measures detrimental to the automotive industry may impact the entire sector. Thanks to its broad product portfolio, ElringKlinger is able to at least partially cushion the impact of a more rapid shift towards new drive technologies.

Once again, last year did not see any reduction in the number of the world's geopolitical trouble spots. The Russia-Ukraine crisis intensified visibly in February and March of the current financial year and escalated into a full-blown military conflict. In the wake of this, economic and political sanctions were adopted and implemented, which in macroeconomic terms are reflected in a risk of recession and inflation. In addition, the conflict may have an indirect impact on

ElringKlinger due to the partial interruption of the value chain within the automotive sector. If manufacturers were to suspend production for a longer period of time as a result, this could have a direct and noticeable impact on the Group with regard to volumes requested as part of customer production scheduling. Additionally, the situation in large parts of the Middle East remains unstable, and the same applies to parts of North Africa. New conflicts may also emerge, such as in the South China Sea. Parts of the geopolitical trouble spots are among the sales regions that entail certain risks for ElringKlinger. However, North Africa and the Middle East, alongside Eastern Europe, are core regions for the Group's Aftermarket segment, which is therefore exposed to a general risk in terms of revenue. As sales in these regions are billed in euros, customers' restricted access to foreign currency could result in delayed payments or, in the worst-case scenario, lead to default on such payments. As regards the Original Equipment segment, these regions are not considered core sales markets.

Political risks may also take the form of trade policy measures such as tariffs. These could take effect, for example, as a result of Brexit. By and large, the tariffs implemented during the last US presidency are still in place, although recent developments point to an easing of tensions between the US and the EU. During this tariff dispute, which has now lasted several years, ElringKlinger is seeking to pass on additional costs to both suppliers and customers. At the same time, Purchasing is increasing its efforts to approve additional suppliers and is applying for customs exclusions to the extent permitted by regulations.

Customer risks

If one or more customers are confronted with abrupt or significant declines in demand volumes on the end-customer market, this may also impact ElringKlinger in the form of reduced demand for the Group's components. Similarly, manufacturers may, especially when undergoing a transformation process – revise their product strategies or consider the option of in-house production of certain components or systems that they had previously purchased.

ElringKlinger has continually broadened its customer structure in recent years and, as a rule, is not dependent on individual customers. The largest single customer accounted for 9.3% of annual revenue in 2021. Orders such as the one announced in March by a global battery manufacturer show that ElringKlinger has been able to gain a further customer group alongside manufacturers and traditional suppliers. In the event of a possible dip in demand, the Group will have to take account of the duration of agreements at an early stage and adjust its capacity planning if necessary. Fundamentally, the Group is protected by the fact that a focus on technology forms an integral part of ElringKlinger's DNA. This generally makes substitution more difficult.

The transformation process underway in the automotive industry also entails a change in the customer structure. Increasingly, established manufacturers are being challenged by innovative new competitors focusing exclusively on vehicle models with alternative drive systems and/or entirely new mobility concepts. Many of these new industry players are start-ups. The business performance of these companies is difficult to assess because, in contrast to established customers, traditional manufacturer sales risks are compounded by factors such as development capacity or successful further financing rounds. Consequently, it cannot be ruled out that some of these new manufacturers will not bring their development to market maturity, will not be able to obtain follow-up financing, or will not achieve customer acceptance for their product. In all such cases, ElringKlinger would be exposed to the risk of losing existing development projects or orders once again, generating lower revenue than originally anticipated, or having to recognize impairment losses on receivables.

ElringKlinger has established business relationships with several customers in this category and therefore classes the corresponding projects as being exposed to the risks outlined above. ElringKlinger counters increased counterparty risk with a risk-minimizing customer strategy. Among other things, the aim is to agree payment terms that correspond largely to project progression and therefore cover any investment and development amounts outstanding. In addition, the course of business is closely monitored.

Inventory management risks

By broadening its product portfolio to include plastic housing modules, lightweight structural components, fuel cell components and stacks, battery components and systems, and electric drive units, the Group has also expanded its product groups. At the same time, it has expanded its global footprint in recent years to 45 locations now with new plants such as those in Chongqing, Fort Wayne, and Fremont. This growth process entails the risk of creating inventories of raw materials, semi-finished products, and finished products with a low turnover rate.

ElringKlinger addressed this in the past with its global efficiency stimulus program and optimized its inventory levels. Inventories held within the Group are regularly reviewed with regard to their turnover rate in order to assess material-related risks. Stocks with a low turnover rate are evaluated to determine whether they should be used, sold, or scrapped.

Financial risks

With revenue in excess of EUR 1.5 billion and 45 locations worldwide, the size and global interconnectedness of the ElringKlinger Group makes it necessary to take various financial risks into consideration.

ElringKlinger operates globally across various currency borders and is therefore essentially exposed to currency risks as well. They include local currency surpluses in individual Group companies as well as intra-Group loans and the measurement of outstanding receivables and liabilities. In times of greater uncertainty in particular, changes in exchange rates occur more frequently or are more pronounced and are reflected in net finance costs*. Local currency surpluses are eliminated by natural hedging* as far as possible. This means that sales revenues and costs are largely incurred in the same currency in almost all sales regions. Risks arising from internal financing are gradually scaled back with the Group shifting financing to the respective currency region. To mitigate currency risks, ElringKlinger also makes use of hedging instruments, depending on need and risk profile.

In addition, there are also translation risks arising from consolidation in the Group currency. Consequently, changes in average exchange rates can cause Group revenue and earnings to increase or decrease accordingly.

Other financial risks play a subordinate role in scenario analysis. For example, the risk of bad debt losses is mainly limited by long-standing customer relationships, a broadly diversified customer base, and advance payments as a payment condition or with the help of trade credit insurance.

Risks pertaining to liquidity or financing arise when financial obligations, such as the repayment of financial liabilities or ongoing payment obligations arising from operating activities, cannot be met and/or the Group's ability to obtain refinancing itself is at risk. ElringKlinger finances itself both from the cash flow* generated from operating activities and by means of bank loans. Loans with variable interest rates are, as a rule, subject to an interest rate risk, which would have an impact on ElringKlinger's net finance costs. However, the Group seeks to agree fixed interest rates wherever possible in the case of bilateral financing liabilities on the part of the ElringKlinger Group (see Notes: "Non-current and current financial liabilities"). Changes in market interest rates also do not affect the EUR 200 million bonded loan (Schuldscheindarlehen) issued in 2017. In addition, the volume of the existing syndicated loan* was increased by EUR 100 million in mid-2021 and its term extended to 2026.

In view of higher inflation and announcements on the part of the US Federal Reserve pointing to possible hikes in key interest rates, the current interest rate level, which is still low, may also increase in the 2022 financial year. In addition to such general market interest rate risk, the Group is also exposed to the risk of rating agencies possibly downgrading the general risk profile of the automotive industry in the future. Credit terms would then tend to be less attractive. In view of this environment, a financing risk is always implicit, despite continued positive earnings within the industry and comparatively low market interest rates.

* Cf. glossary

With regard to its financial situation, ElringKlinger is fundamentally sound, with the global efficiency stimulus program also contributing to this since the beginning of 2019. At 47.0% (2020: 41.4%), the equity ratio remains within the target range of 40% to 50% of total assets. It was possible to significantly reduce the indebtedness factor (net debt* in relation to EBITDA*) from 4.7 at the end of the first quarter of 2019 to 1.7 (2020: 2.5). The operating free cash flow situation, at EUR 72.0 million in the last financial year following EUR 175.8 million (2019) and EUR 164.7 million (2020) also attests to the Group's strength with regard to liquidity.

At the end of the reporting period, the loan agreements concluded by the ElringKlinger Group mainly contained contractual clauses that are typically used in banking to satisfy certain financial requirements (financial covenants*). As of December 31, 2021, there were no circumstances that could have given rise to the exercise of unilateral termination rights by the banks. In the opinion of the Management Board, no such circumstances are expected in the 2022 financial year as well. No immediate risks that could jeopardize the financing of major projects that are planned or that could prevent obligations from being serviced when they fall due are apparent – also in view of the improved financial ratios. From today's perspective, financing risks that might jeopardize the company's existence as a going concern can be ruled out.

IT risks

Alongside the transformation of mobility, the digitalization of the manufacturing industry is a key trend. However, increasing digitalization also brings with it a tendency for potential threats such as cybercrime and hacker attacks on IT infrastructure to rise. The confidentiality, integrity, and availability of data are considered to be a precious commodity. Protection within this area requires an increasing number of preventative and corrective measures. Any disruption to IT systems and application software can lead to tangible delays to individual processes – from the handling of purchase orders and ongoing production control through to activities in the supply chain. Such a scenario would have a negative impact on operations, which may also affect revenue and earnings. Successful attacks by Trojans, which cannot be ruled out in principle and always represent a potential threat, would have similar effects.

The IT department of the ElringKlinger Group is working on fail-safe standards and a well-tested, appropriate recovery plan to ensure business continuity for scenarios involving damage. In addition, data that are of importance to operational processes are always stored twice or redundant systems are deployed. The Group's headquarters in Dettingen/Erms, Germany, has two data centers operating independently of each other. For security reasons, these data centers are accommodated in different buildings, i.e., at two separate locations. In taking this approach, the company protects itself against system failure and data loss. Furthermore, all data pertaining to the international sites are backed up at a central location. Additional back-up systems and bridging solutions are also in place to deal with potential risks for specific projects and processes. Employees are constantly sensitized and trained for malware or Trojan attacks through simulation measures.

Staff access to confidential data is controlled by means of scalable access authorizations. State-of-the-art security software applications are used for the purpose of protecting the company against unauthorized access via external sources.

In addition, the Group is TISAX- and ISO* 27001-certified at numerous German sites. This is a standard within the automotive industry that harmonizes the level of information security throughout the value and supply chain.

Legal and compliance risks

Given its size and business model, ElringKlinger is subject to corresponding risks in various areas of the law. Both the parent company and the subsidiaries may be exposed to risks arising from unlawful acts. As a risk mitigation measure, the Group conducts regular training sessions and has also implemented an appropriate compliance management system, which is constantly modified to reflect changing circumstances or conditions. Given the tools provided by the compliance management system and ElringKlinger's corporate culture, the probability of occurrence can be treated as low, but cannot be completely ruled out. The financial effects on Group earnings are difficult to specify; depending on the respective case, they may reach a scale that could be considered significant.

In addition, other significant risks, such as warranty and product liability risks, are largely covered by insurance policies. Furthermore, ElringKlinger addresses its exposure to legal risks by recognizing provisions in its separate and consolidated financial statements. Such precautionary measures have been additionally implemented for individual sets of circumstances in 2021. There were no other more significant risks compared to the previous year. Likewise, ElringKlinger is at present not exposed to any significant litigation risks.

Logistical risks

Global supply chain problems are severely impacting economic activity. Not only are raw materials and input materials essentially difficult to obtain and comparatively expensive, but they are also often not available at the destinations where they are needed in a timely manner. This problem is compounded by port clearance bottlenecks. For example, in the fall of 2021, there were many ships docked on the US West Coast waiting to unload their cargo at the Port of Los Angeles. Customary cargo delivery times lengthened significantly.

Such delays can interfere with production processes and complicate delivery processes. As an immediate countermeasure, the Group can resort to special freight options, which often entail shipment by air and are costly as a result. ElringKlinger seeks to make up for such additional costs by passing them on to both suppliers and customers.

In addition, the Group employs an extensive set of tools to avoid logistical risks in the first place. They include supplier diversification to prevent dependencies from arising. At the same time, relationships with existing suppliers are strengthened to forge close ties. In this regard, it has been shown that transparency in a long-term supplier relationship particularly serves to strengthen mutual trust.

Opportunities

Opportunities are assessed by classifying them according to the probability of occurrence and their potential financial impact. A probability of occurrence of 10% is considered "low," one of 40% is classified as "medium," and one of 80% is deemed "high." The potential financial impact is categorized on the basis of criteria, ranging from "insignificant" to "significant." In this context, in the event of occurrence "insignificant" refers to a potential impact on Group earnings before interest and taxes of less than 5%, "moderate" between 5 and 10%, and "significant" in excess of 10%. The overall potential with regard to opportunities in relation to the respective category is derived from the interaction of probability of occurrence and potential financial impact. As with risks, an assessment was performed as of the end of the reporting period, i.e., December 31, 2021, and generally relates to a period of one year.

Climate change/Emission laws

Alongside the coronavirus pandemic and its consequences, climate change is a permanent feature of both media reporting and public discourse. Public awareness has become heightened and is reflected in many areas of life, in the form of, for example, stricter environmental regulations, a focus on environmental indicators or broad protest movements campaigning for environmentally responsible action. Environmental occurrences attributed to the effects of climate change to date, such as increasing glacial melting in the Alps, strong glacier calving in Greenland, heavy rain accompanied by river flooding in Germany, or violent storms in North America are driving this trend even more.

In the automotive industry, this process is manifesting itself by way of profound change in the sector, particularly with regard to drive technologies. To curb global warming and achieve the global goals of the Paris Agreement, many countries have enacted emissions regulations, which is why manufacturers are restructuring their product portfolios and offering more and more hybrid or fully electric models.

Profile of opportunities relating to the ElringKlinger Group

Categories of opportunities	Probability of occurrence	Potential financial impact
Climate change/Emission laws	High	Significant
Technology trends	High	Significant
Extension of product and service portfolio	High	Significant
New sales markets	High	Significant
Industry consolidation/M&A	Medium	Moderate

* Cf. glossary

At the same time, countries are promoting new drive technologies to shape the transformation of mobility in parallel with the energy transition. In Europe, for example, "Important Projects of Common European Interest" (IPCEI) are being promoted to develop a European value chain in key technologies. ElringKlinger offers future-oriented projects, as the Group was one of only eleven German companies to receive funding from the German government and the state of Baden-Württemberg for the field of battery technology under this program last year. With a volume of EUR 33.8 million until the end of 2026, the federal and state governments are funding the development of a new type of cover design that can lower the CO_2 production footprint by around 40% thanks to a reduction in the number and in the complexity of components as well as the lower consumption of energy-intensive raw materials such as aluminum and copper.

In the same way, the German government is promoting the development of sectors for the future in the field of hydrogen technologies. The German government has also selected ElringKlinger for the "IPCEI Hydrogen" program, which has yet to be confirmed by the European Commission. This funding program is being accompanied by the National Hydrogen Strategy, which aims to establish hydrogen technologies as core elements of the energy transition as well as to strengthen German companies and their competitiveness.

For ElringKlinger, the legislative framework provides an opportunity to benefit from such change. On the one hand, the Group became involved with alternative drive technologies at an early stage. ElringKlinger has been involved with fuel cells for around 20 years, and for the past ten years the Group has been a series supplier of battery components to various car makers and suppliers. In addition, electric drive units are manufactured by the hofer powertrain products subsidiaries. This broad positioning in new technologies will enable further business potential to be realized in the future. Moreover, the legislative environment offers business potential in that the trend toward fuel-efficient and low-emission engines is further heightening the requirements for sealing technology and shielding systems. Consequently, products designed to meet more stringent standards are in demand.

On the other hand, the increasing market share accounted for by hybrid vehicles opens up an opportunity for ElringKlinger to increase its revenue per vehicle. This is because a hybrid vehicle requires combustion engine components as well as parts for the battery section of the drivetrain, such as cell contact systems or pressure equalization modules, or even battery modules or complete systems. The field of battery technology in particular is continuing to propel momentum in the automotive industry. Manufacturers are launching more and more partially or fully electric models onto the market and are highlighting longer ranges or attractive prices to increase acceptance among end customers and to boost demand.

In the field of fuel cell technology, the Group expects demand to increase over the coming years. This is because fuel cells make it possible to convert energy during operation, thereby extending the range depending on usage. Thus, fuel cells are particularly suitable for applications where downtime, as necessitated by frequent charging, is costly, e.g., in the case of trucks or buses. As sales volumes grow, economies of scale can be achieved and the unit price will fall, making fuel cell drive systems more attractive for the car sector. What is more, the hydrogen required for these drive systems can be distributed via the existing network of service stations. ElringKlinger began to explore fuel cell technology at an early stage and, in addition to various components, also offers high-performance fuel cell stacks* via its subsidiary EKPO Fuel Cell Technologies GmbH, Dettingen/Erms, in which the French automotive supplier Plastic Omnium has also acquired a stake. By accelerating its penetration of global markets, the ElringKlinger Group sees considerable revenue potential over the coming years. In addition, ElringKlinger has entered into a strategic partnership with Airbus in order to make fuel cell technology available to the aviation industry.

Furthermore, vehicle weight also has an impact on environmentally friendly mobility. Less weight is of key importance to carmakers in order to reduce fuel consumption and/or increase range. The focus in this regard is always on minimizing CO_2 emissions. In addition, lower weight reduces tire abrasion and particulate pollution. Thus, lightweight construction is a key technology for the automotive industry. ElringKlinger has been mass-producing lightweight components for over two decades. Its many years of experience in materials, processes, and manufacturing are particularly reflected in its broad product portfolio, which includes drivetrain and body products.

Overall, ElringKlinger considers the revenue and earnings potential linked to climate change and CO_2 reduction to be significant. The potential for ElringKlinger to exploit these market opportunities in the medium term by drawing on its existing product portfolio and R&D expertise is considered highly probable by the Group.

Technology trends

Recent years have shown that new drive technologies are becoming increasingly prevalent in the field of mobility, with the share of sales accounted for by fully electric and hybrid-powered vehicles rising continually. Governments around the world had already introduced regulations to reduce CO_2 mobility emissions earlier. These regulations have been made more stringent in recent years. In the light of this, ElringKlinger rates the probability of further market penetration by new drive technologies as high. ElringKlinger products that make engines more fuel-efficient, reduce the weight of a vehicle, or enable alternative drive technologies to be used, such as multilayer cylinder-head gaskets, lightweight structural components, battery modules, or fuel cell stacks, contribute to achieving the ambitious CO_2 targets set by legislators.

Orders received in 2021, such as the high-volume contract for the manufacture of cell contact systems, the first series production contract for fuel cell stacks, or the supply of battery system prototypes, underscore the fact that ElringKlinger's product portfolio is also well positioned for new drive technologies. To this end, it has been able to apply knowledge gained in classic product areas over the past decades in order to be equipped for these tasks in toolmaking as well as in development and production processes. Accordingly, the resulting prospects for Group revenue and earnings growth can be classified as significant. This assessment holds true even if the pace of change should prove to be faster than anticipated on the basis of current forecasts. Indeed, products such as battery components and systems, fuel cell stacks, and complete electric drive units developed by ElringKlinger are ready for full market rollout.

Extension of product and service portfolio

ElringKlinger has already used its expertise in the past to steadily expand its product and service portfolio. More than 20 years ago, plastic housing modules were added to the product range in order to replace engine metal components with plastic modules, as in the case of cylinder-head covers, for example. The product range in this area has been consistently expanded. Continuous development and know-how pertaining to special materials and processes has resulted in the addition of body-related structural components, such as cockpit cross-car beams*, to the range of lightweight engine-related components. The Group subsequently has won high-volume contracts for both internal combustion engine and fully electric vehicle models. The Group will be able to expand this strategic field of the future even further going forward.

In addition, the Group looked into new drive technologies at an early stage and added products in these fields to its portfolio. The transformation of the industry is gaining momentum, generating growing demand for components, modules, and systems in these fields in particular, opening up major business potential. At the same time, business units which have hitherto primarily supplied components for internal combustion engines are using their expertise to develop products for new technologies and bringing them to production maturity, such as the Metal Sealing Systems & Drivetrain Components business unit's disk carrier for a German sports car manufacturer's all-electric model.

The potential for expanding the product and service portfolio offered is also outlined in the Group's R&D report. New concepts in the Lightweighting/Elastomer* Technology business unit can contribute to this, as can developments in the field of battery and fuel cell technology. In addition, new prospects are continually opening up outside the automotive industry for the Engineered Plastics segment in the form of PTFE* components.

The Group is constantly working with its business units to generate growth by extending its product and service portfolio in order to achieve the goal of using organic revenue growth to exceed the growth in global automobile production. The probability is rated as high.

* Cf. glossary

New sales markets

In its strategic fields of the future, i.e., battery technology, fuel cell technology, electric drive units, and lightweight structural components, the Group has attractive markets for sustainable revenue and earnings growth through further orders, including high-volume ones. In addition to demand in Europe, the Asian vehicle market should also be taken into account, where numerous established as well as new manufacturers are developing vehicle models that use alternative drive technologies. The Group sees this as providing great potential for significantly boosting its revenues over the coming years.

The aftermarket business has key sales markets in Europe and the Middle East. Further business potential is emerging in North America and Asia, which is why activities there are being systematically expanded.

The Engineered Plastics segment is also concentrating on these regions in penetrating new markets in order to realize growth opportunities.

Industry consolidation/M&A

The far-reaching transformation process in the automotive industry is accompanied by global integration. For many medium-sized companies, this gives rise to a capital allocation challenge, as they have to position themselves globally while investing in research and development at the same time. The resulting financing risks increase the risk of insolvency in the industry, which is why industry consolidation is to be expected. Competitors may also exit the market under such conditions.

ElringKlinger views this environment as an opportunity to make selective additions to its technology portfolio or to strengthen its own competitive position through consolidation. The Group monitors the market systematically in order to identify potential acquisition opportunities in good time and, where appropriate and economically justifiable, to realize them. In this regard, it is possible that ElringKlinger will exploit growth opportunities by way of acquisitions over the next few years. In this case, the Group is focused on future-oriented areas of business, whereas further acquisitions relating to the classic fields of business centered around combustion engine technology are unlikely.

The associated financial impact is difficult to quantify in advance. It may range from insignificant to very significant when measured on the basis of revenue and earnings contributions to the Group.

Overall assessment of risks and opportunities

When considering all opportunities and risks as a whole, the Management Board notes that the risk situation with regard to the pandemic or sales situation has improved compared to the previous period. The political risks are difficult to assess due to the current situation – the armed conflict between Russia and Ukraine – but are likely to have become more pronounced due to sanctions, the economic consequences of such measures, and the disruption of value chains in the automotive sector. At the same time, the situation is also likely to affect the price and availability of raw materials. Furthermore, the political situation in large parts of the Middle East remains a source of risk. There are no signs of any easing of the global trade conflict between the United States and China; on the contrary, the risk of conflict in the South China Sea is growing. In addition to direct repercussions for the Group primarily in its Aftermarket business, indirect consequences may arise if value chains in the automotive sector are interrupted. Furthermore, each of these political risks may have a direct or indirect impact on the ElringKlinger Group.

The overall risk profile continues to be largely dominated by risks associated with the coronavirus pandemic and its consequences. New virus variants, such as Omicron most recently, may give rise to new waves of infection, which may in turn lead to continued or new protective measures. The effects of such a development cannot be accurately estimated from today's perspective, but economic losses would be likely to follow. Supply chains already came under pressure during past waves and it was not possible to fully resolve this even after measures were lifted. In addition to these supply chain problems, environmental disasters are occurring at increasingly unpredictable times and on an unforeseeable scale. The flooding disaster in July 2021 or the winter storm in Texas in February 2021 are examples. This was precisely the context in which material price and sales risks in particular were identified as having a negative impact on the Group's risk situation. The prices for key raw materials used in Group production remain on a persistently high level. An additional factor in this regard – as a result of supply chain problems too – is the availability of raw materials, which in turn sets a price spiral in motion. According to market laws, prices tend to rise when goods become scarcer.

Overall, such conditions are hampering any further recovery in global automobile production. Even in the case of 2022, pre-crisis levels such as those seen in 2019, when 89.0 million light vehicles were produced, are currently not expected to be attained. For 2022, for example, data provider IHS has forecast 84.1 million vehicles.

The successes of the efficiency stimulus program have had a positive impact on some Group sub-risks. For example, inventory management has been improved, reducing risk. At the same time, the extent of financial risks, such as those produced by exchange rate fluctuations, has been reduced. The IT security risk situation merits attention. The continually growing threat posed by cyber attacks on the Group's IT infrastructure may have an impact on the company's financial situation. If risk relevance is weighted in terms of the potential financial impact on Group earnings, the main risks to which the ElringKlinger Group is exposed consist, in particular, in the effects of the coronavirus pandemic, political risks, and sales risks.

The risk management system described above, combined with a flexible cost structure, places ElringKlinger in a position to address risks promptly by implementing appropriate measures. The entity makes a point of not exposing itself to risks that may jeopardize the existence of the ElringKlinger Group. ElringKlinger possesses a robust financial base: with earnings rising, net debt has been reduced, the net working capital* ratio has been decreased, and the equity ratio has improved, so that the financial position can be described as extremely solid. As a result, the company's ability to raise new funds has been significantly strengthened and ElringKlinger is flexibly positioned both for the further transformation process within the mobility sector and for the event of a protracted market crisis, of which, however, there are no indications at present.

The transformation process within the mobility field, driven by climate change and emissions legislation, provides ElringKlinger with great opportunities. The drive technologies of the future are subject to the requirement that CO_2 emissions be reduced. ElringKlinger was early to invest in future-oriented business areas such as battery and fuel cell technology and is already able to offer many innovative solutions for alternative drive systems. As a result, the Group enjoys opportunities for growth on a global scale. The transformation of the automotive industry is altering the significance of the product groups within the ElringKlinger portfolio. Products within the area of structural lightweighting and electromobility, which are considered promising fields for the future in strategic terms, will generate a larger share of revenue than before, while conventional products associated primarily with the combustion engine will become less relevant in the years ahead.

There are currently no identifiable risks that might jeopardize the future existence of the company as a going concern, either in isolation or in conjunction with other factors. With its broad, forward-looking orientation as well as its financial strength, the Group is well positioned to actively exploit the opportunities provided by transformation and to deploy its financial resources flexibly to shape change within the field of mobility. Thus, with a balanced risk profile, ElringKlinger is in a position to outperform growth in global automobile production in the medium term with regard revenue growth.

* Cf. glossary

Disclosures pursuant to Section 289a and Section 315a HGB,

particularly with regard to share capital and disclosure of potential takeover obstacles

As of December 31, 2021, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The persons or entities with a direct and/or indirect interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2021, are presented in the table below. These relate solely to interests attributable to family ownership.

Lechler Beteiligungs GmbH, Stuttgart, Germany	Total of 28.943% (of which 20.385% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG*))
KWL Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 28.943% (of which 28.938% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Klaus Lechler Beteiligungs-GmbH, Neuhausen auf den Fildern, Germany	Total of 28.943% (of which 18.942% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Elrena GmbH, Basel, Switzerland	Total of 28.943% (of which 18.564% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Eroca AG, Basel, Switzerland	Total of 28.943% (of which 28.943% is attributable to it under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Lechler GmbH, Metzingen, Germany	Total of 10.013%

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

The number of Management Board members is determined by the Supervisory Board (Section 7 of the Articles of Association). The appointment and removal of Management Board members is performed in accordance with Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz – AktG). The Articles of Association contain no regulations that could be considered non-compliant with the provisions set out by law as regards the conditions applicable to the appointment or removal of Management Board members.

As stipulated by Section 179 of the Stock Corporation Act in conjunction with Section 20 of the Articles of Association, all amendments to the Articles of Association require a resolution of the Annual General Meeting with a majority of three-quarters.

The Management Board is authorized to buy back company shares up to a total amount of 10% of share capital existing at the date on which this resolution was passed (July 7, 2020). This authorization remains valid until July 7, 2025.

Details relating to authorized capital and the utilization of authorized capital are included in the Notes.

ElringKlinger has not entered into any agreements containing a change of control provision that would apply in the event of a takeover bid.

There are no compensation agreements with members of the Management Board or employees in the event of a takeover bid.

Corporate Governance Statement

The Corporate Governance* Statement pursuant to Section 315d in conjunction with Section 289f of the German Commercial Code (Handelsgesetzbuch – HGB*) has been published on the ElringKlinger website at www.elringklinger.de/en/company/corporate-governance/corporate-governance-statement/2021.

Combined Non-Financial Report

For fiscal 2021, ElringKlinger has prepared a separate non-financial report for the exchange-listed parent company ElringKlinger AG in accordance with Section 289b HGB*, which has been combined with the separate non-financial Group report pursuant to Section 315b HGB. In the 2021 Annual Report, it is presented as a separate section "Combined Non-Financial Report" under the heading "To Our Shareholders." The 2021 Annual Report will be published on ElringKlinger's website at www.elringklinger.com/en/investor-relations/publications/financial-reports as of March 29, 2022.

Report on Expected Developments

According to expert economic assessments published at the start of 2022, the global economic recovery that began in 2021 could continue into the present financial year, albeit at a weaker level. In January, the International Monetary Fund (IMF) forecast a 4.4% increase in global economic output over the course of 2022. Due to the most recent Russia-Ukraine conflict, however, the actual recovery could be much more modest. At the start of 2022, experts forecast renewed growth in vehicle production, especially in the second half of the year, albeit unevenly distributed between regions.

ElringKlinger will maintain the approach of its efficiency stimulus program by focusing on long-term improvements in its key financial indicators. In the medium term, these include revenue growth, increasing profitability, a positive operating free cash flow, and a declining net debt ratio.

Outlook – Market and Sector

Considerable uncertainty over global economic recovery continues

In the view of economists, the global economic recovery could continue into the present financial year, albeit at a slower rate. In its most recent World Economic Outlook, published in January 2022, the International Monetary Fund (IMF) expects global economic output to rise by 4.4% over the year as a whole. The report highlights numerous downside risks, including the pandemic, which has not yet been overcome, ongoing disruption to global supply chains, and high levels of inflation. At the time of publication of this report, the geopolitical situation is deteriorating rapidly as a

* Cf. glossary

GDP growth projections

Year-on-year change in %	2021	Projections 2022
World	**5.9**	**4.4**
Advanced economies	5.0	3.9
Emerging and developing countries	6.5	4.8
Eurozone	5.2	3.9
Germany	2.7	3.8
USA	5.6	4.0
Brazil	4.7	0.3
China	8.1	4.8
India	9.0	9.0
Japan	1.6	3.3

Source: International Monetary Fund (Jan. 2022)

result of the Russia-Ukraine conflict. The resulting downside risks are difficult to predict but will certainly add to those set out in the IMF's World Economic Outlook.

National economic factors can also hold back the recovery. In particular, the announcement by the US Federal Reserve that it is preparing to end its loose monetary policy could dampen economic growth. The Chinese government's zero-covid strategy and the resulting closure of manufacturing sites and ports could have the same effect. Growth in Europe is constrained above all by high inflation and, especially in the major exporting countries, by the disruption of global supply chains.

Upward momentum building in vehicle markets

After two difficult years, the automotive sector continues to face significant challenges in 2022. Various factors could again hold back growth, especially supply chain disruptions that mainly affect the availability of semiconductors. Since February 2022, concerns about the economic impact of the escalating geopolitical conflict between Russia and Ukraine have also created a high level of uncertainty. Taking the unpredictable consequences of these developments out of the equation, industry experts anticipate a recovery in global vehicle production in the second quarter of 2022 and expect this trend to strengthen in the second half of the year. In February 2022, the industry institute IHS had initially assumed an increase in global vehicle production (passenger cars and light commercial vehicles) of around 9% for 2022, but had supplemented this estimate with different scenarios in view of the Russian-Ukrainian conflict. The IHS had initially expected a decline of 1.0 to 1.5 million vehicles and has now expanded this figure to a decrease of 2.3 to 2.5 million vehicles. The pessimistic scenario assumes a decline of 3.5 million vehicles. ElringKlinger also assumes that growth will be significantly lower than the approximately 9% previously mentioned. A precise figure cannot be estimated at present in view of the ongoing conflict, its potential for escalation, and its general impact.

Substantial regional differences are expected. In Europe, following a year in which vehicle production failed to make any significant recovery in the wake of the pandemic, numbers are expected to rise by a substantial margin in 2022. Volumes are also forecast to increase in North America from the second quarter of this year onwards. By contrast, production in China, the world's biggest individual market, is expected to show only a modest increase.

Sales markets boosted by strong demand

Tight inventories are also holding back sales market growth. Initially, market volume will not be able to keep pace with underlying demand. On February 9, 2022, Germany's VDA forecast 4% growth in new passenger vehicle registrations worldwide. This would be roughly on a par with the figure for 2021. US sales of light vehicles are forecast to increase by 2%. In China, too, vehicle sales are predicted to rise by 2%. Pent-up demand in Europe is expected to drive a 5% increase in new passenger car registrations. In Germany, the VDA anticipates a 7% rise in new registrations, equivalent to 2.8 million new vehicles.

Light vehicle production[1]

	Million units		Year-on-year change
Region	2021	Projections 2022	
Europe[2]	14.4	17.2	19.9%
China	24.8	25.2	1.5%
Japan/Korea	10.9	11.6	7.2%
Middle East & Africa	2.1	2.1	2.0%
North America	13.0	15.2	16.6%
South America	2.6	3.0	14.0%
South Asia	7.9	8.3	4.9%
World	**77.1**	**84.1**	**9.1%**

[1] Projections do not consider effects from Russian-Ukrainian conflict
[2] Without Russia
Source: IHS (Feb. 2022)

Upward trend in commercial vehicle markets

According to the VDA, supplies of commercial vehicles are also insufficient to meet strong demand. Against this background, the VDA expects new registrations of heavy commercial vehicles to rise by 8% in Europe and by 5% in the US.

Outlook – Company

Persistently high uncertainty and impact of the pandemic

Business conditions in the last financial year were very challenging. As the pandemic continued into a second year, factors such as semiconductor shortages, supply chain problems, increasing raw material scarcity, and the impact of the coronavirus pandemic prevented the hoped-for recovery in the automotive market. Ultimately, despite initial predictions of 13% growth in vehicle production, the market ended the year just 3.4% higher.

Globally, the pandemic is not yet under full control. Global vaccination rates vary tremendously, and even in countries with high levels of vaccination many people remain at risk. New mutations could emerge at any time – even in 2022 – with the result that existing levels of vaccine protection may prove insufficient. In turn, this could again constrain economic activity and prevent or limit the extent of the ongoing recovery in the current financial year. It is likely that automotive markets would also be hit by any such economic impacts.

Equally, it is impossible at present to offer any reliable assessment of how quickly and permanently the current supply-chain problems and semiconductor shortages can be resolved. With no let-up in the strong demand for chips, for example, shortages could continue into 2023. Logistical challenges will also last well into the future as markets strive to meet global demand for mobility and transport. Geopolitical conflicts – with unpredictable consequences – present a further risk. First and foremost of these is the Russia-Ukraine conflict, which was still unfolding at the time of writing and whose impact is therefore difficult to assess. Escalating measures such as trade embargoes and financial sanctions will also make it harder for global markets to operate. Depending on the further course and intensity of the conflict, these measures could have a serious or even massive impact on the economic situation and on the automotive sector.

The overall level of uncertainty remains high in 2022, and making predictions for the year ahead is difficult. External impacts such as the unforeseeable consequences of geopolitical conflicts, trade barriers, extreme weather events, and further pandemic outbreaks could influence the course and scale of these anticipated developments at any time. The key factors here are the fundamentally tight situation on the commodity markets, the impact of the Russia-Ukraine conflict, and the general macroeconomic situation, especially in the automotive sector.

Research and development work focused on strategically promising areas

As a technology-focused Group, ElringKlinger's goal at all times is to develop innovative solutions for its customers and in this way open up new areas of business. The far-reaching transformation of the automotive sector provides many opportunities to channel the Group's in-house expertise into the development of new products, or the penetration of new markets. Against this background, in the short to medium term, ElringKlinger plans to continue investing around 5 to 6% of its Group revenue (including capitalized amounts) into its research and development efforts.

Brimming order book

The economic recovery in 2021 allowed ElringKlinger to strengthen its order book. In the first half of the year, in particular, new orders increased significantly by 83.8% compared with the same period in 2020. In the second half of the year, however, growth was much less pronounced at 3.8%, partly due to the fact that the economy made up for lost ground towards the end of 2020. In total, the figure for new orders rose to EUR 1,977.5 million (2020: EUR 1,483.1 million), a year-on-year increase of EUR 494.4 million or 33.3%. EUR 34.5 million, i.e., 2.3 percentage points, of this total is attributable to exchange rate movements. After adjusting for these currency effects, the figure for new orders was EUR 1,943.0 million.

The Group's order backlog reflects this strong inflow of new orders. It amounted to EUR 1,386.2 million as of the end of 2021 (2020: EUR 1,033.1 million), which is EUR 353.1 million or 34.2% more than a year earlier. Here, too, the figure was boosted in 2021 by exchange rate movements. If rates had stayed unchanged, the order backlog would have been EUR 1,342.4 million, a year-on-year increase of 29.9%.

Revenue growth roughly in line with global production

The difficult conditions that overshadowed 2021 are set to continue in the current financial year. Despite predictions of further recovery after the pandemic-related collapse of 2020, factors such as the shortages of semiconductors and raw materials, logistical challenges, and most recently the Russia-Ukraine conflict will act as a brake on growth. For these reasons the current financial year is again subject to a high degree of uncertainty. As things stand at present, in terms of risks and opportunities, the Group – taking into account the substantial revenue share attributable to the automotive sector – expects to generate a level of organic revenue growth roughly in line with the increase in global vehicle production.

Thanks to its product portfolio, ElringKlinger is well placed to benefit from the ongoing transformation of the automotive industry. Based on the volume of orders received by the Group and due to enter production in the next few years, ElringKlinger anticipates a significant increase in revenue from its e-mobility solutions and a consequent shift in its revenue structure towards new drive technologies. Overall, in the medium term, the Group expects the rate of organic revenue growth achieved over the next few years to outpace the increase in global vehicle production.

Given the broader operating context outlined above, it remains difficult to assess the likely impact of future exchange rate movements. As in previous years, acquisitions cannot be excluded in 2022. All such options are under continuous review by management. The emphasis here is on companies that would either complement the Group's existing product portfolio or allow better access to certain markets. However, any such acquisition-led growth is unlikely to significantly exceed previous levels in terms of scale. From today's perspective, it is also impossible to rule out disposals within subsegments that are not part of the Group's core business.

High commodity prices, squeezed supply chains, pandemic-related impacts, and geopolitical conflict

Prices for some of the key raw materials used by ElringKlinger have risen substantially in recent years. In light of occasional shortages and geopolitical crises, the Group does not anticipate any easing of the situation on the commodity markets. At the same time, international supply chains have not yet recovered, or at least not fully, from the disruption caused by the pandemic. It follows that overall raw material prices are likely to increase. Similarly, geopolitical conflicts could also trigger a general price spiral, pushing up energy prices, stoking inflation, and constraining demand. In the case of commodities of relevance to ElringKlinger, for example, such as nickel or aluminum, such trends have already become apparent after the first few days of the armed conflict between Russia and Ukraine. In view of the high degree of uncertainty and the numerous influencing factors, it is not possible to make a precise assessment of future developments.

Earnings influenced by various factors

Looking ahead over the rest of 2022, building on a successfully completed program designed to make the Group even more efficient, ElringKlinger will maintain a strict cost discipline in order to consolidate the structural improvements that have been achieved. At the same time, prior-year figures included the proceeds from the sale of the Austrian subsidiary, and rising commodity prices will also be reflected in earnings. Against this background, taking into account the numerous influencing factors, and in view of expansive revenues, the Group expected its EBIT margin* for the current 2022 financial year to be slightly below the level of the previous year, even without taking into account the possible impact of the Russia-Ukraine conflict. Due to the outbreak of the conflict, its intensity, and the uncertainty both about the further course and the possible global consequences, uncertainty is extremely high. Earnings could also be undermined further if the Russia-Ukraine conflict cuts off important sources of revenue or exacerbates the existing pressure on automotive industry value chains. In the medium term, the Group remains confident that it can achieve a gradual improvement in its EBIT margin.

In terms of the workforce, the Group has endeavored throughout the pandemic to keep employee numbers at a level that reflects demand and matches available capacity. Looking ahead, ElringKlinger expects to maintain this policy as the market situation evolves. It should be noted that the collective bargaining agreement for staff in Germany expires this year. The outcome of negotiations on a new agreement is still unclear. A relatively high wage settlement would have an impact on earnings.

Further reduction in net working capital ratio

As part of its efficiency stimulus program, the Group has aimed to reduce its trade receivables and extend its payment terms in respect of liabilities. It has also worked to optimize inventories as the third component of net working capital*. Since these efficiency measures will remain in place, the Group anticipates a further reduction in its net working capital ratio (i.e., net working capital as a percentage of Group revenue). The year-end figure for 2022 is expected to show an improvement compared with the previous year. In the medium term, the Group aims to maintain its net working capital at roughly 20% of consolidated revenue. If the Russia-Ukraine conflict has a significant and lasting impact on sales revenues and material supplies, the improvement may not materialize.

Disciplined investment approach maintained

Another element of the efficiency stimulus program involved focusing the Group's investments on those areas identified in its long-term strategy. The Group will maintain this disciplined approach but remains committed to driving the mobility transformation and harnessing the growth potential offered by new drive technologies. At the same time, it will continue to actively manage all investment activities in its conventional business areas. The Group conducts very thorough assessments concerning the necessity, timing of execution, and funding requirements of all measures. Overall, its goal for 2022 and over the medium term is to maintain an investment ratio (capital expenditure for property, plant, and equipment as a percentage of Group revenue) of between 5 and 7%. The parameters influencing this indicator – capital expenditure in absolute terms and Group revenue – are also subject to a high degree of uncertainty due to the numerous imponderables, particularly as a result of the Russia-Ukraine conflict.

Positive operating free cash flow in double-digit million euro range

In recent years, the Group has made structural improvements in the key factors that determine its free operating cash flow*, such as profitability, investment, and net working capital. It plans to maintain this successful approach in the current financial year and on this basis anticipates a positive operating free cash flow in the double-digit million euro range, provided that the key components do not deteriorate noticeably as a result of the Russia-Ukraine conflict. Looking ahead, operating free cash flow is expected to remain positive in the medium term.

Further reduction in net financial liabilities

The Group plans to maintain its operating free cash flow in positive territory in order to reduce its net financial liabilities. In conjunction with the anticipated improvement in profitability, it expects to keep the net debt* ratio (net financial liabilities as a percentage of EBITDA*) below the 2.0 threshold. In this context, the high level of uncertainty due in particular to the Russia-Ukraine conflict must be taken into account. This threshold also applies to medium-term expectations.

In the short to medium term, as in the last several years, the Group expects to maintain its equity ratio within a target range of 40 to 50%.

Group anticipates ongoing improvement in ROCE over medium term

The Group measures its overall profitability on the basis of return on capital employed (ROCE*). In light of major uncertainties and its assessment of future earnings, the Group expects the figure for ROCE to lie slightly below prior-year level. In the medium term, the Group will be looking to achieve a steady annual improvement in this key indicator.

* Cf. glossary

Original Equipment segment

The Original Equipment segment accounts for nearly 80% of total revenue. On account of its product portfolio, the segment is heavily dependent on the performance of the wider automotive industry. For this reason, and given the current high degree of uncertainty, organic revenue growth is expected to be roughly in line with global vehicle production. The segment is not directly exposed to the effects of the Russia-Ukraine conflict, for example through production facilities in the conflict region. However, if manufacturers were forced to restrict production as a result of the conflict, the Original Equipment segment may be indirectly affected by lower orders placed by manufacturers as part of their production scheduling. At the same time, the conflict may have an impact on the situation within the commodity markets, with materials becoming less available or available only at much higher prices. The segment's EBIT margin is likely to be below the Group average.

Engineered Plastics segment

The Engineered Plastics segment covers activities relating to high-performance plastics. Like the rest of the Group, it continues to be exposed to considerable uncertainty due to the current macroeconomic situation. Nevertheless, further revenue growth is anticipated in 2022, partly as a result of the segment's strong order backlog. There are plans for strategic expansion of the Group's sales and development teams in order to fully harness the available market and growth potential. Over recent years, the segment has laid the foundations for this expansion in its North American and Chinese markets. In terms of profitability, material prices are expected to have an impact on earnings. Nevertheless, the segment's EBIT margin should remain significantly above the wider Group level.

Aftermarket segment

After strong growth in 2021, the Aftermarket segment is confident of further success in the current year. Overall, the Group expects sales revenue in the segment to remain at around the same level. As well as facing potential risks in the form of geopolitical conflicts and macroeconomic developments, there are opportunities for the segment to benefit from its growth strategy in North America. At the time this report was published, it was not possible to offer a precise assessment of the present Russia-Ukraine conflict or of its direct and indirect consequences. With regard to earnings, here too the EBIT margin is expected to remain significantly above the wider Group level.

Parent company ElringKlinger AG

As the parent company, ElringKlinger AG contributes over 40% of consolidated revenue and therefore plays a prominent role within the Group. Following a recovery in its total sales revenue in 2021 compared with the pandemic-related collapse of the previous year, the company anticipates further growth in 2022. More specifically, revenue is expected to trend upwards at a rate that is visibly below the increase in global vehicle production. In this context, it is important to note that on March 1, 2021, ElringKlinger AG's fuel cell business was transferred to its subsidiary EKPO Fuel Cell Technologies GmbH, Dettingen/Erms, Germany. As a result, all fuel cell revenue is now reported there. The high-volume order for cell contacting systems, work on which will commence at the Neuffen site, is expected to produce its first revenue contributions in the current financial year following the ramp-up of series production. However, the degree of uncertainty is also considerable in this area due to wide range of influencing factors. In view of the Russia-Ukraine conflict, its intensity, its potential for escalation, and the uncertainty both about its further course and about its possible global consequences, its impact cannot be accurately assessed at present.

Reflecting the situation across the Group, the order book situation improved markedly in 2021 compared with the previous year. The year-end order backlog was EUR 535.9 million compared with EUR 412.7 million at the end of 2020, a substantial increase of EUR 123.2 million or 29.9%.

The Group-wide efficiency measures were also implemented at the parent company and will be maintained over the coming year in order to consolidate the structural improvements achieved to date. High material prices are likely to constrain earnings. Furthermore, the consequences of the Russia-Ukraine conflict – also with regard to material availability and prices – cannot be precisely estimated. Excluding this conflict, the EBIT margin for 2022 as a whole is expected to be slightly above the Group average. Reflecting a higher level of capital spending, the figure for ROCE is forecast to remain just below the level of the Group as a whole.

Outlook – ElringKlinger Group

The Group's main indicators for its 2022 outlook and in the medium term are shown in the following table. Due to the current escalation of the Russia-Ukraine conflict at the time of reporting and the high degree of uncertainty as to the direction taken by the conflict, this table does not take into account the effects of this crisis.

Main financial control criteria	**Outlook 2022**	**Outlook medium term**	**Actual 2021**
Revenue	Organic growth at market level	Organic growth above market level	+10.1%
EBIT margin	Slightly below the prior-year level	Sustained improvement	6.3%
Operating free cash flow	Positive in double-digit million euro range	Positive	EUR 72.0 million
ROCE	Slightly below the prior-year level	Sustained improvement	6.4%
Other internal control criteria and indicators			
R&D costs	Approx. 5 to 6% of Group revenue	Approx. 5 to 6% of Group revenue	5.1%
Investments in property, plant, and equipment (capital expenditure)	Approx. 5 to 7% of Group revenue	Approx. 5 to 7% of Group revenue	4.3%
Net working capital ratio	Year-on-year improvement	Approx. 20% of Group revenue	24.8%
Equity ratio	40 to 50% of total assets	40 to 50% of total assets	47.0%
Net debt ratio (net debt/EBITDA)	Under 2.0	Under 2.0	1.7

Dettingen/Erms, March 24, 2022

The Management Board

Dr. Stefan Wolf
CEO

Theo Becker

Thomas Jessulat

Reiner Drews