Overview of ElringKlinger's Activities and Structure

Operating as a global conglomerate of companies, the ElringKlinger Group specializes in the development, manufacture, and sale of components, modules, and systems for the automotive industry. As an automotive supplier, ElringKlinger is committed to shaping the transition within the mobility sector with the help of innovative products geared toward a sustainable future. It is with this in mind that the company is taking decisive steps forward with its portfolio centered around climate-friendly drive technologies such as battery and fuel cell technology. The Group is also looking to seize opportunities that arise in other fields of application beyond mobility.

Company profile

The ElringKlinger Group's operating activities are focused on the development, manufacture, and sale of components, modules, and systems for the automotive industry. In addition, the Group's portfolio includes products and services for customers operating in other industries. The Group's capability as an innovator is of key importance to ElringKlinger's corporate strategy, the aim being to support a sustainable future. With this objective in mind, ElringKlinger takes a fundamentally open attitude toward various types of drive technology.

The Group has its headquarters in Dettingen/Erms, Germany, and is represented at 45 international locations worldwide[1]. Employing around 9,600 people, the Group generated revenue of EUR 1.85 billion in the 2023 financial year (2022: EUR 1.80 billion). The history of the Group dates back to 1879.

Business model and core competencies

The Group's product range and strategy reflect the overall sense of social responsibility toward sustainability and the associated technological changes. Accordingly, ElringKlinger is directing its development efforts for new products at areas of the future that are at the center of the current transformation process: fuel cells*, batteries, electric drive units, and structural lightweighting. In this context, the traditional fields of business provide a platform from which to evolve the core competencies acquired over decades, the aim being to apply this expertise to the strategic fields of the future.

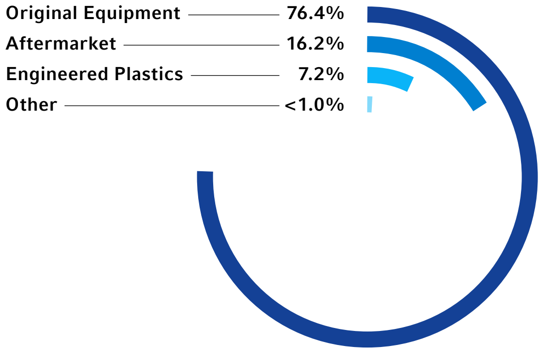
ElringKlinger's core competencies comprise extensive know-how relating to materials and processes in the field of metal and plastics processing as well as the industrialization of newly developed products. This also includes expertise in the manufacture of tools for cost-effective series production. The long-standing area of business is largely based on precision metalworking in the form of punching, embossing, and coating as well as 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 products for various industrial sectors.

Group structure and organization

The parent company of the Group is ElringKlinger AG, which has its registered office in Dettingen/Erms, Germany. It operates the German sites in Dettingen/Erms, Geretsried-Gelting, Langenzenn, Lenningen, Neuffen, Runkel, and Thale. In addition to strategic management, it is responsible for the central functions of Purchasing & Supply Chain, IT, Communication, Finance, Legal Affairs, and Human Resources. Sales activities are also handled largely by ElringKlinger AG, while Research & Development is integrated within the individual business units. As the parent company, ElringKlinger AG performs a financing function for the affiliated companies. It also forms the largest operating

[1] Unless otherwise specified, all figures refer to December 31, 2023.

Group revenue by segment 2023



in EUR million (previous year)

Original Equipment Car, truck, and engine manufacturers, automotive suppliers, non-automotive	**1,411.9**	(1,411.4)
Aftermarket Independent aftermarket business	**300.1**	(250.9)
Engineered Plastics Automotive industry, mechanical engineering, medical technology	**132.3**	(132.6)
Other Unspecified industries	**2.9**	(3.5)

Group company in respect of revenue and production volume. As of December 31, 2023, the ElringKlinger Group comprised 42 fully consolidated companies in 20 countries (cf. Notes, "Scope of consolidated financial statements").

The Management Board of ElringKlinger AG consists of three members. As from October 1, 2023, the responsibilities of the Management Board has been divided into the areas of accountability of the Chief Executive Officer (CEO), the Chief Operating Officer (COO), and the Chief Sales Officer (CSO). Following the resignation of the previous CEO on June 30, 2023, new appointments were made in the 2023 financial year, which also included a reassignment of the areas of responsibility (cf. "Significant Events" section).

Locations, sales, and procurement markets

As a global Group, ElringKlinger is represented with plants in all of the world's major vehicle markets. Of the 45 sites operating around the globe, 39 are production sites. In terms of revenue, Europe leads the way with a 51.3% share of Group sales revenue, followed by North America (26.1%) and Asia-Pacific (17.4%). 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, particularly within the Original Equipment segment. 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.

For the manufacture of its products, ElringKlinger primarily requires raw materials and capital goods as well as merchandise. Materials accounted for 44.7% (2022: 45.9%) of the cost of sales in the 2023 financial year. The most important raw materials include alloyed stainless steels, carbon steel, aluminum, polyamide*-based plastic granules, i.e., pellets, and elastomers* as well as polytetrafluoroethylene in the Engineered Plastics segment; these materials are sourced from international procurement markets. Purchasing at ElringKlinger is organized centrally in order to pool requirements as effectively as possible and conclude blanket agreements. At the same time, the objective of regional material procurement is also taken into account.

Segments and business units

The ElringKlinger Group's business activities are divided into four segments: Original Equipment, Aftermarket, Engineered Plastics, and Other. The segments specified above constitute the segments under International Financial Reporting Standards (IFRS*).

Within the **Original Equipment** segment, ElringKlinger develops, manufactures, and sells systems, modules, and components destined in particular for the automotive industry.

The individual business units within this segment each possess specific competencies that are utilized across the business units as needed. As a result of efforts to evolve the product portfolio and in response to new electromobility technologies, the business units have undergone reorganization in recent times. In the 2023 financial year, this related to the unit formerly known as Shielding Technology – with effect from January 1, 2023. It was renamed Metal

* Cf. glossary

Forming & Assembly Technology, partly due to the increasing number of components for electromobility. The Original Equipment segment comprises a total of five business units, which are presented below:

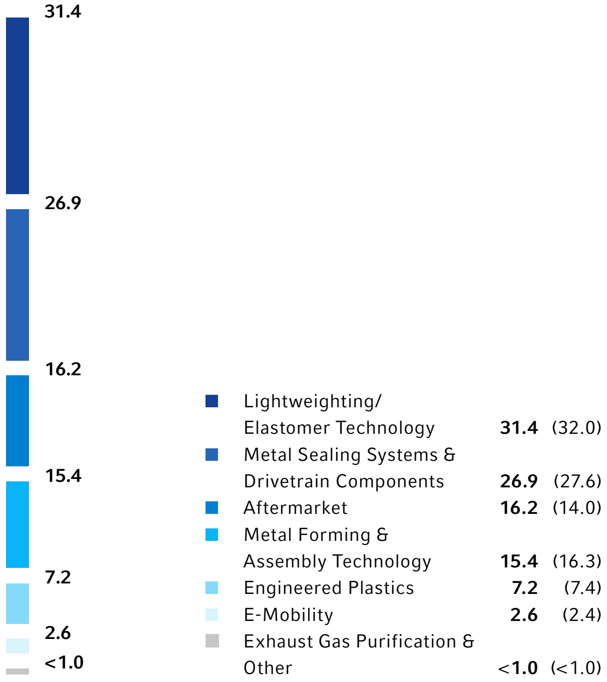
The Lightweighting/Elastomer Technology business unit develops and produces components made of thermoplastics for drivetrain, body, and underbody applications. A variety of manufacturing processes, including hybrid technology that combines metal and plastic, as well as numerous materials or material-specific innovations provide the basis for tailor-made solutions with high functional integration and/or weight savings with regard to all types of drive system, i.e., vehicles equipped with combustion engines as well as those powered by hybrid or all-electric systems.

As its primary activity, the Metal Sealing Systems & Drivetrain Components business unit offers an extensive portfolio of seals and gaskets for a wide range of vehicle applications. The remainder of the portfolio covers a multitude of products, including transmission control plates, complex formed parts engineered from sheet metal, and rotor/stator concepts for electric drive units.

The Metal Forming & Assembly Technology business unit offers punched and formed metal components as well as assemblies for electromobility. Its portfolio also includes customized shielding packages with thermal, acoustic, and/or aerodynamic functions for the entire vehicle – from the engine and the underbody to the exhaust tract.

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. The Group was early to focus on solutions for electromobility, as evidenced by its active involvement in fuel cell technology for more than two decades and a track record of more than ten years as a series supplier of electromobility products. Today, ElringKlinger is an established supplier of components, modules, and systems for battery and fuel cell technology. ElringKlinger has been operating its own battery technology site in Neuffen, Germany, since 2021. The subsidiary EKPO Fuel Cell Technologies GmbH, located at the headquarters in Dettingen/Erms, specializes in the development, production, and distribution of a portfolio centered around fuel cell technology. Complete electric drive units represent a third important pillar in the field of e-mobility.

Group revenue by business unit[1] 2023
(previous year) in %



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

The portfolio offered by the Exhaust Gas Purification business unit mainly comprises components for exhaust aftertreatment. With total revenue of less than 1%, it holds a position of relatively minor significance within the Group.

In the **Aftermarket** segment, which also constitutes a business unit, 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 markets generating the highest revenues continue to be located in Western and Eastern Europe, although the regions covering America and Asia have been cultivated more intensively in recent years and have seen growth in revenue.

Within the **Engineered Plastics** segment, which also constitutes a business unit by the same name, ElringKlinger develops, manufactures, and markets a wide range of customized products made of various high-performance 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.

At less than 1%, the segment referred to as **Other** represents a negligible proportion of Group revenue and mainly comprises services provided by various subsidiaries. These include order picking services for the Aftermarket segment, revenue generated from the operation of engine test benches and measuring equipment for engines, transmissions, and exhaust systems, and revenue from the company restaurant and catering services.

Economic and legal factors

In the Original Equipment segment, ElringKlinger primarily operates as a supplier to vehicle manufacturers. Demand is influenced by trends relating to global vehicle production, which in turn is driven by the direction taken by sales markets. Primary drivers include, for example, the economic situation, purchasing power in the various regions, consumer behavior, fuel prices, and government funding. Geopolitical factors or disruptions to supply chains or the availability of raw materials may also be of significance in the event of more severe impediments.

Regulations governing climate protection are considered to be a key influencing factor in terms of legislation. The need for more climate-friendly vehicle concepts is being fueled by ever stricter emissions regulations. International trading conditions are also of significance with regard to the interconnected activities of the company and business performance in the individual regions.

Internal Control System

For the purpose of managing the Group, ElringKlinger regularly collects and evaluates financial metrics, non-financial performance indicators, and leading indicators relating to economic and industry performance. Governance of the Group is performed primarily with the aid of financial metrics. In addition, management is increasingly focusing on aspects relating to sustainability.

The Management Board of the ElringKlinger Group refers to various metrics, leading indicators, and market observations as a basis for strategic considerations, planning, and ongoing decision-making. To this end, the management can rely on a regular reporting system with key internal control criteria.

The company-specific system of indicators incorporates cross-departmental targets in respect of the business units and is monitored by the Management Board and Vice Presidents (i.e., the first line of management below the Management Board) on a monthly basis. The dependencies between individual indicators in operational areas of business as well as between operational progress and financial effects are conveyed in transparent reporting and are communicated on a regular basis. The internal system of indicators helps the management pursue company strategy and achieve corporate goals by making developments quantifiable and visible and allowing them to be controlled in a more targeted manner overall.

Key financial control criteria

The key control criteria of the ElringKlinger Group and the parent company ElringKlinger AG are revenue, adjusted EBIT margin* (adjusted earnings before interest and taxes in relation to revenue), operating free cash flow*, and return on capital employed (ROCE*) as financial metrics.

Sales revenue and the adjusted EBIT margin are budgeted, calculated, and continually monitored for the Group, the individual Group companies, and the segments Original Equipment, Aftermarket, and Engineered Plastics as well as the associated business units. As from the 2023 financial

* Cf. glossary

Financial control criteria of the ElringKlinger Group

	Guidance 2023[1]		2023	2022	2021	2020	2019
Revenue	Organic growth substantially above market level[2]	(in EUR million)	1,847.1[3]	1,798.4	1,624.4	1,480.4	1,727.0
EBIT (adjusted)		(in EUR million)	100.1	68.4	102.0	27.7	61.2
EBIT margin (adjusted)[4]	Approx. 5% of Group revenue	Margin:	5.4%	3.8%	6.3%	1.9%	3.5%
ROCE	Approx. 7 to 8%		5.6%	-2.7%	6.4%	1.7%	3.4%
Operating free cash flow	Slight year-on-year improvement	(in EUR million)	36.7	14.8	72.0	164.7	175.8
Equity ratio	40 to 50% of total assets		45.3%	43.8%	47.0%	41.4%	41.5%
Net debt-to-EBITDA ratio[5]	Below 2.0		1.6	2.1	1.7	2.5	3.3

[1] Original forecast according to combined management report 2022; adjustments during the year – if applicable – are not presented.
[2] Adjustments are made for currency and M&A effects when calculating organic revenue growth.
[3] Revenue reported; revenue adjusted for effects of currencies and acquisitions (organic): EUR 1,881.6 million (+4.6%/market growth: 9.7%)
[4] As of 2023, ElringKlinger reports adjusted EBIT and the adjusted EBIT margin, previous year's figure for 2022 calculated using the same methodology, financial years 2021, 2020, 2019 shown without adjustment items (reported EBIT)
[5] Net debt/EBITDA

year, ElringKlinger reports adjusted Group EBIT* for the purpose of better comparing operating profitability across different periods without the influence of exceptional items. Adjusted EBIT is defined as reported EBIT adjusted* for amortization of intangible assets from purchase price allocation*, changes in the scope of consolidation, and exceptional items. Exceptional items, for example, include gains and losses from non-recurring events, such as impairments (including impairments to goodwill), reversals of impairments, restructuring costs (including severance payments), and gains and losses on disposal from M&A* activities.

As an indicator, ROCE refers to the return on capital employed. It 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. At 5.6% in the 2023 financial year (2022: -2.7%), ROCE was significantly higher than in the previous year. However, it fell slightly short of the original guidance of "around 7% to 8%." Based on adjusted EBIT, which is relevant for management purposes, adjusted ROCE for the 2023 financial year was 6.8%; it would have been 4.4% in the previous year if the system had been applied in the same manner.

Operating free cash flow* is an important indicator of internal financing capability and is calculated by deducting capital expenditure on property, plant, and equipment and intangible assets, excluding cash flows* for M&A activities and cash flows* relating to financial assets, from cash flow from operating activities.

Other important indicators are the equity ratio and the net debt[2]-to-EBITDA[3] ratio.

The table shows the key and other control criteria for the ElringKlinger Group.

Calculating ROCE for the Group

in EUR million

EBIT	**82.9**	
	Dec. 31, 2023	**Dec. 31, 2022**
Equity	910.7	896.8
Financial liabilities	449.9	502.7
Provisions for pensions	104.0	97.4
Total	**1,464.6**	**1,496.9**
Average capital employed	**1,480.7**	
ROCE[1]	**5.6%**	

[1] Calculation: EBIT/Average capital employed

[2] Current and non-current financial liabilities less cash and cash equivalents and short-term securities
[3] Earnings before interest, taxes, depreciation, and amortization

Non-financial and other internal control criteria

Given its sense of corporate responsibility, ElringKlinger attaches great importance to sustainability aspects. These are largely measured on the basis of non-financial indicators. They include personnel, quality, and environmental indicators, such as CO_2 emissions and energy consumption. Non-financial performance indicators are not currently classified as key performance indicators in the Group.

Further information on non-financial indicators can be found in the combined non-financial report, which has been included in the 2023 annual report under the heading "To Our Shareholders" in the separate section "Combined Non-Financial Report." The 2023 annual report is to be published on March 27, 2024, on ElringKlinger's website at: https://elringklinger.de/en/investor-relations/reports-presentations/financial-reports-pulse-magazine.

Company- and market-specific leading indicators

ElringKlinger applies economic and industry-specific leading indicators for the purpose of planning and assessing future revenue and business trajectories. These include, for example, projected growth rates relating to gross domestic product, forecasts of trends within the global vehicle markets, and expectations regarding the price of materials. Among the important leading indicators specific to the company are metrics relating to order intake* and order backlog. Revenue budgeting, in the short term, is based on the quantities requested by customers as part of their scheduling arrangements, i. e., call-offs, and also on the nominated volumes of customer orders. 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, which are conducted on several occasions during the annual period, and the annually compiled business plan, which includes mid-term planning with a timescale of five years.

Research and Development

ElringKlinger is taking an active approach to shaping the industry's transformation toward climate-neutral mobility by developing and mass-producing components and systems that help to reduce emissions and thus protect the environment. The company has an extensive track record of development work in the area of alternative drive systems, including fuel cells, a field of technology that it has been evolving for more than two decades. The Group develops innovative product solutions under its own steam and in partnership with customers.

In the short to medium term, ElringKlinger is aiming to spend 5 to 6% of its revenue (including capitalized development costs) on research and development (R&D) each year and, in so doing, invest in the Group's future. Its strategic future areas centered around battery technology, fuel cell technology, drivetrain technology, and structural lightweighting were again the priorities when it came to research and development over the course of 2023.

Research and development ratio at 5.2%

In the 2023 financial year, modifications and new developments were introduced in the long-standing business units of Metal Sealing Systems & Drivetrain Components, Metal Forming & Assembly Technology, and Lightweighting/Elastomer* Technology as well as in the E-Mobility business unit and the Engineered Plastics segment. As a technology-driven company and a strong innovator, ElringKlinger mainly focuses on transferring its own existing expertise to new applications. This is also reflected in the host of newly

* Cf. glossary

Key R&D figures

in EUR million	2023	2022
Research and development costs, including capitalized development costs	96.0	91.8
Capitalized development costs	27.1	22.0
Capitalization ratio[1]	28.2%	24.0%[3]
Research and development costs	**69.0**	**69.7**
Amortization/impairment of capitalized development costs	4.8	4.8
Research and development costs recognized through profit or loss	73.7	74.5
Research and development ratio[2]	**5.2%**	**5.1%**
Patent applications	110	95
R&D staff	627	602

[1] Capitalized development costs in relation to R&D costs, including capitalized development costs
[2] R&D costs, including capitalized development costs, in relation to revenue
[3] Previous year's figure has been adjusted due to rounding

developed products for electromobility realized in the long-standing business units.

Research and development activities within the ElringKlinger Group are centralized to a large extent within the business units. This prevents an outflow of existing knowledge. Development activities are concentrated at the German sites for the Original Equipment and Engineered Plastics segments and at the site in Southfield, USA. The company's other sites handle smaller development tasks and refinements. A total of 627 (2022: 602[4]) staff were employed in R&D as of December 31, 2023. The number of employees assigned to research and development increased in the period under review, particularly within the strategic future areas.

R&D costs (including capitalized development costs) amounted to EUR 96.0 million in the 2023 financial year (2022: EUR 91.8 million). This corresponds to an R&D ratio of 5.2% (2022: 5.1%), which was thus slightly in excess of the prior-year figure and within the target range of around 5 to 6% (including capitalized development costs). Out of this total, the amount capitalized was EUR 27.1 million (2022: EUR 22.0 million), giving a capitalization ratio of 28.2% (2022: 24.0%).

Technological expertise reflected in record number of patent applications

The Group invariably seeks legal protection for new developments at both a product and a process level. In this context, the centralized patent department is tasked with protecting the company's technological expertise and intellectual property rights. In the 2023 financial year, it submitted a total of 110 applications relating to industrial property rights (2022: 95). This marks a new record and bears testimony not only to the R&D spirit of ElringKlinger employees but also to the Group's enduring innovatory prowess. As in the previous year, a significant proportion of the newly registered industrial property rights relate to the Group's strategic future areas.

Expertise applied to all types of drive system

The mobility transformation that is under way is particularly apparent in the field of drive technologies. New types of drive systems will gradually replace combustion engine technology, the aim being to reduce CO_2 emissions in the transport sector. Among these technologies, those mentioned most frequently are battery electric and fuel cell* vehicles. ElringKlinger believes that both harbor tremendous potential within the field of mobility and is expecting them to evolve at different speeds depending on how and where in the world they are being used. In this context, the Group is working on the assumption that battery and fuel cell technology will coexist. Taking a technology-agnostic approach, it thus aims to support and supply its customers in a way that is open to all technologies.

Driven by prevailing trends and regulatory requirements, the market for combustion engines will gradually shrink, while alternative drive technologies will see significant growth. ElringKlinger has geared itself up accordingly. In this context, optimizing and increasing the efficiency of modern combustion engines is still an important factor for ElringKlinger's developers. However, the focus of development activities is on the strategic future areas in the form of battery and fuel cell technology, electric drive units, and lightweight structural engineering.

[4] The headcount includes all direct and indirect employees in the area of research and development. The prior-year figure was adjusted in accordance with a uniform approach.

Lightweighting as one of the strategic future areas

The Group supplies its customers with components, modules, and systems that are designed to help reduce the emissions of new generations of vehicle during operation. The scope of application for battery and fuel cell technology extends far beyond the automotive sector. As a result, ElringKlinger products can be used in a wide range of mobility applications in order to contribute to climate protection by reducing emissions. Making a vehicle lighter helps to reduce the propulsion energy required as well as a vehicle's rolling resistance. The weight of a vehicle has an impact on its range, as a result of which the aspect of weight is all the more important in the field of electromobility. This is why the Group's structural lightweighting activities are also counted among its strategic fields of the future. These lightweight components can be deployed regardless of the type of drive, which underlines their importance as a strategic future area.

Drawing on its expertise in the development and industrialization of components for traditional drive technologies, the Group applies this know-how to solutions in the field of new mobility. ElringKlinger has been conducting research and development in the field of fuel cell technologies for over two decades. As part of its efforts in series production, the Group has also been supplying customers with battery components for more than ten years.

Battery technology: progress at both component and system level

The series production of cell contacting systems* for lithium-ion batteries forms an integral part of the ElringKlinger Group's transformation. The cell contacting system interconnects individual battery cells* and, in addition to performing the functional task of voltage tapping, also acts as a voltage and temperature sensor. The Group puts its expertise in metal forming and punching technology to good use in the production of the metallic cell connectors that are fitted inside the cell contacting system. In the year under review, ElringKlinger was awarded a high-volume series production order, with a term of several years, covering the supply of the latest generation of cell contacting systems for the BMW Group's "Neue Klasse" ("New Class"). As part of this large-scale production project, the Group stepped up its efforts relating to various development activities, including in the area of flexible printed circuit boards, in order to meet the highest standards of technology and quality.

In the area of battery components, cell covers also underwent targeted refinement in 2023, including in the context of the IPCEI* funding project "EuBatIn" (abbreviation for "European Battery Innovation"). The focus here was on process development. As part of the second major European IPCEI project for battery cell production, ElringKlinger was notified that it would be granted a total of EUR 33.8 million in funding from the German Federal Ministry for Economic Affairs and Climate Action and the state of Baden-Württemberg for an innovative battery cell housing design up to the end of 2026. IPCEI funding for ElringKlinger facilitates the development and industrial-scale production of innovative battery cell housing components.

Besides single components, the Group also supplies battery modules and complete battery systems. In the field of battery technology, the Group operates as a development partner and supplier of individual components used in series-produced vehicles as well as modules and systems for niche markets with very specific requirements, such as the sports car segment. In the year under review, the Group focused on refining customized battery systems in particular, in addition to evolving its proprietary battery systems as the "ElringKlinger standard." A project that had been launched in the preceding year, the focus of which was on a new cooling concept for cylindrical cells, was showcased in the form of the performance battery module at IAA Mobility in September 2023. The performance credentials of this battery module have already been confirmed by test results gathered as part of far-reaching development work. In addition, efforts to refine a large power module with cylindrical cells have now been largely completed and are set to enter the homologation stage.

Fuel cell: market success through technological leadership

After decades of developing expertise in fuel cell technology within the ElringKlinger Group, activities relating to fuel cells were brought together at EKPO Fuel Cell Technologies GmbH (EKPO for short), which is based at the Group's headquarters in Dettingen/Erms, Germany. EKPO commenced operations in 2021 and subsequently drove forward the production of fuel cell components and stacks. The company also stepped up its wide range of development efforts for the series production of components and systems in the 2023 financial year. In the context of the IPCEI funding programs of the European Union and the German Federal government, EKPO received formal notification in November 2023 that it had been granted funds of up to EUR 177 million until 2027 as part of the "IPCEI Hydrogen" program. This funding is to be used for the purpose of expanding the EKPO product portfolio within the high-performance segment by developing and industrializing a new generation of stack modules for heavy-duty applications.

* Cf. glossary

Thus, one of EKPO's focal points with regard to R&D continued to be on the low-temperature fuel cell PEM (Proton Exchange Membrane), which is of particular relevance to mobile applications, and on high performance categories in the form of the NM12 twin stack series and the aforementioned IPCEI project. This stack series is suitable for various applications with significant power requirements (e.g., heavy-duty, rail, marine, power backup), as demonstrated by a contract to supply fuel cell stacks* for a cruise ship operated by an international cruise company. Besides platform development, investments in the year under review also included enhancements to manufacturing technology, with a particular focus on large-scale production processes.

In addition to pursuing its ongoing technology development programs, EKPO also secured and processed development orders placed by customers in 2023. These were also reflected (in whole or in part) in research and development efforts in the period under review. In the reporting year, for instance, EKPO received an order from a major global automotive manufacturer for the development and supply of bipolar plates* and pressed ahead with work on an OEM order to develop a customized fuel cell stack. EKPO was also able to strengthen its position and expand its development activities centered around fuel cell technology applications beyond the automotive industry. In this context, the company acquired and processed follow-up orders from the aviation, rail, and maritime sectors.

Drivetrain Technology: targeted advancement of performance

Back in 2017, ElringKlinger entered a strategic partnership for electric drive units (EDUs*) with the engineering specialist hofer powertrain under which the Group holds a non-controlling interest in hofer AG, Nürtingen, Germany, and majority interests in its production subsidiaries in Germany and the UK. While hofer AG contributes its engineering know-how in the field of electric drives, the ElringKlinger Group brings its expertise in the field of industrialization to the table, the purpose being to jointly execute series production orders for customers. In the year under review, the focus of development was on the technical evolution of the "High Compact Torque Vectoring" (HCTV) electric drive unit, which enabled ElringKlinger's developers to make further improvements to the maturity of the HCTV EDU. This also included the advancement of the waterjacket cooling concept. In addition, the business unit constructed both functional and trade show models of the HCTV EDU and the 800V offset EDU in order to showcase the electric drive units and thus support marketing efforts in this area.

Lightweighting/Elastomer Technology: e-mobility and drive-independent solutions

Making vehicles lighter is key to cutting their emissions. Lower weight decreases fuel and energy consumption. At the same time, reduced tire wear also relieves the burden on the environment. Electrification is making the issue of lightweighting even more relevant, since a low weight has a significant, direct impact on an electric vehicle's range.

The Lightweighting/Elastomer* Technology business unit continued to focus rigorously on its R&D priorities in the 2023 financial year with enhancements for its cockpit cross-car beams*, front-end modules, and ElroSafe™ underbody protector for battery systems. Besides offering thermal and acoustic protection, the ElroSafe™ underbody protector is also designed to provide the battery with strong protection at high speeds. From a sustainability perspective, an important aspect of ElroSafe™ technology is its full-scale recyclability.

The innovative design of ElringKlinger's cockpit cross-car beams and front-end carriers* enable significant weight reductions. Other key factors besides weight are value for money, design, and reproducible product quality. In the 2023 financial year, both the customer base and the product portfolio of the business unit were expanded as part of (customized) refinements and adaptations of lightweight structural components that are currently in high demand.

Among the other milestones in the reporting year were laser-welded battery housings featuring an innovative cooling concept. These help to ensure high-performance vehicle dynamics and particularly fast charging processes compared to contact-cooled battery modules available within the mass market.

In particular, as in the previous year, the developers on the sealing technology team worked on products for battery electric vehicles. Among other things, the tasks included optimizing pressure equalizing units for batteries. As well as helping to develop complex metal/elastomer gaskets for battery technology (e.g., battery housings or controllers), the Group's advanced knowledge in the field of materials development, production technology, and tool engineering also provides the basis for the supply of sealing solutions for fuel cell stacks*. The strong level of demand for sealing technology used in electric vehicles also illustrates the progress the business unit has made in the context of industry transformation.

Metal Forming & Assembly Technology: innovative components for e-mobility

In the 2023 financial year, the Metal Forming & Assembly Technology business unit focused on efforts to enhance ElroForm™ product solutions for electromobility applications. Against this backdrop, the markets of North and South America proved to be particularly dynamic when it came to ElroForm™-related inquiries in 2023. In fact, at a global level, more than 50% of all inquiries received by the business unit are now attributable to the ElroForm™ product group. As a result, for the very first time, more than 50% of the nomination volume acquired in the Metal Forming & Assembly Technology business unit in 2023 related to components for battery electric vehicles. Among these were, for example, a nomination by a global battery manufacturer for metal battery housing components, in addition to an order for complete battery housings, as part of an assembly, placed by a global Tier 1* supplier for commercial vehicles and city bus applications within the US market.

Building on this market success, the business unit is in a position to evolve its product portfolio in line with customer requirements in the field of electromobility. The business unit can draw on decades of expertise in design-to-cost and sound design in metal, thus allowing it to engineer improved products with enhanced technical and commercial benefits for customers. Several projects of this kind have already culminated in series production orders. Within the ElroForm™ product group, the business unit also develops ultra-lightweight metal components with significantly improved forming properties. It is able to produce components that have the weight of lightweight aluminum components, but whose design would otherwise only be possible with steel, a heavier material.

The business unit's product portfolio is complemented by innovative ElroShield™ EV battery shielding solutions, designed to help delay thermal propagation*. Thermal propagation refers to a chain reaction following a thermal runaway of a single cell, causing neighboring cells to also undergo a thermal runaway. The aim is to delay this process to a considerable extent or, ideally, to prevent it. In 2023, this solution was validated by the first customers in the context of a benchmark against 36 other supplier solutions. Encouragingly, the ElroShield™ EV solution developed by this business unit achieved the benchmark with regard to thermal insulation in the given installation space.

Overall, the Metal Forming & Assembly Technology business unit focuses on metal components for electromobility that have to meet specific additional requirements, such as their electrical or thermal insulation properties. With this in mind, the business unit has embraced an approach centered around multi-material design, in which metal components are combined with non-metal foils, coatings, or additional components. At the same time, classic shielding components are still in demand too. The business unit has benefited from substantial call-off orders in series production as part of customers' forecast delivery schedules, various term extensions for existing projects, and a nomination for a complete package of near-engine shielding parts by a German premium manufacturer.

Metal Sealing Systems & Drivetrain Components: driven by transformation

In the 2023 financial year, R&D activities in the Metal Sealing Systems & Drivetrain Components business unit were again aimed at supplementing and enhancing the product portfolio with regard to alternative drive systems and drivetrain-independent components. As part of development efforts, existing expertise, particularly in sealing and forming technology, was transferred to the field of new drive technologies. A prime example: MetaloBond™ rotor/stator laminated stacks for electric motors. In this context, the ElringKlinger development team applied its expertise in coating and punching thin sheet metal and bonding components to the task of refining laminated stacks and sealing systems for rotors and stators in the period under review. The Group is also making efforts to apply its capabilities to other vehicle components and thus add them to its technology portfolio. The Metal Sealing Systems & Drivetrain Components business unit stepped up its development work on drivetrain-independent products in the reporting year.

Engineered Plastics: experience across the industry spectrum

Within the Engineered Plastics segment, the Group produces components made from high-performance plastics that are used in a wide range of industries. These include medical technology, mechanical engineering, the food industry, and the automotive sector. Both the materials deployed and the specific applications they are used for are developed and adapted to suit each specific customer and their sector. As in previous years, the focus within this segment was on the main trends in the individual industry sectors in 2023.

* Cf. glossary

Among other things, development work was centered around seals for high circumferential speeds in the field of e-mobility, which are used in electric motors.

In addition, the Engineered Plastics segment is benefiting from developments with regard to emerging technologies, just as it is from tougher requirements in medical technology, the expectations made of industrial sensor systems, and the highly promising field of industrial hydrogen production (electrolysis). Another focal point of development efforts in this segment during the reporting year was the refinement of manufacturing processes for large-format components for various applications. Dynamic sealing solutions for high-pressure valves used in hydrogen applications were also developed in the period under review. The development team in the Engineered Plastics segment also came up with high-precision multi-lumen tubes for minimally invasive surgical procedures in the medical field.

Macroeconomic Conditions and Business Environment

Despite a slight dip in forward momentum, the gross domestic product (GDP) of the global economy expanded by 3.1% in 2023 (2022: 3.5%), thus reflecting moderate growth. Overall, the global economy proved to be more resilient than many economists had originally anticipated. After several years of severe turbulence, the international automotive markets emerged from the doldrums and largely recorded solid growth. Global automobile production grew by 9.7%.

Global economy sluggish but above expectations

Recording moderate growth in 2023, the global economy saw GDP expand by 3.1% (2022: 3.5%) based on data issued by the International Monetary Fund (IMF). The year-on-year slowdown and the lack of forward momentum are likely to be attributable primarily to persistent inflation and the monetary policy measures adopted in an effort to curb it, in addition to the reversal of many of the supportive measures associated with the preceding covid crisis. Against the backdrop of anemic global demand, waning growth in China, and more pronounced trade barriers, global trade also showed a lack of momentum.

Nevertheless, inflation fell faster than expected in many regions and the global economy proved to be more resilient than originally predicted by economists, which market analysts attribute to the success of the restrictive interest rate policy adopted by central banks as well as favorable supply-side dynamics. In an effort to combat inflation, which the IMF estimates at a global average of 6.8% in 2023, the US Federal Reserve raised the target range for its benchmark interest rate to 5.25–5.5%, while the European Central Bank increased its key interest rate to 4.5%. The Chinese central bank, meanwhile, lowered its interest rate slightly to 3.45%. The hike in interest rates – or the high rates already in place – in most regions had an adverse effect on the economy as a result of higher mortgage costs, more challenging refinancing terms for companies, limited credit availability, and consequently weaker investment activity. At the same time, however, the disruptions to supply chains in the wake of the pandemic were largely overcome, which translated into improved material availability.

Economic performance varied greatly from region to region. The US economy proved to be very robust, in part because it was supported by an expansive fiscal policy. In contrast, growth in the eurozone was particularly sluggish. This was driven by a number of different factors, including consumers' reluctance to spend in the face of rising living costs, the impact of elevated energy prices, a lack of stimulus from

GDP growth
Year-on-year change
(in %)

Region	2022	2023	Projections 2024
World	**3.5**	**3.1**	**3.1**
Advanced economies	2.6	1.6	1.5
Emerging and developing countries	**4.1**	**4.1**	**4.1**
Eurozone	3.4	0.5	0.9
Germany	1.8	-0.3	0.5
USA	1.9	2.5	2.1
Brazil	3.0	3.1	1.7
China	3.0	5.2	4.6
India	7.2	6.7	6.5
Japan	1.0	1.9	0.9

Source: International Monetary Fund (Jan. 2024)

foreign trade, more challenging financing conditions for manufacturing industry, which is particularly sensitive to interest rates, and a downturn in investment spending. Germany, Europe's largest economy, recorded a slight decline in economic output. Although the Chinese economy managed to slightly exceed the government's growth target of 5% for 2023, its pace of expansion was slow compared to the country's previous track record. India, one of the major emerging markets, recorded strong growth. Brazil, South America's largest economy, also recorded substantial growth, particularly in the first half of 2023.

Economic momentum was underpinned by the labor markets in the advanced economies, which remained largely stable, although most recent data points to a decline in job vacancies and a slight rise in unemployment, partly in connection with more widespread immigration. In 2023, the commodity markets eased significantly in many areas, as a result of which prices relating to non-energy commodities trended lower overall. In contrast, geopolitical disruptions such as Russia's continued assault on Ukraine, the resurgence of armed conflict in the Middle East in 2023, and unrest within the region of the Red Sea caused fresh uncertainty and disruption to merchant shipping[5].

Recovery in global vehicle production varies across regions

On the back of major distortions covering a period of three years, primarily as a result of the coronavirus pandemic, the world's automotive markets saw a return to an increasingly demand-driven trajectory in 2023. Vehicle production benefited from the improved availability of materials, such as semiconductors. Based on data provided by S&P Global Mobility, light vehicle production (passenger cars and light commercial vehicles) rose by 9.7% in 2023, almost in line with growth in global light vehicle sales, which amounted to 9.2%. Production output of 90.3 million light vehicles exceeded the corresponding sales figure of 83.4 million units, as a result of which manufacturers expanded their inventories.

The respective regions showed a mixed picture as regards market trends. Europe (excluding Russia) recorded particularly buoyant production growth of 13.2% on the back of pent-up demand and the clearance of order backlog. North America also saw significant growth of 9.7% in light vehicle production, despite reports of various strikes within the industry. China, the world's largest single market, grew by 10.0% thanks to a powerful year-end surge, which was equivalent to an increase of 2.6 million units in absolute terms.

Light vehicle production

	Million units		Year-on-year change
Region	2022	2023	
Europe[1]	15.3	17.3	13.2%
China	26.4	29.0	10.0%
Japan/Korea	11.1	12.8	14.6%
Middle East & Africa	2.2	2.3	1.9%
North America	14.3	15.7	9.7%
South America	2.8	2.9	3.1%
South Asia	9.6	9.8	1.6%
World	**82.3**	**90.3**	**9.7%**

[1] Without Russia
Source: S&P Global Mobility (Feb. 2024)

[5] Statements on economic trends are based on the company's own research in conjunction with publications by independent institutes and bodies such as the IMF, IfW Kiel, and the German Federal Ministry for Economic Affairs and Climate Action.

Strong growth in new car and light vehicle registrations

Vehicle sales, measured in terms of the number of new registrations, rose sharply in 2023 as a whole. World markets benefited mainly from a favorable supply-side tailwind. Having said that, weak prior-year figures and the low comparative base also had a positive impact on percentage growth. According to the figures published by the German Association of the Automotive Industry (Verband der Automobilindustrie – VDA), the world's major car markets – with the exception of India – each recorded double-digit percentage growth. At the end of the year, Europe (excluding Russia) reported growth of 13.7%, taking the total to 12.8 million cars, the USA was up by 12.4% to 15.5 million light vehicles, Brazil recorded an increase of 11.2% to 2.2 million light vehicles, and China was up by 11.0% to 25.8 million cars, while India expanded by 8.1% to 4.1 million cars and Japan was up by 15.8% to 4.0 million cars.

In Germany, new registrations rose by 7.3% compared to 2022, which is below the pan-European average. This lackluster performance, particularly in December 2023, was most likely due to an exceptional effect in connection with changes to government subsidies for electric vehicles.

Tangible growth in commercial vehicle production in almost all regions

Production output of commercial vehicles (from 3.5 tons) was up substantially in the majority of regions in 2023. According to S&P Global Mobility, it rose by a total of 11.2% worldwide, including buses. Around two-thirds of commercial vehicle production is accounted for by the heavy-duty commercial vehicle segment (from 16 tons). According to S&P Global Mobility, production figures in this segment rose by around 60 thousand units, or 13.7%, in Europe (excluding Russia) and by around 21 thousand units, or 6.8%, in North America in 2023. By contrast, the South American market, which is dominated by Brazil, declined by around 50 thousand units or 35.9%. In Germany, production of heavy-duty trucks rose by around 11 thousand units or 12.5%.

Significant Events

Among the events of particular significance to the ElringKlinger Group in the 2023 financial year were personnel changes relating to the Management Board and major orders placed with the E-Mobility business unit. In addition, EKPO, a Group company, received funding approval for a development and industrialization project relating to fuel cell technology, which forms part of the European IPCEI hydrogen program.

Changes to Management Board

The 2023 financial year saw changes to the composition of the Management Board and the Areas of Responsibility within the Management Board. On April 6, 2023, the Supervisory Board of ElringKlinger AG and Dr. Stefan Wolf, who held the position of CEO, had reached an agreement on the early termination of his contract as of June 30, 2023, and his departure from the Group. Thomas Jessulat assumed the role of Spokesperson of the Management Board and performed the duties of Dr. Stefan Wolf on an interim basis from July 1 to September 30, 2023. Thomas Jessulat's contract had been extended by the Supervisory Board at its meeting in March 2023 for a further five years until December 31, 2028.

As from October 1, 2023, the Management Board team has been consisting of Thomas Jessulat, Chief Executive Officer (CEO), Reiner Drews, Chief Operating Officer (COO), and Dirk Willers, Chief Sales Officer (CSO). This was resolved by the Supervisory Board of ElringKlinger AG at its meeting on September 28, 2023.

In his role as CEO, Thomas Jessulat is responsible for Strategy, Finance, IT, Human Resources, Legal Affairs, and Communication as well as for Battery Technology, Electric Drive Units, and Fuel Cell* Technology. In addition to his existing duties, Reiner Drews, in his role as Chief Operating Officer, has since then also been responsible for Purchasing and Supply Chain Management. Dirk Willers joined the Management Board as a newly appointed member and is responsible for Sales, Marketing, the Aftermarket segment, which he had previously headed since 2015, and the Engineered Plastics segment.

Dividend remains unchanged following AGM approval

At the Annual General Meeting (AGM) on May 16, 2023, the shareholders of ElringKlinger AG approved all items on the agenda by a large majority. The proposal submitted by the Management Board and Supervisory Board for the payment of a dividend of EUR 0.15 per share, unchanged from the previous year, was also approved by a large majority of the shareholders. In addition, Deloitte GmbH Wirtschaftsprüfungsgesellschaft was appointed as the auditor for the 2023 financial year.

Major contracts secured in the field of e-mobility

ElringKlinger received significant orders within the field of e-mobility in the 2023 financial year, the details of which were to some extent disclosed via official announcements. These included a large-scale series production order for the Group subsidiary EKPO Fuel Cell Technologies GmbH ("EKPO" for short), Dettingen/Erms, Germany, placed by a global car manufacturer. This large-scale order covers the supply of metallic bipolar plates* for a future fuel cell system developed by the carmaker, which is scheduled to commence in 2026. ElringKlinger also announced that it had received a high-volume order for the supply of cell contacting systems* for the BMW Group's so-called "New Class." The large-scale series production order has a term of several years, with start of production scheduled as from 2025. Another example of major contracts secured by the Group was the series production order from a global Tier 1* supplier for battery housings used in commercial vehicles and city bus applications. This order, which relates to the long-standing Metal Forming & Assembly Technology business unit, covers a volume in the low triple-digit million euro range and is scheduled for production from 2024 over a total term of five years.

Another milestone was an order placed with EKPO for the development of stack components to be used in so-called PEM electrolyzers. By entering the rapidly growing electrolysis market, ElringKlinger has taken an important step forward in its efforts to develop the cross-sector market covering the high-potential hydrogen supply chain.

Confirmation of funding granted under the IPCEI hydrogen program

In the 2023 financial year, EKPO was notified that it would receive funding of up to EUR 177 million for the period up to and including 2027 as part of the European IPCEI* Hydrogen program (IPCEI = Important Projects of Common European Interest). The funds are to be used for the development of a new generation of high-performance PEM fuel cell* stack modules by EKPO – destined for heavy-duty applications. This funding will be provided by the Federal Ministry for Digital and Transport and the Baden-Württemberg Ministry of the Environment.

* Cf. glossary

Sales and Earnings Performance

Operating within a challenging environment, ElringKlinger recorded Group revenue of around EUR 1.85 billion for the 2023 financial year, which corresponds to year-on-year growth of 2.7%. At 4.6%, organic revenue growth was at the upper end of the target range for 2023 as a whole. In terms of earnings, lower costs for certain materials, freight, and energy had a positive impact on performance. The Group propelled adjusted EBIT upwards by a substantial EUR 31.7 million to EUR 100.1 million. With an adjusted EBIT margin of 5.4%, ElringKlinger reached the upper end of its guidance for the 2023 financial year.

Organic revenue growth of 4.6%

Despite challenging conditions within the economic and industry arena, ElringKlinger managed to expand Group revenue to EUR 1,847.1 million in the 2023 financial year (2022: EUR 1,798.4 million). Thus, revenue was up EUR 48.7 million or 2.7% on the prior-year figure. Revenue momentum was curbed by the lower volume of call-off orders placed by customers as part of their ongoing scheduling arrangements in the area of series production business and headwinds from exchange rate movements, particularly in the second half of the year.

The negative impact of exchange rate movements in the reporting year was equivalent to EUR -34.5 million or -1.9%. While the direction taken by the Mexican peso provided a boost to revenue, the Turkish lira, the Chinese yuan, the US dollar, and the Japanese yen had contrary effects. No adjustments with regard to M&A* activities were applicable in the period under review. Excluding the effects from exchange rate changes, i.e., in organic terms, the increase in revenue amounted to EUR 83.2 million or 4.6%. ElringKlinger thus reached the upper end of the guidance presented in October 2023 ("organic revenue growth of around 3 to 5%") for the 2023 financial year. The original guidance with regard to ElringKlinger's organic revenue growth ("organic revenue growth substantially above market level") had been adjusted in view of inconsistent patterns with regard to customer call-off volumes and growth in global automobile production of 9.7%. At the beginning of 2023, industry service provider S&P Global Mobility (formerly: IHS) had forecast market growth of just 3.3%.

Alongside currency effects, revenue growth was influenced by the general macroeconomic challenges and the volatility of call-off volumes requested by customers as part of their ongoing scheduling arrangements in the second half of the year. In regional terms, Group revenue was adversely affected by weak momentum in Asia-Pacific. In addition, price escalator clauses contractually agreed with customers for certain raw materials acted as a drag on growth amid a year-on-year decline in market prices.

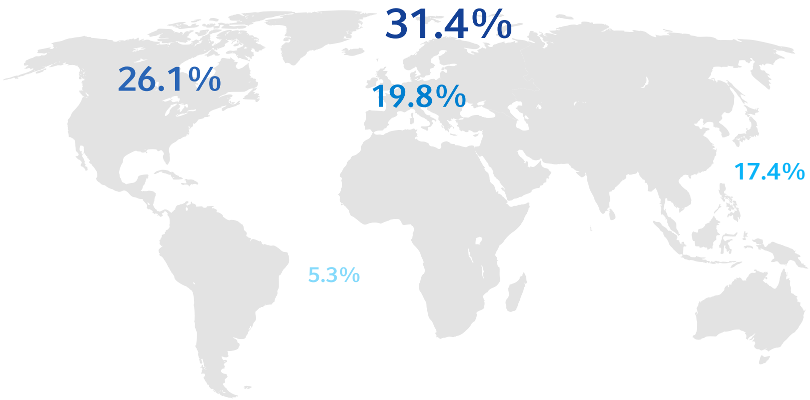
Revenue growth in Europe as well as North and South America

The region encompassing the Rest of Europe recorded substantial revenue growth in the 2023 financial year, with revenue generated in this sales region expanding by EUR 54.3 million or 10.3% to EUR 580.9 million (2022: EUR 526.6 million) in the period under review. Accounting for 31.4% of Group revenue (2022: 29.3%), this region is

Factors influencing Group revenue

in EUR million	2023	2022	Change, absolute	Change, relative
Group revenue	**1,847.1**	**1,798.4**	**48.7**	**2.7%**
of which FX effects			-34.5	-1.9%
of which M&A activities			0.0	0.0%
of which organic			83.2	4.6%

Group revenue by region 2023



in EUR million (previous year)

Rest of Europe	**580.9**	(526.6)
North America	**482.0**	(462.8)
Germany	**366.3**	(365.9)
Asia-Pacific	**321.0**	(354.5)
South America and Rest of World	**97.1**	(88.6)

the Group's largest. Revenue generated from sales in the Rest of Europe region in 2023 was impacted by highly adverse exchange rate effects, which intensified over the course of the year. Adjusted for currency effects, revenue grew at an even more pronounced rate of 12.8%.

In North America, revenue expanded by 4.1% or EUR 19.2 million in the 2023 financial year. The Group thus achieved revenue of EUR 482.0 million in this region (2022: EUR 462.8 million). With a share of 26.1% (2022: 25.7%), ElringKlinger generated more than a quarter of its consolidated sales revenue in this region. Eliminating exchange rate effects, revenue in North America was up by 4.5%. In the final quarter, the lack of revenue momentum was largely due to the effects of the strike at major car manufacturers in North America.

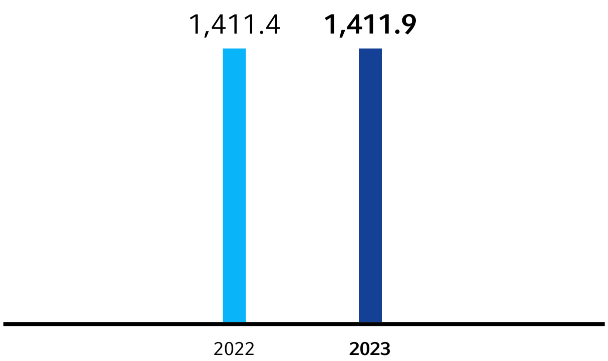
The region comprising South America and Rest of World again produced a strong percentage increase in revenue for ElringKlinger during the 2023 financial year. Here, the Group saw revenue expand by EUR 8.5 million or 9.6% to EUR 97.1 million (2022: EUR 88.6 million). Exchange rate movements played a relatively minor role with regard to the revenue trajectory in this region. In organic terms, revenue expanded by 10.0%, thereby exceeding the 2.6% rate of growth in automotive production recorded in this region in the period under review. Overall, the share of Group revenue stood at 5.3%, compared to 4.9% in the previous year.

Asia-Pacific down slightly year on year in organic terms, growth in Germany

The direction taken by automotive production in the Asia-Pacific region was subject to volatility during the course of 2023. After a strong second quarter, the Chinese market in particular showed signs of stagnation in the third quarter before picking up again toward the end of the year. The Group was unable to match the growth rate of 9.4% (according to S&P Global Mobility data) achieved by the market as a whole in the Asia-Pacific region, with revenue totaling EUR 321.0 million in the financial year under review (2022: EUR 354.5 million). It should be noted that this performance was influenced by highly adverse exchange rate effects on revenue in this region over the entire financial year. The share of total Group revenue generated in this region fell to 17.4% (2022: 19.7%).

At EUR 0.4 million or 0.1%, growth recorded by ElringKlinger in Germany was just within positive territory in 2023. In the 2023 financial year, the Group generated revenue of EUR 366.3 million in Germany (2022: EUR 365.9 million). Thus, the overall proportion of domestic revenue decreased slightly year on year to 19.8% (2022: 20.3%). Group revenue generated abroad grew by a dispro-

Revenue in the Original Equipment segment
in EUR million



portionately large amount relative to total revenue, as a result of which the share of foreign sales expanded to 80.2% (2022: 79.7%).

Original Equipment segment matches previous year's performance

With revenue of EUR 1,411.9 million, the Original Equipment segment was on a par with the prior-year figure of EUR 1,411.4 million. This corresponds to a slight increase in revenue of EUR 0.5 million. Accounting for 76.4% (2022: 78.5%) of total revenue, Original Equipment constitutes the largest segment of the ElringKlinger Group.

Within the segment, the Metal Sealing Systems & Drivetrain Components business unit generated revenue of EUR 497.8 million (2022: EUR 496.6 million), an increase of EUR 1.2 million. Remaining the Group's largest business unit in terms of revenue share, Lightweighting/Elastomer* Technology saw revenue expand by EUR 4.8 million or 0.8% to EUR 580.0 million in the 2023 financial year (2022: EUR 575.2 million). The Metal Forming & Assembly Technology business unit generated revenue of EUR 284.6 million (2022: EUR 293.2 million). Revenue in the Exhaust Gas Purification & Other business unit amounted to EUR 1.2 million in the period under review (2022: EUR 4.1 million). The activities here are mainly centered around components for exhaust gas aftertreatment.

Growth in E-Mobility revenue

The E-Mobility business unit brings together the Group's activities in the field of battery and fuel cell* technology as well as in the area of electric drive units (Drivetrain Technology). At EUR 48.3 million (2022: EUR 42.4 million), the business unit managed to expand revenue compared to the previous year despite some delays in production ramp-ups due to project postponements by customers. As in the previous year, sales revenue in the E-Mobility business unit also includes relevant series production revenue in addition to revenue from development work and prototyping.

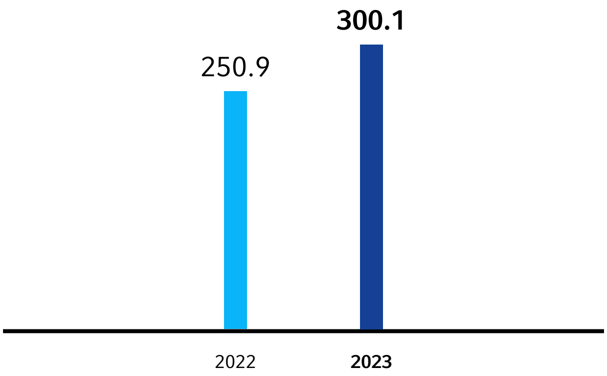
Improved margin in Original Equipment

The Original Equipment segment saw an improvement in earnings in the year under review, driven in particular by the favorable effects of price trends for certain raw materials used by ElringKlinger in the production process as well as several cost efficiency measures. Overall, adjusted EBIT for the segment stood at EUR 9.9 million (2022: EUR -0.6 million). The adjusted EBIT margin* was 0.7% (2022: -0.0%).

Successful growth strategy in Aftermarket business

The Aftermarket segment continued to systematically implement its growth strategy, the focus of which was primarily

Revenue in the Aftermarket segment
in EUR million



on North and South America as well as Asia. In the past financial year, revenue was up at EUR 300.1 million (2022: EUR 250.9 million). This corresponds to year-on-year revenue growth of 19.6% in 2023. The expansion in revenue was driven by all major sales regions. The Aftermarket segment is the Group's second largest, accounting for 16.2% (2022: 14.0%) of Group revenue.

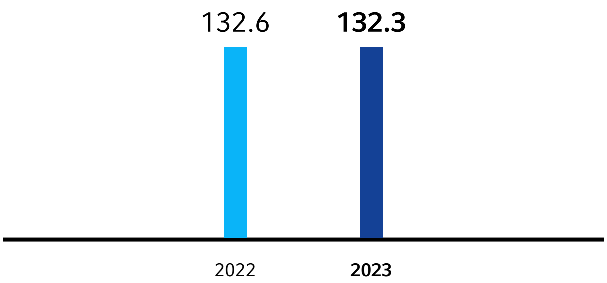
Adjusted segment earnings before interest and taxes rose to EUR 71.7 million (2022: EUR 50.5 million) on the back of revenue growth and continued cost discipline, which corresponds to an adjusted EBIT margin of 24.0% (2022: 20.1%).

Engineered Plastics revenue at previous year's level

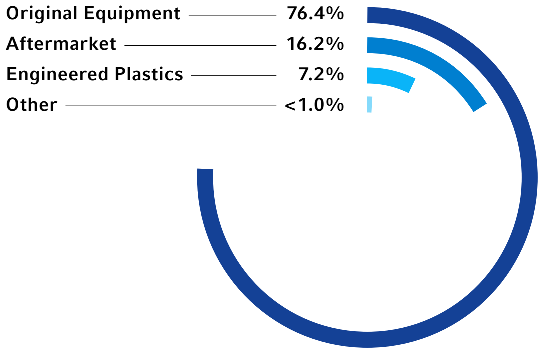
In the Engineered Plastics segment, consistently buoyant demand relating to project business and a diversified portfolio tailored to various industries was countered by just a slight headwind from currency effects, as a result of which revenue was robust overall in the 2023 financial year. With sales revenue of EUR 132.3 million (2022: EUR 132.6 million), the segment came close to matching the prior-year figure.

Higher expenditure on research and development as part of the segment's transformation had a significant impact on earnings compared to the previous year. In addition, the

Revenue in the Engineered Plastics segment
in EUR million



Group revenue by segment and business unit 2023



in EUR million (previous year)

Original Equipment	**1,411.9**	(1,411.4)
– Lightweighting/Elastomer Technology	**580.0**	(575.2)
– Metal Sealing Systems & Drivetrain Components	**497.8**	(496.6)
– Metal Forming & Assembly Technology	**284.6**	(293.2)
– E-Mobility	**48.3**	(42.4)
– Exhaust Gas Purification & Other	**1.2**	(4.1)
Aftermarket	**300.1**	(250.9)
Engineered Plastics	**132.3**	(132.6)
Other	**2.9**	(3.5)

price of high-performance plastics such as fluoropolymers was persistently high, which had an impact on costs. The segment generated adjusted EBIT of EUR 16.6 million in the financial year under review (2022: EUR 19.7 million). This corresponds to an adjusted EBIT margin of 12.5% (2022: 14.9%).

Other segment

Revenue in the segment referred to as Other, which mainly comprises services provided by various subsidiaries, totaled EUR 2.9 million in the reporting year (2022: EUR 3.5 million). Adjusted segment earnings before interest and taxes amounted to EUR 1.9 million, an improvement on the previous year (2022: EUR -1.2 million).

Gross profit margin up by 3.1 percentage points

In contrast to sales revenue, which increased by 2.7%, the cost of sales fell by 1.1% year on year. In total, the cost of sales amounted to EUR 1,444.3 million in the financial year just ended, compared to EUR 1,459.9 million in the previous year. As a result, ElringKlinger increased its gross profit to EUR 402.8 million (2022: EUR 338.5 million), which corresponds to a gross profit margin of 21.9% (2022: 18.8%). In addition to benefiting from slightly lower material prices compared to the previous year, this performance was also driven by a prior-year effect: in the 2022 financial year, the cost of sales had included impairment losses of EUR 15.9 million relating to property, plant, and equipment.

While prices for raw materials and energy had spiraled rapidly and across the board to a persistently high level in the previous financial year as a result of supply-side bottlenecks and the outbreak of war in Ukraine, the overall level of prices trended lower again in some cases over the course of 2023 on the back of declining market prices. However, as a whole, prices still remain above the pre-crisis level. The downward trend in prices during the financial year was also reflected in expenses for some raw materials and energy. In line with market developments, prices for aluminum, steel, and certain plastics, for example, declined in the period under review. However, the downturn in prices did not apply to all raw materials used by ElringKlinger in production: in the case of elastomers, the situation remained tense throughout the 2023 financial year against the backdrop of a continuous rise in prices and availability issues.

As part of its manufacturing processes, the ElringKlinger Group mainly uses raw materials such as aluminum, alloyed high-grade steels (and especially chromium-nickel alloys), carbon steels, polyamide*-based polymer granules, i.e., pellets, such as PA6.6, elastomers, and – in the Engineered Plastics segment – polytetrafluoroethylene (PTFE*). 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 Metal Forming & Assembly 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, and elastomers are used in the Lightweighting/Elastomer Technology business unit.

The ElringKlinger Group continues to employ a broad range of instruments aimed at addressing the issue of volatility and the general upward trend in prices, including price escalator clauses in customer contracts, for example, as part of which changes in the price of raw materials are passed on to customers. In addition, the Group concludes hedging

* Cf. glossary

transactions where this is possible on the basis of corresponding reference figures. In the area of procurement, the Group consistently pursues various strategies to optimize material costs via contract parameters such as duration and volumes.

In total, the cost of materials amounted to EUR 826.0 million in the financial year under review (2022: EUR 825.7 million). The Group improved its cost-of-materials ratio (cost of materials in relation to Group revenue) by 1.2 percentage points to 44.7% (2022: 45.9%).

Staff costs, which are accounted for in various functional categories of the income statement, amounted to EUR 587.8 million in the financial year just ended (2022: EUR 565.5 million). Staff costs rose by EUR 22.3 million or 3.9% compared to the previous year, which is partly due to a higher headcount, collectively agreed wage and salary increases, and a special payment made in the year under review (inflation compensation bonus). Staff costs also include expenses for the termination of production at one of the German sites and the discontinuation of business activities in the area of engine testing services. Expressed as a ratio, staff costs in relation to Group revenue were up slightly on the prior-year figure at 31.8% (2022: 31.4%).

Selling expenses rose by 8.9% to EUR 152.4 million in the financial year under review (2022: EUR 140.0 million). Selling expenses included higher costs for external services, such as non-Group distribution logistics, which are partly linked to the expansion of aftermarket business, as well as higher staff costs.

In the 2023 financial year, general and administrative expenses amounted to EUR 90.3 million (2022: EUR 90.2 million) and were therefore on a par with the previous year.

R&D ratio within projected target range at 5.2%

In an effort to help shape the transformation process in the field of mobility, ElringKlinger's short- and medium-term goal is to spend 5 to 6% of revenue (including capitalized development costs) on research and development (R&D) each year, thereby investing in the future of the Group. In the financial year under review, the Group focused its R&D activities on the strategic future areas: battery and fuel cell technology, electric drive units, and lightweight structural engineering.

The ElringKlinger Group kept its research and development costs almost unchanged at EUR 69.0 million (2022: EUR 69.7 million) in the period under review. In addition, it recorded EUR 27.1 million (2022: EUR 22.0 million) in capitalized costs meeting the relevant criteria for recognition. This resulted in a capitalization ratio of 28.2% (2022: 24.0%). In the financial year under review, amortization and impairment losses amounted to EUR 4.8 million (2022: EUR 4.8 million) with regard to capitalized development costs. Amortization and impairment losses relating to capitalized development costs are recognized in full in the cost of sales and include amortization of EUR 3.8 million (2022: EUR 3.5 million) and impairment losses of EUR 0.9 million (EUR 1.3 million). Including capitalized development costs, the R&D ratio (i. e., R&D costs in relation to Group revenue) of 5.2% (2022: 5.1%) came close to that recorded in the previous year and was within the target corridor of around 5 to 6% of Group revenue.

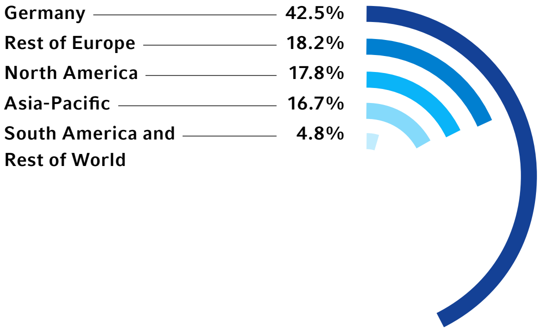
Funding for ElringKlinger technology under IPCEI programs, among others

The ElringKlinger Group again received public funding in support of its R&D activities in the financial year just ended. Funds, recognized in profit or loss, included grants for R&D projects, among other things, and amounted to EUR 5.5 million in total (2022: EUR 4.0 million). Funding was granted for the two major IPCEI projects “European Battery Innovation” (“EuBatIn” for short) and “IPCEI Hydrogen,” for which EKPO received funding approval in the year under review (for “IPCEI Hydrogen”, cf. also the “Significant Events” section). As the Group does not receive any funding without incurring its own expenses, all public grants recognized in profit or loss in 2023 coincided with project-related expenses for development and prototyping in the corresponding amount.

Other operating income totaled EUR 17.9 million in the 2023 financial year, which was EUR 0.3 million below the level recorded in the previous year (2022: EUR 18.2 million). The year-on-year difference is mainly attributable to lower insurance reimbursements.

At EUR 26.1 million (2022: EUR 99.0 million), other operating expenses in the 2023 financial year were significantly lower than in the previous twelve-month period. The year-on-year decline was mainly due to impairment losses of EUR 86.1 million recognized in regard to goodwill in the previous year. No goodwill impairment losses were recognized in the financial year under review. Excluding these

ElringKlinger Group employees



	Dec. 31, 2023	(previous year)
Germany	4,074	(4,069)
Rest of Europe	1,746	(1,709)
North America	1,701	(1,666)
Asia-Pacific	1,599	(1,665)
South America and Rest of World	456	(431)

impairments, other operating expenses were up on the prior-year figure, mainly due to losses from the disposal of non-current assets, including in connection with the discontinuation of activities at one of the German sites.

Headcount up slightly

Compared to the previous year, the Group headcount grew slightly to 9,576 employees as of December 31, 2023 (2022: 9,540). Acknowledging the process of transformation, the Group made a point, among other things, of taking a prudent approach to filling vacant positions and focused on expanding its headcount in strategic future areas, such as fuel cell technology. In line with regional revenue trends, the number of employees rose in South America and Rest of World, while falling slightly in Asia-Pacific. At the end of the year, the headcount for Germany stood at 4,074, representing 42.5% of the Group's total workforce. The number of people employed abroad was 5,502, corresponding to a share of 57.5%. The annual average number of employees within the ElringKlinger Group was 9,600 (2022: 9,480).

Adjusted EBIT margin at upper end of guidance

Fueled by the positive effects of material price movements and strong growth in the Aftermarket business, the Group's earnings performance showed signs of improvement compared to the previous year. ElringKlinger Group recorded EBITDA* of EUR 200.3 million in the 2023 financial year (2022: EUR 174.2 million). Depreciation, amortization, and impairments of non-current assets totaled EUR 117.4 million in the period under review (2022: EUR 216.4 million). The prior-year figure had included exceptional items in the form of impairments amounting to EUR 103.3 million, which were recognized in profit or loss but were non-cash in nature.

The aforementioned improvements at an operational level provided a significant boost to adjusted earnings before interest and taxes (adjusted EBIT) in the financial year under review. The Group's adjusted EBIT grew by EUR 31.7 million or 46.3% to EUR 100.1 million (2022: EUR 68.4 million). This was also attributable to lower costs for certain raw materials, energy, and freight compared to the previous year.

In addition, ElringKlinger succeeded in significantly improving its adjusted EBIT margin in the year under review. With an adjusted EBIT margin of 5.4% (2022: 3.8%), the Group reached the upper end of its guidance for the 2023 financial year. At the beginning of the year, the company had published an outlook of achieving an adjusted EBIT margin of around 5% in the 2023 financial year.

As from the 2023 financial year, ElringKlinger reports adjusted EBIT in order to be able to compare operating profitability across the respective periods without the influence of exceptional factors. Therefore, non-recurring effects are eliminated accordingly. In the financial year under review, adjustments included, to a lesser extent, impairment losses relating to property, plant, and equipment and accounting items in connection with capacity adjustments. In addition, other non-operating items were accounted for in 2023, in particular a one-off effect from the termination of the CEO's contract and non-recurring expenses in connection with the termination of production at a German site and the discontinuation of business activities in the area of engine testing services. In the previous financial year, the adjustments had included, among other things, impairment losses of EUR 86.1 million relating to goodwill recognized in the

* Cf. glossary

Group statement of financial position and impairment losses with regard to various international asset items accounted for in property, plant, and equipment and intangible assets. The impairments of goodwill at the end of the first half of the previous financial year had been attributable primarily to the significant increase in interest rates.

In the financial year under review, the Group achieved EBIT* of EUR 82.9 million (2022: EUR -42.2 million), corresponding to an EBIT margin of 4.5% (2022: -2.3%).

Adjusted EBIT margin 2023[1]

in EUR million	2023	2022	Year-on-year change
EBIT	**82.9**	**-42.2**	**+125.1**
Impairment losses	4.0	103.3	
of which goodwill impairment losses	0.0	86.1	
Restructuring	2.8	6.5	
Other non-operational effects	10.5	0.8	
Adjusted EBIT	**100.1**	**68.4**	**+31.7**
Adjusted EBIT margin	*5.4%*	*3.8%*	*+1.6 pp*

[1] A detailed definition of adjusted EBIT margin can be found in the "Internal Control System" section.

Net finance result influenced by market interest rates

The net interest result was influenced by a slight increase in interest income, which contrasted with higher interest expenses. Fixed interest rates were agreed for part of the Group's financial liabilities, which to some extent contained the impact of the general hike in interest rates on interest expenses. Although the upward trend in market interest rates diminished slightly over the course of the year, market interest rates were up significantly on a year-on-year basis. In total, interest expenses rose by EUR 13.5 million in the financial year under review. This prompted a year-on-year decline in the net interest result.

In contrast to 2022, the fluctuation range of exchange rates was less pronounced, which is why the volatilities seen over the course of the 2023 financial year were reflected in lower foreign exchange gains and losses. In the financial year under review, both the unrealized foreign exchange gains and the unrealized foreign exchange losses resulting from the translation of balance sheet items denominated in foreign currencies into EUR, as the reporting currency, at the year-end exchange rate were significantly lower, while the realized foreign exchange gains were noticeably higher. The net result from currency translation improved by EUR 2.2 million to EUR 1.5 million (2022: EUR -0.7 million). At the same time, losses from associates were up on the prior-year figure. Overall, net finance cost totaled EUR -29.7 million (2022: EUR -13.8 million).

Including net finance cost, earnings before taxes of EUR 53.2 million were up significantly on the previous year's figure of EUR -56.1 million.

Net finance cost/income 2023

in EUR million	2023	2022	Year-on-year change
Net interest result	-26.3	-14.6	-11.7
Net foreign exchange result and other net finance result	-3.4	0.7	-4.1
Net finance cost/income	**-29.7**	**-13.8**	**-15.9**

Year-on-year reduction in income tax expense

Due to an exceptional factor relating to a change in the internal transfer pricing system and a more heterogeneous income structure within the Group in the previous year, income tax expenses were down year on year at EUR 19.7 million in 2023 (2022: EUR 34.6 million), which corresponds to an effective tax rate of 37.0% (2022: -61.8%). In addition to the factors mentioned above, the partial utilization of existing loss carryforwards and the first-time recognition of deferred tax assets on loss carryforwards also had a dilutive effect on the Group tax rate.

After deducting income taxes, net income for the period amounted to EUR 33.5 million in the financial year under review (2022: EUR -90.7 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 39.3 million in 2023 (2022: EUR -89.1 million). Correspondingly, the level of earnings per share* was up markedly on the prior-year figure at EUR 0.62 (2022: EUR -1.41). As of December 31, 2023, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Dividend proposal of EUR 0.15 per share

The annual financial statements of ElringKlinger AG, which were prepared in accordance with the provisions of the German Stock Corporation Act (Aktiengesetz – AktG) and the German Commercial Code (Handelsgesetzbuch – HGB*) and are relevant for the payment of dividends, showed net income of EUR 10.6 million at the end of the reporting period (2022: net loss of EUR -45.5 million).

In keeping with its balanced approach with regard to dividend payments, the Management Board and Supervisory Board would like to ensure that shareholders benefit appropriately from the Group's performance. Given in particular the favorable prospects for the coming financial years, both boards are keen to ensure continuity with regard to the dividend policy.

Neither transfers to nor reversals of revenue reserves were made in the 2023 financial year (2022: reversal of EUR 55.0 million). The reported unappropriated surplus ("Bilanzgewinn", i.e., the distributable profit) was EUR 10.6 million. The Management Board and the Supervisory Board jointly propose to the Annual General Meeting that a dividend of EUR 0.15 per share (2022: EUR 0.15 per share) be paid out for the 2023 financial year.

Financial Position

The financial position of the ElringKlinger Group continued to be very solid at the end of the 2023 financial year. The equity ratio of 45.3% remains firmly within the medium-term target range of 40 to 50% of total assets and provides a solid foundation for the company's future business development. Compared to the end of the previous year, ElringKlinger was able to further reduce its net financial debt by EUR 41.0 million to EUR 323.2 million and significantly improve its net debt-to-EBITDA ratio[6] to 1.6.

Slight decline in total assets

As of December 31, 2023, the ElringKlinger Group reported total assets of EUR 2,008.2 million (Dec. 31, 2022: EUR 2,046.6 million), which represents a slight year-on-year decline of 1.9%. On the assets side, non-current assets fell by EUR 38.2 million or 3.4%, while current assets remained at a similar level to the previous year. As regards equity and liabilities, equity was up by EUR 13.8 million and current liabilities by EUR 83.9 million, while non-current liabilities fell significantly by EUR 136.1 million. Currency effects from the translation of assets and liabilities of subsidiaries whose functional or local currencies are not the euro had an inconsistent impact on the balance sheet items and proved insignificant overall.

Non-current assets account for 54 percent of total assets

Non-current assets had a carrying amount of EUR 1,092.3 million as of December 31, 2023 (Dec. 31, 2022: EUR 1,130.5 million), thus accounting for 54.4% (2022: 55.2%) of total assets. Of these assets, intangible assets were the second largest item on the books – after property, plant, and equipment – at EUR 168.2 million (Dec. 31, 2022: EUR 146.8 million). In this context, the year-on-year increase of EUR 21.3 million resulted primarily from capitalized development costs, which amounted to EUR 27.1 million in 2023 and exceeded amortization (including impairments) of internally generated development costs of EUR 4.8 million.

Property, plant, and equipment had a total carrying amount of EUR 858.0 million at the end of 2023, compared to EUR 905.8 million a year earlier. As the additions from

[6] Net financial debt in relation to EBITDA (earnings before interest, taxes, depreciation, and amortization).

* Cf. glossary

Key figures financial position & other

in EUR million	Dec. 31, 2023	Dec. 31, 2022
Total assets	2,008.2	2,046.6
Equity ratio	45.3%	43.8%
Net working capital[1]	466.3	454.7
In relation to Group revenue	25.2%	25.3%
Net financial debt[2]	323.2	364.2
Net debt-to-EBITDA ratio[3]	1.6	2.1
ROCE[4]	5.6%	-2.7%

[1] Inventories as well as trade receivables less trade payables
[2] Current and non-current financial liabilities less cash and short-term securities
[3] Net debt/EBITDA
[4] Return on capital employed; ROCE adjusted (calculation based on EBIT adjusted) at 6.8% in 2023, 4.4% in 2022

investments (including additions from leases), at EUR 78.2 million, were significantly lower than depreciation and amortization for the year, at EUR 105.3 million, the carrying amount of this item decreased accordingly. Furthermore, the discontinuation of the business activities of Elring Klinger Motortechnik GmbH, Idstein, Germany, resulted in a disposal of assets. The aforementioned entity had primarily provided testing services for combustion engines.

The item "Other non-current assets" totaled EUR 1.7 million within the Group statement of financial position as of December 31, 2023 (Dec. 31, 2022: EUR 21.9 million). The year-on-year decline is attributable chiefly to a reclassification made to "Other current assets" in connection with the additional contribution of around EUR 20 million executed as planned in 2023 by the co-owner of the Group subsidiary EKPO Fuel Cell Technologies GmbH, Dettingen/Erms, Germany. The contribution still outstanding in respect of the co-owner amounted to around EUR 20 million at the end of 2023.

Non-current and current contract assets amounted to EUR 13.3 million at the end of the year (Dec. 31, 2022: EUR 8.9 million). They include contingent assets in respect of the fulfillment of performance obligations and revenues that will not be invoiced until subsequent periods. The net increase of EUR 4.4 million is mainly due to customer projects in the Original Equipment segment.

Net working capital at 25% of revenue

Working capital, which is made up of inventories and trade receivables and is comparable to current assets under German commercial law, amounted to EUR 683.2 million at the end of 2023 (Dec. 31, 2022: EUR 678.8 million). In this context, inventories constituted the principal item at EUR 436.3 million (Dec. 31, 2022: EUR 414.0 million). They were up by EUR 22.3 million or 5.4% on the previous year, which was partly attributable to an increase in tools accounted for in this item. These tools are associated with new series production orders and are generally sold on to customers, who thus acquire beneficial ownership. In contrast, trade receivables, with a carrying amount of EUR 246.9 million, were down EUR 17.9 million on the previous year, mainly due to more sluggish revenue in December.

Net working capital* is calculated by taking into account trade payables, which amounted to EUR 216.9 million (Dec. 31, 2022: EUR 224.1 million). On this basis, net working capital stood at EUR 466.3 million at the end of 2023, compared to EUR 454.7 million a year earlier. This corresponds to 25.2% of Group revenue for the financial year (Dec. 31, 2022: 25.3%). The Group thus met the guidance of a "slight year-on-year improvement" presented in the combined management report for the 2022 financial year.

"Other current assets" include a wide range of items. At the end of the financial year under review, the total carrying amount of this item was EUR 91.4 million (Dec. 31, 2022: EUR 105.1 million). The principal item within this category was receivables from third parties, including the contribution from the co-owner of EKPO, which remains outstanding as scheduled. Also included were tax receivables, time deposits, and securities as well as prepaid expenses.

Cash and cash equivalents held by the ElringKlinger Group amounted to EUR 113.7 million as of December 31, 2023 (Dec. 31, 2022: EUR 119.1 million).

Equity up at EUR 911 million

Group equity increased to EUR 910.7 million as of December 31, 2023, compared to EUR 896.8 million at the end of the 2022 financial year. The year-on-year increase was mainly attributable to net income for the financial year amounting to EUR 33.5 million. Conversely, the dividend distribution to shareholders and non-controlling interests in respect of the preceding financial year, amounting to EUR 13.8 million, had a dilutive effect on equity. In addition, the remeasurement of defined benefit retirement plans (pension provisions) and foreign exchange translation differences of EUR -11.4 million as well as the purchase of the remaining non-controlling interests in ElringKlinger Logistik Service GmbH, Germany, led to changes in equity of EUR -0.4 million. The contribution of EUR 6.0 million made by EKPO's co-owner in the second quarter of 2023 as part of a capital increase totaling EUR 15.0 million had an accretive effect on equity.

As a result, ElringKlinger's equity ratio at the end of the 2023 financial year remained high at 45.3% (Dec. 31, 2022: 43.8%). This metric continues to lie within the management's target range of 40 to 50%.

Slight increase in pension provisions

Provisions for pensions accounted for in the consolidated statement of financial position amounted to EUR 104.0 million at the end of 2023 (Dec. 31, 2022: EUR 97.4 million). Their measurement using the projected unit credit method depends on a number of factors such as discount rates and assumptions about future developments. Provisions rose marginally due to the slight fall in interest rates compared to the previous year. The change in pension provisions resulting from the actuarial effect was recognized in equity (cf. Note 23 in the Notes to the Consolidated Financial Statements).

Other non-current and current provisions decreased by a total of EUR 9.2 million compared to the end of the previous year and amounted to EUR 74.7 million at the end of the 2023 financial year (Dec. 31, 2022: EUR 83.8 million). The year-on-year decline was attributable primarily to the personnel-related obligations included in this figure, partly due to the utilization of provisions recognized in 2022 in connection with discontinued production activities at one of the sites in Germany. At the end of the year, the personnel-related obligations recognized in non-current and current other provisions amounted to EUR 22.1 million. Other non-current and current provisions also included warranty obligations of EUR 27.0 million, which, like the provisions for contingent losses of EUR 13.2 million, were largely recognized on a lump-sum basis in accordance with defined accounting methods.

Further reduction in net financial liabilities

Net financial liabilities (also known as net debt*), which comprise non-current and current financial liabilities less cash, cash equivalents, and current securities, have been more than halved since their peak in 2019 – a significant reduction. Having already reached a low level with the help of targeted measures, the Group scaled back net debt even further to EUR 323.2 million at the end of 2023 (Dec. 31, 2022: EUR 364.2 million).

Non-current financial liabilities accounted for the larger share at EUR 282.2 million (Dec. 31, 2022: EUR 429.2 million). While the latter were scaled back by a net amount of EUR 147.0 million in the 2023 financial year, current financial liabilities increased by EUR 94.3 million to EUR 167.7 million (Dec. 31, 2022: EUR 73.4 million).

The net debt-to-EBITDA ratio, i.e., the ratio of net debt to EBITDA* (earnings before interest, taxes, depreciation and amortization), thus improved significantly from 2.1 at the end of 2022 to 1.6 at the end of the financial year under review. ElringKlinger thus met its guidance of "below 2.0" as presented in the combined management report for the 2022 financial year and maintained its track record of improvement on a long-term basis (cf. "Internal Control System" section).

Overall, non-current liabilities recognized by the ElringKlinger Group amounted to EUR 443.7 million at the end of the 2023 financial year (Dec. 31, 2022: EUR 579.9 million) and accounted for 22.1% of total equity and liabilities.

Current liabilities had a total carrying amount of EUR 653.8 million (Dec. 31, 2022: EUR 569.9 million), which corresponds to a share of 32.6%. Trade payables constituted the largest item, amounting to EUR 216.9 million (Dec. 31, 2022: EUR 224.1 million). The collective item "Other current liabilities" includes various liabilities and accruals/deferrals. This item rose to a total of EUR 182.5 million, compared to EUR 170.5 million in the previous year, which was partly due to accruals/deferrals such as accounts receivable with credit balances. As in previous years, this also includes a call and put option agreement in the amount of EUR 39.4 million (31.12.2022: EUR 38.1 million) with

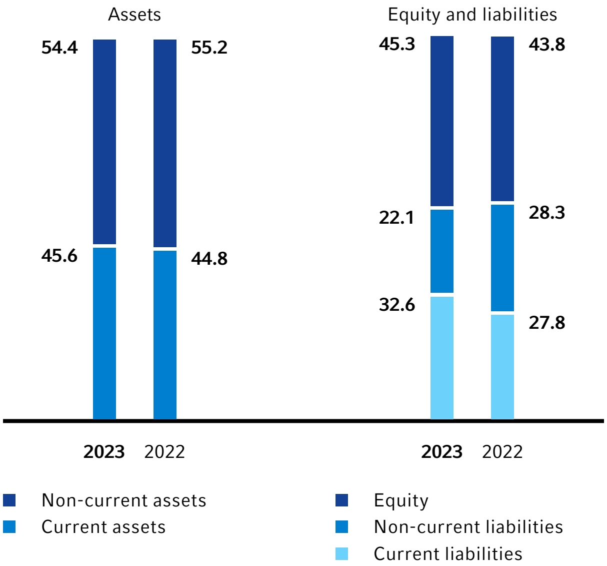
* Cf. glossary

non-controlling shareholders in respect of the interest in the fully consolidated Japanese subgroup.

ROCE up markedly at 5.6%

At 5.6% (2023: -2.7%), ElringKlinger recorded a significant improvement in its return on capital employed (ROCE*) in the 2023 financial year, even though this fell short of the range of "around 7 to 8 percent" presented as a guidance in the combined management report for 2022. This key performance indicator is calculated by dividing EBIT* (earnings before interest and taxes) by capital employed (cf. "Internal Control System" section). Taking into account the non-recurring effects, in line with the method applied to adjusted EBIT, this resulted in adjusted ROCE of 6.8% for the 2023 financial year, which is close to the lower end of the guidance range.

Structure of the ElringKlinger Group's financial position
as of Dec. 31, 2023
in %



Cash Flows

ElringKlinger was able to further bolster the Group's financial strength associated with operating activities in the financial year under review, as evidenced by the improvement in key financial indicators. Net cash from operating activities of EUR 129.7 million covered expenditure relating to investing activities and also enabled the Group to scale back loans. Operating free cash flow was also up year on year, at EUR 36.7 million in 2023. Thanks to the unused credit lines available at the end of 2023 and a substantial level of cash and cash equivalents, the company continues to benefit from ample liquidity headroom for further business development.

Key figures cash flows

in EUR million	2023	2022
Net cash from operating activities	129.7	101.3
Operating free cash flow[1]	36.7	14.8
Investments in property, plant, and equipment[2]	71.2	69.3
Investment ratio	3.9%	3.9%

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

Net cash from operating activities again in triple digits at EUR 130 million

The ElringKlinger Group generated substantial cash flow* from operating activities of EUR 129.7 million in 2023, up on the previous year's impressive cash inflow of EUR 101.3 million. Growth in net cash from operating activities was fueled mainly by the Group's higher operating profit. Apart from depreciation/amortization and non-cash expenses or income, the generation of cash and cash equivalents was determined to a large extent by the trend described in the section on earnings performance.

In addition, cash flow from operating activities was influenced by the level of funds required for net working capital*. These cash funds include those used for inventories and trade receivables after deduction of trade payables, i. e., for net working capital. Although the year-on-year change in these items, in particular inventories, led to a net cash outflow; when taking into account the change in other assets and liabilities not attributable to investing or financing activities, the Group recorded a slight cash inflow of EUR 4.5 million (2022: outflow of EUR 38.6 million).

Compared to the prior-year period, ElringKlinger recorded higher outflows for income taxes paid in 2023, which amounted to EUR 40.6 million (2022: EUR 21.8 million), and for interest paid, which totaled EUR 24.9 million (2022: EUR 13.7 million). In addition, changes in provisions – based on the indirect cash flow method in which cash flow is derived from net income – resulted in a cash outflow of EUR 12.8 million (2022: inflow of EUR 3.9 million). Among other things, provisions in connection with the discontinuation of production at one of the German sites were utilized and paid out in the 2023 financial year.

EUR 90 million used for investing activities

The Group spent a total of EUR 90.2 million on investing activities in the 2023 financial year (2022: EUR 95.5 million). Payments for investments in property, plant, and equipment, as usual, represent the largest item. At EUR 71.2 million (2022: EUR 69.3 million), these investments were comparable to those recorded in the previous year. The majority of this item relates to the Original Equipment segment.

As in previous years, the focus of these global Group investments was on the strategic fields of the future. In the period under review, these mainly included projects relating to fuel cell* technology, overseen by the Group subsidiary EKPO Fuel Cell Technologies GmbH in Dettingen/Erms, Germany, and, to a lesser extent, by its site in Suzhou, China. ElringKlinger also directed major investments toward its production activities in the field of battery technology, which are being expanded at the German site in Neuffen, such as production lines for the manufacture of cell contacting systems* for several start-ups and ramp-ups of series production orders. In the area of lightweighting, significant industrialization projects, including additional projected orders for cockpit cross-car beams*, were also reflected in investing activities. Overall, expenditure was also attributable to the long-standing business units to varying degrees. The largest purchases were generally related to specific customer projects.

In addition, as in previous years, ElringKlinger implemented measures centering on power supply with the aim of achieving sustainable and climate-friendly operations. They included photovoltaic systems at various international sites, which will contribute to the plants' carbon-neutral electricity supply.

In regional terms, the focus was on investments in Germany, which were mainly channeled into a number of sites operated by the parent company, followed by North America and the Rest of Europe.

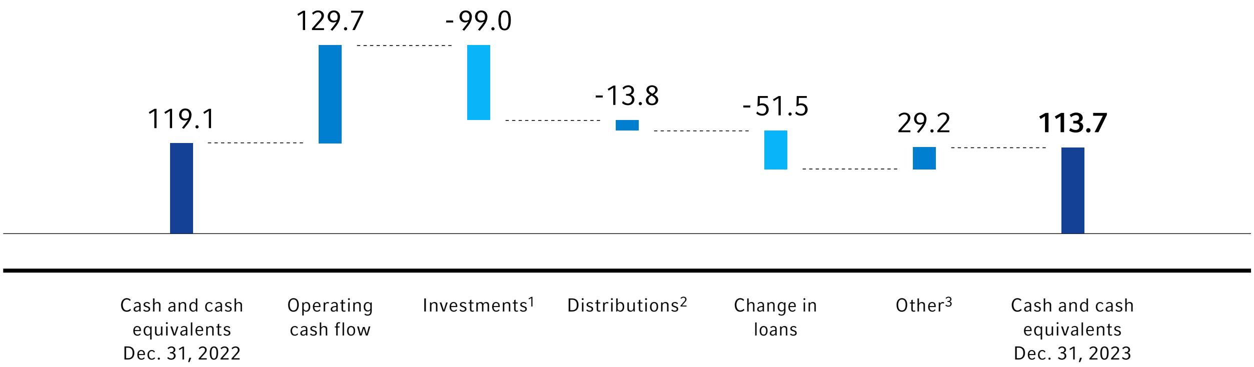
The investment ratio, i. e., payments for investments in property, plant, and equipment relative to Group revenue, amounted to 3.9% in the period under review (2022: 3.9%). This was slightly below the guidance of around 5 to 7% of Group revenue presented in the combined management report for 2022. The divergence from budget estimates is partly due to postponements of customer projects or reassessments over the course of the year, coupled with a consistently focused investment approach.

ElringKlinger spent EUR 27.8 million (2022: EUR 22.4 million) on intangible assets. These relate primarily to internally generated development services, which also illustrates the Group's strategic investment in the transformation process.

In addition, the Group recorded cash flows relating to proceeds from the disposal of property, plant, and equipment and intangible assets in the amount of EUR 6.0 million (2022: EUR 5.2 million), which were attributable primarily to the discontinuation of engine testing services at the Idstein site. Cash inflows and outflows for financial assets generally relate to foreign Group companies and amounted to EUR 4.6 million in the period under review (2022: EUR -7.2 million).

* Cf. glossary

Changes in cash 2023
in EUR million



[1] Payments for investments in property, plant, and equipment and intangible assets
[2] To shareholders of ElringKlinger AG and non-controlling interests
[3] Including payment of EUR 26.0 million received from the co-owner of EKPO Fuel Cell Technologies GmbH

Operating free cash flow up at EUR 37 million

In the 2023 financial year, ElringKlinger saw operating free cash flow* (cash flow from operating activities less cash flow from investing activities excluding cash flows for M&A* activities and for financial assets) rise to EUR 36.7 million (2022: EUR 14.8 million). On the back of year-on-year growth in operating free cash flow, the Group was in a position to fully finance its investing activities from cash generated from operations and to repay loans. Thus, it met its guidance of a "slight year-on-year improvement" presented in the combined management report 2022.

Financing activities resulted in a total cash outflow of EUR 39.7 million in 2023 (2022: inflow of EUR 5.0 million). This includes long-term loan borrowings and repayments as well as the change in short-term loans, the overall net amount of which was EUR -51.5 million (2022: EUR -10.8 million). In addition, the item includes payments for dividend distributions of EUR 13.8 million (2022: EUR 14.3 million) to shareholders and non-controlling interests. Furthermore, ElringKlinger received contributions of EUR 26.0 million (2022: EUR 30.0 million) from the co-owner of EKPO Fuel Cell Technologies, Dettingen/Erms, Germany, in 2023.

As of December 31, 2023, the ElringKlinger Group had substantial cash and cash equivalents of EUR 113.7 million (Dec. 31, 2022: 119.1 million). Together with open, undrawn credit lines of EUR 303.4 million (Dec. 31, 2022: EUR 232.6 million), this continues to provide the Group with a solid liquidity base for the purpose of shaping its planned business development and the associated process of transformation.

Operating free cash flow

in EUR million	2023	2022	Year-on-year change
Net cash from operating activities	129.7	101.3	28.4
Proceeds from disposals of property, plant and equipment and intangible assets	6.0	5.2	0.8
Payments for investments in intangible assets	-27.8	-22.4	-5.3
Payments for investments in property, plant and equipment	-71.2	-69.3	-1.9
Operating free cash flow	**36.7**	**14.8**	**21.9**

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

In the 2023 financial year, ElringKlinger navigated through conditions that remained difficult for the automotive industry as a whole, even though from an operational perspective the situation within the commodity markets, supply chains, and energy markets was generally more favorable than in the previous year. In general, it should be noted that geopolitical events such as the ongoing war in Ukraine, the rekindled conflict in the Middle East, and the trend towards or threat of an increasing number of trade barriers worldwide pose a number of challenges for ElringKlinger as a global player.

Against this backdrop, the ElringKlinger Group performed well overall in the 2023 financial year. Group sales reached the level of EUR 1.85 billion, which corresponds to organic growth of EUR 83.2 million or 4.6%. From the management's point of view, this represents satisfactory growth overall – also in view of the fact that the Group's performance in 2023 was largely in line with expectations at the beginning of the year, which were based on the original forecast of 3.3% growth in global production within the automotive markets.

As far as earnings are concerned, ElringKlinger's management can also look back on a successful 2023 financial year. Adjusted EBIT of EUR 100.1 million was up significantly on the previous year's figure by EUR 31.7 million or 46%, while the adjusted EBIT margin* of 5.4% was at the upper end of the annual guidance of "around 5%." In this context, earnings performance was influenced by the elevated prices still seen in some areas of the market. The situation with regard to material prices and external factors showed signs of easing in some cases. Together with the successful implementation of cost efficiency measures and the refinement of production processes, this had a favorable impact on earnings. The overall earnings performance of the largest segment, Original Equipment, improved year on year and remains the focus of management activities. Both the Aftermarket segment and the Engineered Plastics segment implemented strategies aimed at unlocking new markets and made a significant contribution to Group earnings.

Management continues to attach great importance to self-financing from operating activities. In this respect too, the Group's business performance in 2023, which saw operating free cash flow improve significantly year on year from EUR 14.8 million to EUR 36.7 million, can be considered a thoroughly satisfactory result. ElringKlinger financed the investments it made worldwide – with a focus on new drive technologies and projected business – entirely from cash flow generated by operations and was also able to further scale back its net financial liabilities. The Group's equity ratio of 45.3% remained stable within a long-term target corridor of 40 to 50% and is to be considered an important basis in terms of capital resources.

ElringKlinger will continue to pursue its successful path of transformation. Investments will again be directed at e-mobility applications and R&D in the future. In particular, activities centered around battery technology will be further extended at the site in Neuffen, Germany, in the coming years on the basis of the series production nominations secured by the Group. In addition to mobility, the Group's efforts are focused on the hydrogen economy, which includes the use of energy in mobility applications as well as hydrogen production based on electrolysis. With this in mind, ElringKlinger is committed to utilizing and evolving relevant technologies stemming from its subsidiary EKPO Fuel Cell Technologies GmbH, Dettingen/Erms, Germany, and other business units. ElringKlinger is building on its strong market position in its long-standing business units in an effort to drive forward its transformation in a focused manner. ElringKlinger's portfolio includes innovative, production-ready components and systems that contribute to mobility solutions that are increasingly climate-friendly and emission-neutral. Management is of the opinion that this product portfolio, the Group's broad customer base, and the global network of state-of-the-art production sites provide a powerful basis for consistently solid business development.

* Cf. glossary

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. Details of the business performance relating to ElringKlinger AG, as outlined below, are 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 the additional requirements of the Articles of Association.

Operating within a challenging business environment, ElringKlinger AG expanded its revenues in the majority of its sales regions compared to the previous financial year and achieved growth of 9.9%. Earnings before interest, taxes, and equity investments (EBIT) amounted to EUR 4.4 million in the financial year under review. ElringKlinger AG's net assets and cash flows at the end of the reporting period remained very solid, with an equity ratio of 47.3% and substantial cash flow from operating activities of EUR 86.4 million in the 2023 financial year.

ElringKlinger AG's revenue reaches all-time annual high of EUR 856 million

Despite challenging economic and industry-specific conditions, ElringKlinger AG's business activities proved to be very robust over the financial year just ended. The parent company, which operates sites in Dettingen/Erms, Geretsried-Gelting, Langenzenn, Lenningen, Neuffen, Runkel, and Thale, saw its revenue increase by EUR 77.1 million or 9.9% year on year on the back of a positive business performance, particularly in the Aftermarket segment. Totaling EUR 855.6 million (2022: EUR 778.5 million), revenue thus reached a new all-time high. The company's percentage upturn in revenue slightly outstripped the rate of growth in global vehicle production (9.7%).

For the parent company, the growth rate for the 2023 financial year had originally been expected to be well above the level of global automotive production, which according to projections by industry service provider S&P Global Mobility at the beginning of the year (February 2023) was expected to increase by 3.3%. This projection was gradually revised upwards over the course of the year, most recently to growth of 9.7%. Recording revenue growth of 9.9%, the company slightly exceeded market growth and was well above projected market growth of 3.3%, as estimated at the beginning of the year, even though it fell short of the original target of growing significantly faster than the market; this was due to the fact that market growth was significantly stronger than expected at the beginning of the year.

ElringKlinger AG increased its sales revenue in almost all regions. With a share of 45.7% (2022: 42.5%), the Rest of Europe represents the company's largest sales region. In this region, ElringKlinger AG generated revenue of EUR 390.9 million (2022: EUR 330.6 million) and recorded the highest level of regional growth amounting to EUR 60.3 million. In Germany, the company's second strongest region in terms of revenue, sales revenue fell slightly by EUR 3.6 million to EUR 256.4 million (2022: EUR 260.0 million). In North America, ElringKlinger AG generated slightly higher revenue of EUR 80.9 million (2022: EUR 78.6 million). The company was also able to expand revenue generated in the Asia-Pacific region. In the financial year under review, it posted revenue of EUR 85.3 million (2022: EUR 78.1 million), which corresponds to a growth rate of 9.2%.

Revenue from foreign sales saw a disproportionately large increase of 15.6%, taking this figure to EUR 599.2 million (2022: EUR 518.4 million). As a result, the share of foreign sales in total revenue attributable to ElringKlinger AG grew to 70.0% (2022: 66.6%).

Original Equipment segment up 6% on previous year

On a year-on-year basis, the Original Equipment segment managed to propel revenue by 5.9% to EUR 587.1 million (2022: EUR 554.3 million). Due to the strong expansion of the company's Aftermarket business, the share of total ElringKlinger AG sales accounted for by Original Equipment declined slightly from 71.2% to 68.6%. The largest increase in revenue within this segment was attributable to the Lightweighting/Elastomer* Technology business unit. The E-Mobility and Metal Sealing Systems & Drivetrain Components business units also showed signs of expansion compared to the previous year, while revenue in the Metal Forming & Assembly Technology and Exhaust Gas Purification business units declined.

Double-digit growth rate in Aftermarket business

Boasting a rate of expansion of 19.9%, the Aftermarket segment made an above-average contribution to revenue growth at ElringKlinger AG in the 2023 financial year. At EUR 268.6 million (2022: EUR 224.1 million), revenue was up EUR 44.5 million on the prior-year figure. This segment's share of total company revenue was further expanded by 2.6 percentage points to 31.4% (2022: 28.8%). The expansion in revenue was driven by all major sales regions.

Further growth in total operating revenue

The situation within the commodities markets showed signs of easing in the period under review. At the same time, the company maintained its forward-looking policy with regard to inventory management. As a result, changes in inventories amounted to EUR 2.6 million (2022: increase of EUR 12.2 million), down on the prior-year figure. Including other own work capitalized, total operating revenue amounted to EUR 858.1 million (2022: EUR 791.6 million), up by 8.4% – a new record for the company.

Additionally, other operating income trended significantly higher in the financial year under review, rising by EUR 26.4 million to EUR 56.2 million (2022: EUR 29.8 million). This is mainly due to an increase in income from reversals of write-downs of financial assets and financial receivables, which mainly relate to shares in affiliated companies.

At EUR 249.5 million (2022: EUR 151.0 million), other operating expenses were up significantly compared to the previous year. In addition to higher service expenses and expenses from asset disposals, an exceptional factor attributable to a change in the transfer pricing system, in particular, had an accretive effect on other operating expenses.

Price levels remain high overall

While prices relating to raw materials and energy had risen to a persistently high level across the board in the past, the overall level of prices trended somewhat lower again in 2023 due to receding market prices in some areas. However, prices generally remain above the pre-crisis level. The downward trend in prices during the financial year was also reflected in expenses for some raw materials and energy. Reflecting market developments, prices for aluminum, steel, and certain plastics, for example, declined in the period under review. By contrast, the tense situation regarding elastomers remained evident in the reporting year.

Against the backdrop of persistently elevated prices as a whole and in line with the expansion of business, the cost of materials also rose year on year, albeit at a slower rate than revenue, which grew by 9.9%. The cost of materials amounted to EUR 379.2 million in 2023 (2022: EUR 361.7 million), which corresponds to a change of 4.8%. The cost-of-materials ratio, which puts the cost of materials in relation to total operating revenue, fell by 1.5 percentage points to 44.2% (2022: 45.7%).

ElringKlinger AG headcount up slightly

ElringKlinger AG employed 2,956 people at the end of the financial year under review (Dec. 31, 2022: 2,928 employees), which corresponds to a slight increase of 1.0%. As in the previous year, the company did not make use of short-time work in the financial year just ended. Wages and salaries as well as social security contributions rose year on year, primarily due to collectively agreed wage and salary increases and a special payment in the reporting year (inflation compensation bonus). By contrast, post-employment benefit expenses fell in comparison to the previous year, which is due in particular to the high comparative figure for the previous year, which mainly included exceptional items relating to pension provisions. Overall, personnel expenses stood at EUR 251.2 million in the financial year just ended, down EUR 7.8 million or 3.0% (2022: EUR 259.0 million). The personnel expense ratio – i.e., personnel expenses in relation to total operating revenue – fell to 29.3% (2022: 32.7%).

Depreciation, amortization, and write-downs down markedly

Depreciation, amortization, and write-downs of intangible assets and fixed tangible assets stood at EUR 29.9 million in financial year under review (2022: EUR 43.9 million), down on the prior-year figure. The previous year had included impairment losses relating to property, plant, and equipment. At EUR 0.1 million (2022: EUR 42.2 million), based on the internal valuation model, write-downs of receivables from affiliated companies were significantly lower than in the previous year.

Earnings before interest, taxes, and equity investments up on previous year

The effects of significant revenue growth and lower depreciation, amortization, and write-downs outweighed the increase in the cost of materials and other operating expenses, which led to an improvement in the company's earnings before interest, taxes, and equity investments (EBIT). EBIT amounted to EUR 4.4 million in the financial year just ended (2022: EUR -36.4 million). This is equivalent to an EBIT margin (EBIT as a proportion of total operating revenue) of 0.5% (2022: -4.6%).

With regard to the projected adjusted EBIT margin of ElringKlinger AG, i.e., the ratio of adjusted EBIT to the company's revenue, a figure slightly above the expected Group average of around 5% had been forecast for the full 2023 annual period in the combined management report 2022. With adjusted EBIT of EUR 72.4 million (2022: EUR 46.4 million), the adjusted EBIT margin stood at 9.2% (2022: 6.4%), meaning that the company significantly exceeded its target. The adjustments in the reporting year mainly included an exceptional item resulting from a change in the transfer pricing system.

Improvement in net finance result

Income from equity investments includes distributions from several subsidiaries in Germany and abroad to ElringKlinger AG and totaled EUR 35.1 million (2022: EUR 48.2 million). Other interest and similar income was higher than in the previous year at EUR 10.5 million (2022: EUR 7.8 million). While income from other securities and loans accounted for as financial assets of EUR 0.2 million (2022: EUR 0.2 million) changed hardly at all compared to the previous year, interest and similar expenses of EUR 16.3 million (2022: EUR 11.1 million) increased by EUR 5.2 million, mainly due to the rise in market interest rates. In the context of annual impairment testing, impairment losses of EUR 23.0 million (2022: EUR 43.0 million) were recognized with regard to financial assets in the period under review. Net finance income*, i.e., the net finance result, was up on the previous year at EUR 6.5 million (2022: EUR 2.2 million).

Unappropriated surplus of EUR 10.6 million

In line with the upturn in earnings before interest, taxes, and equity investments and the year-on-year increase in net finance income, ElringKlinger AG's pre-tax result was also up markedly on the previous year's figure. Pre-tax profit stood at EUR 10.9 million (2022: EUR -34.2 million). As a result of an exceptional factor relating to a change in the transfer pricing system, taxes on income were also significantly lower than in the previous year at EUR 27 thousand (2022: EUR 10.9 million). In total, post-tax profit at the end of the reporting period amounted to EUR 10.9 million (2022: EUR -45.1 million). After deducting other taxes, net income for the year was EUR 10.6 million (2022: net loss of EUR -45.5 million). In the 2023 financial year, neither transfers nor reversals of revenue reserves were made (2022: reversal of EUR 55.0 million). In the financial year under review, a dividend totaling EUR 9.5 million (2022: EUR 9.5 million) was distributed to the shareholders of ElringKlinger AG. As of December 31, 2023, the company's unappropriated surplus (i.e., net retained profit) amounted to EUR 10.6 million for the financial year under review (2022: unappropriated surplus of EUR 9.5 million).

Dividend proposal of EUR 0.15 per share

In keeping with its balanced approach with regard to dividend payments, the Management Board and Supervisory Board would like to ensure that shareholders benefit appropriately from the Group's performance. Particularly in light of the favorable prospects for the coming financial years and also in view of ElringKlinger AG's unappropriated surplus, i.e. net retained profit, for 2023, both boards wish to ensure continuity in respect of the dividend policy. The Management Board and the Supervisory Board jointly propose to the Annual General Meeting that an unchanged dividend of EUR 0.15 per share (2022: EUR 0.15 per share) be paid out for the 2023 financial year.

Net Assets of ElringKlinger AG

The asset structure of ElringKlinger AG reflects its dual role as the parent company of the ElringKlinger Group and as a manufacturing company within the supply sector. Both the operating assets required for the company's operating activities and the shares in and receivables from affiliated companies form an integral part of total assets. The performance and business prospects of affiliated companies may have an impact on the carrying amounts of interests at parent company (AG) level as a result of impairment testing.

Total assets of parent company at EUR 1.1 billion

Total assets reported in the balance sheet of ElringKlinger AG, as prepared in accordance with the German Commercial Code (HGB*), amounted to EUR 1,132.2 million as of December 31, 2023 (Dec. 31, 2022: EUR 1,212.1 million). Around half of this, specifically a proportion of 50.6%, was attributable to fixed assets, which totaled EUR 573.0 million (Dec. 31, 2022: EUR 564.7 million). Current assets accounted for 48.3% of total assets; their carrying amount was EUR 546.7 million (EUR 640.9 million). Other balance sheet items related to prepaid expenses in the amount of EUR 12.4 million (Dec. 31, 2022: EUR 6.2 million) and a negligible excess of plan assets over post-employment benefit liabilities.

Intangible assets, which under German commercial law do not include own development work capitalized, amounted to EUR 3.7 million as of the reporting date (Dec. 31, 2022: EUR 4.0 million). Tangible fixed assets were down marginally at EUR 260.7 million (Dec. 31, 2022: EUR 265.5 million). The additions of EUR 35.1 million recognized for these two balance sheet items in the financial year contrasted with depreciation and amortization (including impairment losses) of EUR 29.9 million. The decline in tangible fixed assets was mainly due to the disposal of a property in Idstein and the discontinuation of engine testing services by the affiliated company based at that location.

Financial assets increased to EUR 308.7 million (Dec. 31, 2022: EUR 295.2 million). They again mainly comprised ElringKlinger AG's shares in affiliated companies with a carrying amount of EUR 279.3 million (Dec. 31, 2022: EUR 263.8 million). Impairment testing resulted in write-downs totaling EUR 17.8 million and reversals of write-downs totaling EUR 23.9 million for nine different entities. These were recognized in profit or loss under write-downs of financial assets or other operating income. In addition, shares in affiliated companies increased by EUR 9.0 million due to additional payments to the capital reserves and, to a very small extent, due to the purchase of non-controlling interests.

Other equity investments recognized by ElringKlinger AG had a carrying amount of EUR 21.6 million at the end of 2023 (Dec. 31, 2022: EUR 24.9 million). In addition, loans to affiliated companies and investees in the amount of EUR 7.2 million (31.12.2022: EUR 6.0 million) were recognized under fixed assets.

Current assets down by around 15%

At EUR 192.4 million (Dec. 31, 2022: EUR 191.9 million), inventories held by ElringKlinger AG were comparable to the figure posted for the previous financial year. They comprise raw materials, semi-finished and finished goods for the manufacturing process as well as inventories relating the company's aftermarket business, with finished goods continuing to form the principal component with a carrying amount of EUR 112.7 million (Dec. 31, 2022: EUR 116.7 million).

The receivables of ElringKlinger AG as of December 31, 2023, had a total carrying amount of EUR 353.6 million (Dec. 31, 2022: EUR 446.6 million). In addition to trade receivables and other assets, they primarily included receivables from affiliated companies, as the AG also borrows funds for affiliated companies in the context of central finance and liquidity management for the ElringKlinger Group in order to pass them on as loans or short-term loans. At the end of the 2023 financial year, the majority of these were again accounted for in the "receivables from affiliated companies" line item that forms part of current assets. Including receivables relating to deliveries (EUR 34.0 million), receivables from affiliated companies amounted to EUR 260.7 million as of December 31, 2023 (Dec. 31, 2022: EUR 340.2 million). Write-downs and reversals of write-downs amounted to EUR 7.6 million.

ElringKlinger AG's trade receivables totaled EUR 64.0 million at the end of the financial year (Dec. 31, 2022: EUR 82.1 million) and other assets amounted to EUR 28.9 million (Dec. 31, 2022: EUR 24.3 million), which mainly comprise an intragroup receivable.

Equity ratio expands to 47 percent

At the end of 2023, ElringKlinger AG held equity of EUR 535.1 million (Dec. 31, 2022: EUR 534.0 million), which corresponds to an equity ratio of 47.3% (Dec. 31, 2022: 44.1%). The year-on-year change was attributable to the net income of EUR 10.6 million and, conversely, the dividend payment of EUR 9.5 million made to the shareholders of ElringKlinger AG in respect of the previous financial year. Subscribed capital of EUR 63.4 million, which corresponds to a notional value of EUR 1.00 of the nominal capital per registered share, and the capital reserves of EUR 120.8 million remained unchanged from the previous year's reporting date.

The pension provisions of ElringKlinger AG had a carrying amount of EUR 99.4 million at the end of the 2023 financial year (Dec. 31, 2022: EUR 102.7 million). They were measured at the end of the year in accordance with actuarial principles using the projected unit credit method.

Other provisions include non-current and current obligations. They decreased by a total of EUR 12.7 million to EUR 75.8 million at the end of 2023, compared to EUR 88.6 million a year earlier. The principal reduction was attributable to the personnel-related obligations recognized under this item, the carrying amount of which was EUR 26.1 million (Dec. 31, 2022: EUR 37.1 million). Here, changes in interest rates led to a reduction in partial retirement obligations and provisions associated with anniversaries.

* Cf. glossary

In addition, provisions were made for non-settled bonus credits to customers, mainly from the Aftermarket segment, as well as a number of other items such as derivative risks, warranty obligations, and provisions for contingent losses. Contingent losses from pending transactions were measured at their settlement amount, taking into account price and cost increases. Depending on the circumstances, the warranty risk in relation to customers is based either on individual estimates or on past experience. As regards other risks, non-personnel-related obligations in connection with the discontinuation of production activities at one of the German sites were also recognized as of the end of 2023.

The liabilities of ElringKlinger AG were scaled back by EUR 60.8 million compared to the prior-year reporting date and corresponded to a total carrying amount of EUR 419.9 million (Dec. 31, 2022: EUR 480.7 million). As a result, liabilities to banks included in this figure were down by EUR 39.1 million on the prior-year figure at EUR 243.5 million (Dec. 31, 2022: EUR 282.5 million).

Trade payables recognized by ElringKlinger AG amounted to EUR 94.3 million at the end of the 2023 financial year (Dec. 31, 2022: EUR 101.0 million). Liabilities to affiliated companies amounted to EUR 26.3 million (Dec. 31, 2022: EUR 46.9 million), while other liabilities amounted to EUR 46.2 million (Dec. 31, 2022: EUR 37.6 million). Among other items, the latter includes obligations as part of liquidity measures.

The profitability indicator ROCE* expresses how high the return on capital employed is; it is determined from the relation of EBIT (earnings before interest and taxes) to average capital employed (cf. "Internal Control System"). For the financial year just ended, ROCE for the parent company stood at -2.6% (Dec. 31, 2022: 2.2%). If non-recurring effects such as the exceptional item attributable to a change in the transfer pricing system described in the financial performance section were to be adjusted, the parent company of the ElringKlinger Group would have recorded ROCE of 6.6%. This figure corresponds to the guidance expressed in the 2022 combined management report of "slightly below the Group level," which stood at 6.8% in 2023.

Cash Flows of ElringKlinger AG

Cash flow from operating activities at EUR 86 million

ElringKlinger AG again generated substantial net cash from operating activities of EUR 86.4 million in the 2023 financial year (2022: EUR 93.6 million). This was driven primarily by the cost of materials and personnel expenses needed to generate revenue. These items trended lower compared to the previous year, thus underpinning the generation of cash and cash equivalents.

Taking tax assets into account, ElringKlinger AG had to pay EUR 20.8 million more in income taxes in 2023 than in 2022. Distributions received by ElringKlinger AG as income from equity investments led to an increase in cash and cash equivalents of EUR 35.1 million in 2023 (2022: EUR 48.2 million).

As part of the indirect method of calculating operating cash flow from net income, non-cash expenses and income with different effects were eliminated. Among other things, the change in provisions resulted in a cash outflow of EUR 17.8 million, which contrasts with an accretive effect of EUR 34.8 million in the previous year.

The change in trade payables and liabilities to affiliated companies also resulted in a net outflow. Therefore, including other liabilities not attributable to investing or financing activities, cash and cash equivalents decreased by EUR 12.8 million. The previous year had seen an inflow of EUR 34.3 million. By contrast, the changes in trade receivables (including intercompany receivables) led to an expansion in cash flow of EUR 11.8 million (2022: EUR -28.5 million). Changes in inventories (including tools) had little impact on cash and cash equivalents in 2023 as a whole.

Investments reflect transformation

Capital expenditure by ElringKlinger AG on tangible fixed assets increased to EUR 34.4 million in the 2023 financial year (2022: EUR 20.7 million), which was attributable primarily to new drive technologies. ElringKlinger invested at its German site in Neuffen in preparation for the ramp-up of several large-scale production projects relating to battery technology products. Although the focus of investment was on new technologies, investments were also made in the long-standing business units, which are located at other sites in Germany as well as at the headquarters in Dettingen/Erms.

In 2023, ElringKlinger AG received EUR 5.6 million (2022: EUR 4.3 million) from the disposal of tangible fixed assets and intangible assets, while a total of EUR 9.4 million (2022: payment of EUR 0.3 million) was paid out for investments in financial assets.

Overall, ElringKlinger reported a net cash outflow of EUR 38.4 million for investing activities (2022: EUR 17.0 million). In addition, investment obligations amounted to EUR 29.7 million at the end of the reporting period (2022: EUR 16.0 million).

Operating free cash flow of EUR 57 million

Based on its 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), ElringKlinger AG generated positive operating free cash flow* of EUR 57.0 million (2022: EUR 76.9 million) and thus significantly exceeded its guidance of a "slightly positive double-digit million euro" amount set out in the combined management report of 2022.

Substantial reduction in long-term loans

In the 2023 financial year, ElringKlinger AG was able to noticeably reduce long-term loans, as a result of which it recorded a net cash outflow of EUR 34.0 million (2022: EUR 20.3 million) from borrowings and repayments relating to long-term financial liabilities and loans. These were mainly drawings and repayments under the syndicated loan agreement. It was concluded in 2019, with an increase and extension in 2021, for a total volume of EUR 450 million and runs until 2026. As a result of loans and time deposits taken out and repaid with regard to affiliated companies, ElringKlinger AG recorded a slight cash outflow of EUR 0.5 million (2022: outflow of EUR 62.7 million). Including the change in current financial liabilities of EUR 5.9 million (2022: EUR 18.3 million) and payments to shareholders, which amounted to EUR 9.5 million (2022: EUR 9.5 million), ElringKlinger AG's net cash used in financing activities thus amounted to EUR -49.9 million (2022: EUR -74.2 million).

As of December 31, 2023, the undrawn lines of credit available to ElringKlinger AG totaled EUR 277.3 million (Dec. 31, 2022: EUR 206.2 million).

The individual cash flows continue to be calculated in accordance with the principles of DRS 21. Overall, the company is therefore able to meet its payment obligations.

* Cf. glossary

Report on Opportunities and Risks

ElringKlinger's opportunity and risk management system aims to identify and assess risks systematically, continuously, and at an early stage and to manage them by means of risk-mitigating measures. For ElringKlinger, this forms an integral part of value-based corporate management. The Group applies a comprehensive range of instruments to prevent risks from occurring or, where they do occur, to minimize their impact on the company. Both external (e.g., political) and internal (e.g., financial) factors are taken into account. Opportunities are treated in the same way.

Opportunities and risk management system

The opportunities and risk management system is made up of various tools and control systems; it relates to the entire Group and its segments. It forms an integral part of the overall planning, steering, and reporting process in the legal entities, business units, and central functions. The structure is based on ISO* standard 31000 (Risk Management). Among the key components are strategic Group planning and internal reporting. The effectiveness and suitability of the opportunities and risk management system itself is continually adapted and refined in accordance with new requirements as they arise.

In the context of Group strategic planning, continuous monitoring of markets, customers, and suppliers ensures that potential risks relating to critical and material decisions are identified and taken into account, while opportunities arising within the market can be exploited accordingly. With this in mind, 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. All key areas within the Group are involved in this process. Information is retrieved, collated, and evaluated as part of a standardized process. Conclusions for action are derived from these procedures, which are then implemented in the short, medium, and long term. The Management Board bears overall responsibility.

Information relating to the ElringKlinger Group's opportunity and risk positions is brought together by detailed internal reporting and controlling. In addition to ensuring that all available sources of information are taken into account, it is aimed at monitoring and managing the course of business.

A key component of the risk management system is regular risk reporting by the management of the respective domestic and foreign Group companies, with the involvement of 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. Within the scope of this reporting, risks are identified and assessed. In addition, reports are compiled on risk-mitigating measures. The Chief Financial Officer is responsible for coordinating these activities in his capacity as Global Risk Manager. The risk structure of the Group and the AG does not differ significantly overall.

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 the ElringKlinger Group as well as at the Group companies. They are conducted by the Audit department in cooperation with external accountancy firms commissioned by ElringKlinger. 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. Risk-based audit planning forms an integral part of audit projects. Audits can also be initiated on the basis of inquiries over the course of the year or events related to specific circumstances. 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.

Compliance management system

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. The code provides guidance and serves as a benchmark for responsible conduct. Among other aspects, it 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.

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 Management Board is committed to adapting and refining the existing compliance management system to changing circumstances and the possibility of evolving risk exposure.

Internal control system[7]

The internal control system (ICS) established within the ElringKlinger Group is of key importance to the successful management of risks associated with business processes. In particular, one of the aims of the ICS is to ensure that the attainment of corporate goals is not jeopardized by internal and external risks. Therefore, awareness of such risks is considered a prerequisite for an effective, fit-for-purpose ICS. In this context, the execution of risk management forms an essential basis of this control system.

The control system implemented at ElringKlinger at present encompasses defined controls and monitoring activities designed to ensure the dependability and efficiency of relevant business activities and the reliability of financial reporting, in addition to legal and regulatory compliance. It is subject to continuous refinement and optimization.

In its design, the ICS is aligned with the Group's current risk situation and therefore primarily takes into account the business risks associated with ElringKlinger's operations. This risk-based design also ensures that the ICS can be adjusted accordingly when the risk status changes.

ElringKlinger's ICS covers the main business processes within the Group. The overall responsibility lies with the Management Board. When it comes to designing and maintaining appropriate and effective processes for implementing, monitoring, and sustaining the ICS, the Management Board is supported by ElringKlinger AG's central Governance Assurance Services department, which brings together and integrates the established governance system processes (i.e., the risk management system, the compliance management system, and the internal control system).

[7] The disclosures in this section are disclosures that go beyond the legal requirements for the management report and are therefore excluded from the auditor's substantive audit of the management report (information extraneous to the management report).

The principal elements or sub-areas associated with the governance systems implemented by the company are audited on a regular basis in order to continuously monitor and improve these systems.

Alongside audit-specific reporting, the ongoing refinement of the governance systems, including their level of maturity, forms an integral part of the agenda at Audit Committee meetings, for which the Management Board furnishes reports. Based on these activities, the Management Board determines the adequacy and effectiveness of these systems.

Internal control and risk management system in relation to the accounting process

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 Executive 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, the Financial Reporting department sets the standards within the Group and describes the processes, while the Controlling department 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 assigned Management Board member responsible for their activities.

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 Executive 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.

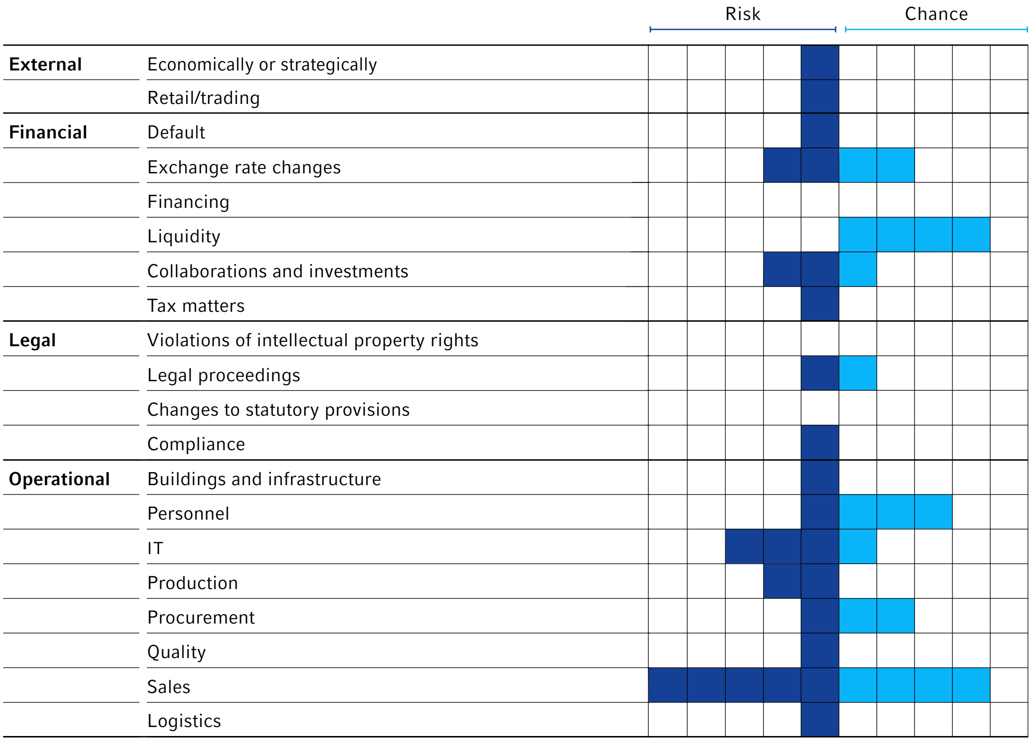
The accounting process is also incorporated into the ElringKlinger Group's risk management system as a way of identifying accounting-related risks at an early stage, allowing the company to take prompt action to anticipate and address potential risks. As is the case with the other areas and functions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

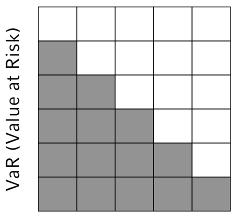
Assessment of opportunities and risks

The systematic approach to assessing opportunities and risks takes into account both the individual risks recorded by the operating units in accordance with the bottom-up principle and the Group risks assessed by the centrally managed units in accordance with the top-down principle. Risks are described with their probability of occurrence and the respective severity of harm for the applicable period of one year and are categorized uniformly for aggregation. As part of aggregation, the Monte Carlo method is applied for the purpose of simulating a very wide range of possible scenarios relating to the company. They are brought together in the form of a probability distribution of the overall risk position. Thanks to the wide range of calculated scenarios, this statistical method delivers a profile of probable and less probable potential deviations from targets that can be described with key indicators and provide the basis for quantitative assessment.

The same applies to the systematic approach implemented for the purpose of recording opportunities according to the top-down principle. The description of such opportunities includes details of their possible frequencies in the period under review as well as their possible bandwidths, categorized and aggregated by means of the Monte Carlo method into a probability distribution of the potential positive target deviation in order to arrive at a quantitative assessment.

The following table presents an overview of the principal opportunities and risks that are currently of relevance to the ElringKlinger Group. These items are recorded according to the net approach, i.e., the measures have been taken into account within the opportunity and risk assessment on the basis of their respective status of implementation. The individual categories have been included for the purpose of aggregation and comprise a number of specific aspects that will be elaborated on in the subsequent sections. Based on the scenario analysis, the opportunities and risks are assessed by means of the value-at-risk approach, with potential negative deviations from the target shown in red and potential positive deviations from the target shown in blue. As a statistical indicator, value at risk determines the maximum possible profit or loss that will not be exceeded in the applicable period with a specified probability – in this case 95%. It is a measure based on a defined probability and does not describe the maximum possible profit or loss, as a scenario beyond this probability is still possible. The assessment of opportunities and risks is performed on a half-yearly basis. Reporting is always based on a period of one year. The reference parameter with regard to all data is adjusted earnings before interest and taxes (EBIT).





Minimal	VaR(95)= 0
Very low	0 < VaR(95) ≤ EUR 2.5 million
Low	EUR 2.5 million < VaR(95) ≤ EUR 5.0 million
Moderate	EUR 5.0 million < VaR(95) ≤ EUR 7.5 million
High	EUR 7.5 million < VaR(95) ≤ EUR 10.0 million
Very high	VaR(95) > EUR 10.0 million

The material opportunities and risks are described and categorized below. The categories are reviewed annually in accordance with the concept of risk-bearing capacity and adjusted if necessary. The Group defines categories as low whose value at risk (95%) in positive (opportunities) or negative (risks) terms amounts to more than EUR 2.5 million. In those cases in which the figure is no more than double the value, the opportunity or risk can be described as low. In the broader corridor of between EUR 5.0 million and EUR 7.5 million the opportunity and risk is moderate. As regards figures in excess of EUR 7.5 million and up to EUR 10.0 million, the Group considers the opportunity and risk to be high, while figures above this level relate to opportunities and risk that are deemed to be very high.

External opportunities and risks

External opportunities and risks include decisions outside the company's area of influence that may result in a direct or indirect impact on the Group and its business activities.

Economic and strategic risks

For ElringKlinger, as a Group with global operations, political decisions or developments have the potential to impact – which includes the possibility of a material impact – on future business performance. The same consequences can cause unstable political situations. Additionally, political and economic factors can have a direct or indirect impact on the macroeconomic environment, technology trends in the market, the Group's sales regions, and levels of demand in the industry.

As in previous years, the 2023 financial year was characterized by a considerable degree of uncertainty and volatility. Amid the protracted war in Ukraine, the Middle East has been faced with a rekindled conflict in the region. It is impossible to rule out an escalation of the situation either there or in Eastern Europe. The world has also been confronted with other tense situations and armed conflicts, for example, in parts of North and West Africa or at the southern entrance to the Red Sea. The South China Sea may also give rise to new conflicts.

Parts of these geopolitical trouble spots are among the sales regions that entail certain risks for ElringKlinger. In the Aftermarket segment, whose core regions include not only Europe but also North Africa and the Middle East, there is therefore a fundamental risk of a decline in revenue. As sales in these regions are billed in euros, customers' restricted access to foreign currency could result in delayed or reduced orders. As regards the Original Equipment segment, these regions are not considered core sales markets.

In addition to geopolitical risks, there are always risks linked to economic trends, as global vehicle markets tend to evolve in line with those trends. 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 ElringKlinger's products. In addition to being fueled by political and geopolitical developments, such trends may also be driven by a number of other factors.

For example, elevated prices within the global markets – particularly for raw materials and energy – may prompt central banks to curb inflation with the help of higher interest rates, which in turn also poses the risk of a slowdown in economic growth. In this context and in conjunction with geopolitical tensions, there is a risk of recession in Germany in particular, but also in other Western countries. Aside from these circumstances, it cannot be ruled out that a pandemic such as Covid-19 will repeat itself in a similar form and with comparable effects on the economy.

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.

Thanks to its global positioning – especially in the three core automotive markets of Europe, Asia-Pacific, and North America – and the breadth of its product portfolio, the Group also has the fundamental ability to cushion the impact of geopolitical risks. In order to enhance the Group's resilience to possible negative influencing factors, the business environment and associated developments are analyzed continuously and extensively. However, in view of the uncertain and volatile conditions and the variety of possible developments, it is impossible to predict the manifestation and extent of the potential effects with sufficient accuracy.

Overall, the external economic and strategic risks can be categorized as very low.

Commercial risks

External risks may also take the form of trade policy measures such as embargoes, unilateral subsidies, or tariffs.

If additional costs are incurred in connection with tariffs, ElringKlinger always seeks to pass them on to both suppliers and customers. At the same time, Purchasing is approving more suppliers and applying for customs exclusions to the extent permitted by regulations.

On the whole, the commercial risks can be classed as very low.

Financial opportunities and risks

With revenue of more than EUR 1.8 billion and 45 locations worldwide, the size and global interconnectedness of the ElringKlinger Group have reached a level that has an impact on its risk profile and gives rise to various financial risks.

Default risks

One potential risk is that ElringKlinger's business partners could default on their contractual payment obligations toward the Group.

The Group counters customer default risks mainly by means of long-standing customer relationships, a broadly diversified customer base, and advance payments or payments linked to certain milestones as a payment condition, or with the help of trade credit insurance.

ElringKlinger has also continually broadened its customer structure in recent years and, as a rule, is not dependent on individual customers. The largest single customer accounted for 8.5% (2022: 7.8%) of annual revenue in 2023.

However, the customer structure is changing as a result of the far-reaching transformation process that is underway. 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 still operating as start-ups. The business performance of these companies is difficult to assess because, in contrast to established manufacturers, traditional sales risks are compounded by factors such as development capacity or successful further financing rounds. It is therefore entirely possible 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 is faced with the risk that payments for existing development projects or orders may not be made, so impairment losses will have to be recognized in respect of receivables.

ElringKlinger currently pursues business relationships with customers that fall into the above category. It addresses increased counterparty risk with a risk-minimizing customer strategy. This involves, among other things, payment terms that correspond largely to project progression and therefore cover any investment and development amounts outstanding.

Overall, the risk of default can be classed as very low.

Exchange rate opportunities and risks

ElringKlinger operates globally across various currency borders and is therefore essentially exposed to exchange rate risks as well. These include local currency surpluses in individual Group companies, 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. For example, the Group had hedges relating to the US dollar and the Swiss franc at the end of the reporting period.

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.

Changes in exchange rates can also give rise to opportunities if the currencies develop in favor of the company's activities. For example, a change in the EUR/USD exchange rate may have a positive impact; the Group will respond flexibly in such cases.

On the whole, risks and opportunities arising from changes in exchange rates can be classed as low.

Financing risks

Risks pertaining to financing arise when the Group's ability to obtain refinancing is at risk.

The second tranche of the bonded loan issued in 2017 in the amount of EUR 99 million will fall due in mid-2024. The Group plans to refinance the loan from credit lines still available under the syndicated loan*, which runs until 2026, bilateral credit lines, and cash available at the time of repayment. As of December 31, 2023, the Group had a total of more than EUR 300 million in undrawn credit lines.

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, 2023, 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 2024 financial year either. There are no immediate risks that may jeopardize the financing of planned major projects, which is also attributable to the Group's financial metrics. At 45.3% (2022: 43.8%), the equity ratio is in excess of the prior-year figure and remains within the target range of 40 to 50% of total assets. At 1.6 (2022: 2.1), net debt* in relation to EBITDA* is well below the previous year's level despite the difficult conditions and is in line with the medium-term target of below 2.0. From the Management Board's current perspective, financing risks that might jeopardize the company's existence as a going concern can be ruled out.

Overall, the financing risks can be classed as minimal.

Liquidity opportunities and risks

If a company is solvent, that means it has sufficient cash available to fulfill its financial obligations, such as the repayment of financial liabilities or ongoing payment obligations arising from operating activities. In this respect, in terms of liquidity, there is a risk that the amount of cash available may not be sufficient. On the other hand, situations may arise where cash and cash equivalents are generated that were not taken into account in planning.

ElringKlinger finances itself both from the cash flow generated from operating activities and by means of bank loans. In the financial year just ended, operating free cash flow* of EUR 36.7 million (2022: EUR 14.8 million) was noticeably higher than in the previous year. The Group's financing situation also shows that yet more credit could be utilized if needed: at the end of 2023, the credit lines totaled EUR 557 million (2022: EUR 532 million), with EUR 254 million (2022: EUR 299 million) drawn down.

The liquidity risks can therefore be classed as minimal.

The Group also implements liquidity measures to actively manage its liquidity situation. This includes agreements with suppliers as well as a liquidity-oriented financing policy, such as equipment leases. Thus, the Group may create additional liquidity and further improve its liquidity metrics. The resulting opportunity is considered high.

Opportunities and risks with regard to collaborations and investments

This category includes, for example, risks relating to portfolio and restructuring measures and decisions regarding the right portfolio strategy for the business or parts of it. External growth, acquisitions of business units or companies, joint ventures, and divestments are all aspects of this risk category.

The far-reaching transformation process in the automotive industry is accompanied by global integration. Many SMEs continue to be faced with the challenge of capital allocation, as they need to position themselves globally and at the same time invest in research and development in order to master the process of transformation within the mobility sector. The risk of insolvency in the sector is heightened by the resulting financing risks. Therefore, the industry is currently undergoing consolidation and is expected to continue to do so in the future. In this context, there is also the possibility that competitors will exit the market under such conditions.

ElringKlinger views this environment as an opportunity to selectively refine its technology portfolio. The Group monitors and analyzes the market systematically in order to identify potential acquisition opportunities in good time and realize them where it makes economic sense to do so. In this regard, it is possible – in principle – that ElringKlinger will exploit growth opportunities by way of acquisitions. The Group is focusing on future-oriented areas of business, while, as a general rule, any further acquisitions relating to the traditional fields of business centered around combustion engine technology are unlikely. The same essentially applies to divestments: the Group is turning its attention toward developing future-oriented areas of business and continually reviewing its positioning in the traditional combustion engine-based sector.

In addition to targeted acquisitions and divestments, there are also opportunities to step up business activities through collaborations in the form of investments or joint ventures. Examples of this include partnerships in the field of fuel cell* technology, which ElringKlinger has been entering into after around 20 years of developing its own activities: in 2021, it joined forces with the French automotive supplier Plastic Omnium to set up the company EKPO Fuel Cell Technologies (EKPO), Dettingen/Erms, Germany, which promotes the development and marketing of this technology. In 2023, this opened up the opportunity for the company to receive funding of up to EUR 177 million from the Federal Ministry for Digital and Transport and the Baden-Württemberg Ministry of the Environment as part of the European IPCEI* program for the purpose of developing and industrializing a new generation of high-performance fuel cell stacks*.

ElringKlinger has also been in a strategic partnership with the aerospace corporation Airbus since 2020 with the aim of working together to develop and validate fuel cells suitable for use in aviation applications. It holds a non-controlling interest in the joint venture as a financial investment. In addition, further collaborative efforts – both in respect of technologies and markets – are conceivable, provided they open up further opportunities for the Group, e.g., to tap into new markets, gain market share or increase earnings.

* Cf. glossary

For some years now, ElringKlinger has been involved in a partnership with hofer powertrain in the area of electric drive units. While ElringKlinger holds a 24.7% share in the parent company hofer AG, the Group has a 53% stake in the joint subsidiary Germany and the United Kingdom. These companies are fully consolidated within the ElringKlinger Group accordingly.

Overall, this risk can be classed as low. At the same time, the Group has opportunities that fall into the "very low" category.

Risks arising from tax matters

Various opportunities and risks arise from tax matters. For example, risks linked to a number of different statutory regulations and tax audits form part of this category. These include changes in legislation or the administration of justice, which can also contribute to risks retroactively. In addition, the differing legal interpretations of tax authorities, particularly in the case of cross-border transactions, can lead to considerable uncertainties, and therefore to risks.

There is also an accounting risk if the future taxable income is not available or too low. This is the risk that the tax benefit of loss carryforwards and tax-deductible temporary differences can no longer be recognized in full or not recognized at all, which can therefore have a negative impact on the Group's result. There is also a low risk in the medium to long term that the jurisdictions affected by the change in the transfer pricing system might make assessments that differ from one another.

The overall outcome is a risk that is to be classified as very low for the period under review.

Legal opportunities and risks

ElringKlinger is subject to a range of legal risks.

Risks relating to violations of intellectual property rights

Legal risks comprise possible violations of intellectual property rights of ElringKlinger by third parties or ElringKlinger, where the rights of third parties are concerned.

To protect its technologies and products, ElringKlinger follows an intellectual property rights strategy adapted to its business model. An in-house patent and trademark department applies for industrial property rights for the company's own development outcomes and makes sure that the company's activities do not violate the property rights of third parties. It also checks whether third parties are violating the company's property rights. The same applies to the brands used by ElringKlinger, particularly in the aftermarket business, which are also protected and monitored in this respect.

Overall, this risk is to be considered minimal.

Opportunities and risks arising from litigation

Legal risks may also arise from court proceedings and legal disputes, third-party claims and official investigations and orders. Significant risks, such as warranty and product liability risks typical for the industry, are covered by taking out appropriate insurance policies. 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.

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 2023. As far as is known, there were no other major risks compared to the previous year.

Overall, both the risk and the opportunities can be classified as very low.

Risks due to changes in statutory provisions

Legal risks can also arise where regulations that have an impact on the Group's business activities are changed. Risks to be expected because of a change to standards, such as ISO or DIN standards, come under this category too. Particular attention must be paid to the risks arising from the rapid change of standards concerning sustainability, including energy- and climate-related regulations, laws on climate protection and the energy transition, and environmental protection standards.

Against the backdrop of climate change, there are demands for stricter legislation in the transport sector and calls for sustainable mobility. In recent years, many countries have issued emission regulations for vehicles or placed time limits on the registration of new combustion engine vehicles. Therefore, manufacturers are having to transform their product portfolio in favor of electromobility. At the same time, countries are promoting new drive technologies.

With regard to future technologies, ElringKlinger operates both in the field of battery technology and in the area of fuel cell technology. 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 battery charging, is costly, e.g., in the case of trucks or buses.

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 holds a 40% stake. ElringKlinger has also entered into a strategic partnership with Airbus. This jointly operated entity, in which ElringKlinger holds a minority interest, develops and validates fuel cell stacks suitable for aviation.

Likewise, vehicle weight has an impact on environmentally friendly mobility. Lightweight solutions are of key importance to car manufacturers when it comes to reducing the fuel consumption of combustion engine vehicles or increasing the range of electric vehicles. The overall focus in this regard is always on minimizing CO_2 emissions. A lower weight also reduces tire wear and particulate pollution. Thus, lightweight construction is a key technology for the automotive industry. ElringKlinger has been mass-producing lightweight components for more than two decades.

Building on its broad product portfolio for fuel cell and battery applications, ElringKlinger considers itself to be strategically well positioned to meet current emissions regulations or even more extensive requirements. In those cases in which new registration periods for combustion engine vehicles are extended again or the start date of sales bans is postponed, as was decided in the UK in 2023, for example, ElringKlinger will be able to draw on the market position of its traditional product portfolio.

Overall, the risk – as well as the opportunities – from changes in statutory provisions can be classified as minimal.

Compliance risks

Risks to which ElringKlinger is exposed may arise from breaches of statutory or other legal requirements by managers and employees. Possible consequences include sanctions such as penalties or fines and claims for damages, which may have a negative impact on cash flows and financial performance. Such consequences may be serious, particularly in the event of antitrust law violations. Both the parent company and the subsidiaries may be exposed to the compliance risks outlined above.

As a risk mitigation measure, the Group conducts regular training sessions on compliance topics. ElringKlinger has also established a compliance-management system, which is constantly modified to reflect changing circumstances or conditions. In view of the instruments relating to the compliance management system and the corporate culture practiced at ElringKlinger, the probability of material violations occurring can be classified as low but cannot be completely ruled out. Depending on the circumstances of the individual case, the effects on Group earnings may reach a scale that could be considered significant.

Based on the scenario analysis, the risk is considered to be very low.

Operational opportunities and risks

ElringKlinger is a globally positioned manufacturing company. This creates operational risks relating to production and its influencing factors. They include manufacturing and IT infrastructure, employees, the production itself, and its goods.

Buildings and infrastructure risks

As a global Group with 45 sites, ElringKlinger always needs to be sure that business operations at all locations are running smoothly and without interruptions. The first risks to mention in this regard are site risks linked to natural hazards. Climate change is causing individual incidents such as tidal waves, floods, severe storms, or long periods of drought that are becoming ever more serious. These could lead to severe damage to buildings and infrastructure. If electricity, water, gas, or similar utilities are limited or unavailable, business activities will also be affected. Similarly, risks that fire protection systems will not work properly or that safety problems will arise exist worldwide. Poor-quality buildings can result in rising maintenance costs.

ElringKlinger addresses these risks by responding proactively and with a long-term view. Although supply risks associated with electricity, gas, and water cannot be ruled out or protected against entirely, because the company depends on upstream networks and players, the Group reduces the probability of occurrence and – where risks do occur – the downtimes with its site selection and the installation of back-up systems for sensitive areas, such as server rooms or data centers. With regard to site selection, the decision-making criteria include points such as a high level of media availability and good infrastructure as well as vulnerability to natural forces.

Forward-looking maintenance and servicing, the timely replacement of old systems, and – in cooperation with the central Real Estate & Facility Management and Purchasing departments – the regular review of service providers are among ElringKlinger's fundamental principles. In addition to regular maintenance, test runs and inspection by external experts guarantee that the fire protection and safety systems are highly secure. A standardized process specification for extinguisher maintenance ensures a minimum standard for the Group that is the same all over the world.

Construction processes may also be drawn up incorrectly, be performed in a non-compliant manner, or cause unexpected additional costs. The Real Estate & Facility Management corporate unit has experts in all main construction trades who inspect the services of external planning partners and compare them against Group-specific requirements. Employees of the corporate unit are also available as points of contact to all sites worldwide and thereby make a significant contribution to reducing errors. Before a construction project is approved, the costs are compared based on key figures from similar projects and subjected to a plausibility check, including with regard to the market price situation and construction price trend. After approval, the project is monitored using an extremely extensive project controlling system. This enables cost increases during the project's term to be identified early and offset through optimization and, where necessary, reductions.

Overall, this risk is to be classified as very low.

Personnel opportunities and risks

ElringKlinger has grown significantly in the past two decades and developed into a global Group. This creates numerous needs and requirements, both to reflect global growth and to shape the process of transformation – in the present and in the future. In this context, the ability to attract committed and qualified staff and encourage them to stay for the long term is of particular importance. Well-trained professionals are in high demand; competition within the market for qualified staff is fierce, especially in the automotive region of Baden-Württemberg. This results in risk scenarios such as high fluctuation, high wage levels, or generally low availability of personnel.

The Group also uses digital media for the purpose of recruiting skilled employees. To reach out to different target groups, ElringKlinger harnesses the full gamut of social media channels (including LinkedIn, Instagram, and Facebook), its own jobs page, and various other careers portals, as well as university partnerships. It also attends vocational training fairs. With the employee referral scheme "Bring a Talent," the company is aiming to recruit highly committed and qualified candidates from the personal spheres of employees.

To encourage employees to remain with the company, the Group offers an extensive training program. Employees can take advantage of training programs on a digital learning platform to develop their personal and professional skills. Like the global high-potential program, the Group's training plan has also been internationalized to offer the high national standard worldwide and in a harmonized manner. Additionally, a works agreement gives employees the modern option of doing their job digitally. Thanks to mobile working, employees can combine their career and family life even when work is intense.

For the Group, it is important to remain competitive at its German sites as well as internationally. In this context, the HR department regularly examines which instruments and new approaches can be applied to achieve this objective and coordinates conceptual ideas with the Works Council. If these plans are drawn up, voted on, and implemented, they may also result in efficiency gains for the Group.

On the whole, the personnel-related risks can be classed as very low. The opportunities relating to personnel, on the other hand, can be described as moderate.

IT opportunities and risks

In the digital age, IT infrastructure is permanently exposed to potential threats such as cybercrime, hacker attacks, or data privacy incidents that may affect the availability, integrity, and confidentiality of information and IT-based resources. 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 effect 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. In addition, inadequate data management can lead to difficulties in reporting and heighten the potential of misuse of sensitive data. This applies in particular to compliance with regulatory requirements, such as the EU General Data Protection Regulation. Fundamentally, it is impossible to rule out the threat emanating from such effects; they constitute a potential hazard.

The IT department of the ElringKlinger Group is constantly optimizing fail-safe standards and has established a well-tested, appropriate recovery plan to immediately ensure business continuity for scenarios involving damage. In addition, data that are of importance to operational processes are stored twice or redundant systems are deployed. As a result of the migration phase to SAP S/4 HANA in particular, the volume of data and the corresponding time required to restore data in the event of an incident has increased. 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.

ElringKlinger also sees digitalization as an opportunity. As part of its strategic direction, the Group has identified the digitalization of business processes as a success factor. Business processes are therefore undergoing an in-depth analysis and being examined for potential improvements. In a digitalized environment, supply chains can be optimized, investment decisions can be made on the basis of data, and, ultimately, new fields of business can be cultivated. The objective of the digitalization process is to make existing processes more efficient while also opening up the possibilities of new processes through digital means. Efficient organization thanks to digitalization not only creates an opportunity to noticeably reduce the Group's cost structures, but also to make a positive impact on other factors such as employee satisfaction or employer attractiveness with a better work-life balance.

Overall, this results in risks that are to be classified as moderate. The opportunities are categorized as "very low."

Production risks

Production equipment may malfunction or fail if it is not regularly maintained, or modernized or replaced in good time. This risk is greater still in the case of bottleneck machinery. At the same time, product launches and ramp-ups give rise to the risk that equipment may not be configured correctly and production operations will have to be paused or aborted completely. In addition, the automation and networking of production systems need to be taken into account, along with technical developments and innovation. With regard to production, there is also a risk that the available capacities at individual sites may not be sufficient to cover the maximum call-off orders placed by customers as part of their scheduling arrangements. In these circumstances, it may not be possible to absorb peaks in orders placed by customers as part of their scheduling arrangements. However, production bottlenecks can also arise in the event of force majeure.

Instances of force majeure may be difficult to deal with, but the other risks are mitigated or avoided by putting systematic measures in place. This includes paying particular attention to carrying out preventive or foreseeable maintenance and ensuring the availability of spare parts for machinery and equipment. The aim is to make sure spare parts can be supplied to any location in the world within 48 hours. Maintenance is carried out within the Group at set intervals. Production and maintenance staff are given comprehensive training in advance on similar equipment, while remote support facilities are also set up. Replacement investments are made in line with business principles, Ramp-up activities are based on dedicated manuals and checklists, while assets/capacity levels are installed and made available in advance of customer requirements. In this context, particular attention is paid to training employees at an early stage, while at the same time complying with ElringKlinger's global standards for the procurement and installation of machinery. Cyber risks, which also occur in production amid more widespread digitalization, are addressed proactively by a dedicated, global Operational Technology department that draws up and maintains cybersecurity standards.

The risk of a loss of production also arises when employees' occupational health and safety is not sufficiently ensured. To mitigate this risk and eliminate it as far as possible, the Group takes a proactive approach to avoid occupational accidents altogether. Clearly defined work instructions on the issue of safety, regular safety training, preventive measures in individual workplaces, a technical safety standard for systems and work equipment, and suitable protective equipment are intended to ensure that this is the case. Occupational health and safety is also covered in the Group's operating system and forms an integral part of this. To help raise employees' awareness of the potential risks, incidents involving near-misses are highlighted and communicated within the plants as a preventive measure. In addition, risk assessments are continuously prepared and updated, complemented by safety inspections. Compliance with the regulations is verified by means of regular internal audits. Any findings from these are set out in plans of action, and countermeasures are implemented as quickly as possible. Notifications of accidents are communicated across the Group, and the lessons learned from these incidents are also shared universally to help develop the organization further and avoid future accidents.

Overall, this risk can be classed as low.

Procurement opportunities and risks

Procurement risks can have an impact on the availability and cost of materials (e.g., raw materials, consumables, and supplies as well as parts, semi-finished products, and finished products from third parties) and services.

Risks associated with material availability may be linked to a shortage of raw materials on the global market, for example, or reliance on single sourcing. The risks of rising material costs may take the form of a substantial rise in the prices of materials or components, or other input parameters such as energy. This category also includes risks that could arise from contractual requirements, especially in supplier or procurement contracts.

The prices of the raw materials primarily used by ElringKlinger remain at a persistently high level. The risk of recurring or further price increases would have a direct impact on the ElringKlinger Group and, depending on the trajectory of prices, may affect it to a considerable extent. However, a flagging economy would mean that prices would be expected to fall due to lower demand, which would have less of an impact on the Group – although the effect of this would not be felt immediately while the terms of existing contracts were still ongoing.

ElringKlinger's global purchasing organization continuously monitors the situation on the procurement markets and takes measures accordingly to mitigate or avoid the risk and effects of price increases. For example, the Group's central purchasing department works constantly 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 systematically refined. From a long-term perspective, ElringKlinger is optimizing product design and improving manufacturing processes to offset price spiral effects on commodity markets.

On the procurement side, ElringKlinger negotiates optimal contractual terms with its raw material suppliers based on its own market expectations. Long-term agreements are concluded if prices are expected to rise. In some cases, however, contracts are concluded with shorter terms in order to take advantage of opportunities and to be prepared for possible price reductions. Alloying elements, such as nickel, which are used in high-grade steel alloys, are invariably 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, further negotiations are arranged with a view to passing price rises that exceed cost estimates on to customers. In addition to high commodity prices, these negotiations also factor in the sharp increase in energy and transport and staff costs. The risk here is that the 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 punching 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. As long as no price escalator clauses have been agreed, any falls in material prices work in the Group's favor.

In order to mitigate material availability risks relating to bottlenecks or non-deliveries as far as 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 minimize the risk of production-related disruption or downtime due to disruptions within the supply chain. This strategy is also designed to take effect if one of the suppliers runs into delivery difficulties for financial reasons. During the year under review, suppliers with corresponding risk profiles were again closely monitored to facilitate a quick response in the event of potential defaults and minimize the risk for ElringKlinger. As far as possible, ElringKlinger develops alternatives for commodities and materials that are either in short supply or subject to severe fluctuations in price.

Alongside the materials needed for its long-standing product portfolio, ElringKlinger sometimes uses other types of commodities and materials for battery and fuel cell* components and systems in its new business areas. It is not possible for the Group to routinely estimate the future volumes, price movements, and supplier structures with regard to these materials based on the information currently available. Overall, ElringKlinger counters this uncertainty and thus 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.

Overall, the opportunities can be classified as low, while the risks are very low.

Quality risks

ElringKlinger is a production company that manufactures products characterized by a high level of technological sophistication. This gives rise to operational risks in the form of, for example, an increase in defects, a high rejection rate, processes that are not robust, or non-standardized organizational structures or procedures. Non-standardized procedures can, in particular, arise as a result of the development of entirely new products, such as products for applications outside the automotive industry or within the field of alternative drive technologies.

In recent years, ElringKlinger has launched a number of initiatives to forge further ahead with its transformation from a medium-sized enterprise to a global corporate group. These include introducing an operating system that incorporates aspects such as robust processes, excellent product launch standards, and continuous improvement in practice. The operating system has been rolled out and implemented across the Group. Along the same strategic lines – to reduce the increasing complexity and the growing challenges of economic activities – ElringKlinger is also pursuing an initiative based on process excellence. This is one of the reasons why the Group defined Process & Performance Excellence as a strategic success factor as part of its "SHAPE30" strategy. The aim of this is to keep pace with future growth through processes, increase the degree of transparency and digitalization within the Group, and pool knowledge for future activities in a way that is not dependent on specific individuals.

In order to counter risks arising from poor product quality, ElringKlinger has implemented processes for continuous improvement 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.

Overall, the risk resulting from this can be classed as very low.

Sales opportunities and risks

In addition to external risks, ElringKlinger is also exposed to market and sales risks arising from customer-specific circumstances. These include, for example, price and volume effects or fluctuating demand due to the situation regarding competition.

* Cf. glossary

As regards the situation relating to prices, the extent to which higher prices associated with energy, staff and other costs can be passed on remains a decisive factor. ElringKlinger will continue to focus on negotiations with customers. Overall, this risk can be better managed using empirical data than at the beginning of the inflation cycle.

With regard to the market situation and the far-reaching process of transformation within the industry, sales dependency on combustion engine technology and the pace of transformation are considered to be influencing factors. This also includes the possibility of growth in the fuel cell market in general or market acceptance in individual regions falling short of original expectations.

If one or more customers are confronted with abrupt or significant declines in demand volumes on the end-customer market, this may also impact on ElringKlinger by reducing demand for products supplied by the Group. 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. 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 technology orientation is deeply rooted within the ElringKlinger Group. This generally makes substitution more difficult.

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 8.5% (2022: 7.8%) of annual revenue in 2023. Moreover, there are further sales opportunities available through global battery manufacturers setting up production in Europe and looking for local suppliers. The nomination for cell contacting systems* announced in March 2021 and the order for battery housing components, as presented in May 2023, are indicative of ElringKlinger's ability to gradually tap into a new group of customers.

Nevertheless, sales risks can sometimes arise in relation to individual orders and/or individual locations. These are most likely to be due to delays in customers giving the go-ahead on projects. In situations like these, ElringKlinger devises mitigation strategies and usually negotiates directly with the customer. In the case of new manufacturers, there will be some uncertainty around how business will develop while production and marketing are still in the initial stages. This may lead to fluctuations in orders, which will have an impact on revenue.

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 North America and Asia when it comes to penetrating new markets in order to realize growth opportunities. Nevertheless, there is a market risk due to the short-term nature of the business. The risk of dependence on the combustion engine exists only to a proportionate extent in this segment, as no more than half of the revenue is generated within the automotive business and parts of this revenue are generated in respect of alternative drive technologies. The industry segments are already highly diversified. Furthermore, products such as the rotary shaft seal have been developed that offer opportunities in the electromobility market and cushion the proportionate risk.

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. Due to its broad positioning in new drive technologies, the Group considers itself well positioned to benefit from an accelerated pace of change within the automotive sector. ElringKlinger will continue to pursue and develop this strategy as it moves forward.

In its strategic fields of the future in particular – i.e., battery technology, fuel cell technology, electric drive units, and lightweight structural components – ElringKlinger has attractive markets for sustainable revenue and earnings growth through further orders, including high-volume ones. Building on the nominations it received in 2023, the Group sees considerable potential to expand its revenue significantly in the coming years. There are sales opportunities for both new drive technologies in the E-Mobility business unit and innovative solutions in the conventional business units.

A slower transformation process would mean comparatively greater demand for combustion engine components. The Group would therefore be able to exploit its current market position in this area and make the most of the earnings this could generate. New competitors are unlikely, not only for strategic reasons, but also in light of the considerable equipment investments they would need to make to enter ElringKlinger's market segments.

Given the general level of uncertainty, overall, the Group's sales risk for the twelve-month period under review can be regarded as very high in the context of the applicable classification. At the same time, there are opportunities for the Group to exploit, which can be classed as high.

Logistical risks

Global supply chain problems could still have a severe impact on economic activity if raw materials and input materials are not available at the destinations where they are needed at the right time. This would lengthen customary cargo delivery times – potentially significantly in some cases.

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. These 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.

Logistical risks also include the risk of creating inventories of raw materials, semi-finished products, and finished products with a low turnover rate. ElringKlinger counters this by continuing to conduct regular reviews of the inventories held within the Group with regard to their turnover rate. Stocks with a low turnover rate are evaluated to determine whether they should be used, sold, or scrapped.

Overall, the risk that is likely to result from this can be classed as very low.

Overall assessment of opportunities and risks

As regards its overall assessment of the respective opportunities and risks, the Management Board comes to the conclusion that the risk status has evolved along divergent lines compared to the previous year. The aggregated net risk based on the value-at-risk concept has decreased slightly, while the anticipated impact has risen marginally. Sales risks continue to have a significant impact on the Group's overall risk profile due to the importance of customer compensation.

IT risks have increased due to advancing digitalization in the age of information technology and in view of the threats posed by hacker-led attacks and data protection incidents. Procurement risks as well as economic and strategic risks can be better managed on the basis of experience. Exchange rate risks are subject to a multitude of influencing factors, particularly for a Group operating with a far-reaching global network. Production risks have become slightly more pronounced, as have the risks associated with cooperation and equity investments.

The aim of the risk management system described above, combined with a flexible cost structure, is to allow ElringKlinger to address risks promptly by implementing appropriate measures. In the context of Group risk management, work is continuing on risk-mitigating measures and the method for identifying risks is being continuously refined. In financial terms, ElringKlinger continues to possess a robust foundation. Net debt has been further scaled back and stands at a low level, while the overall situation with regard to the financial position can be described as extremely solid. Thus, the Group continues to be in a position of strength as regards its ability to raise new funds. ElringKlinger considers itself to be well positioned, in terms of flexibility, to embrace the next stages of transformation within the mobility sector. The same applies to its ability to respond to a potential recession.

Driven by climate change and emissions legislation, the transformation of mobility provides ElringKlinger with tremendous opportunities. The key rationale behind new drive technologies is the need to reduce CO_2 emissions in the mobility sector. ElringKlinger was early to invest in forward-looking areas of business, such as battery and fuel cell technology, and is already in a position to offer a broad range of innovative solutions for alternative drive systems. The orders received in 2023 are a testament to the Group's proximity to the market and the competitiveness of its products. As a result, the Group considers itself well equipped to exploit growth opportunities worldwide. Based on current plans, 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. Should the process of transformation within the mobility sector lose momentum, ElringKlinger is in a robust position and can leverage its formidable market position relating to traditional products.

* Cf. glossary

The Group has not identified risks at present that might jeopardize its future existence as a going concern, either in isolation or in conjunction with other factors. The Group has established a broad, forward-looking, and financially robust position, allowing it to actively exploit the opportunities presented by market transformation and to apply its financial resources flexibly for the purpose of shaping change within the field of mobility. Thus, from the Management Board's perspective, ElringKlinger is well positioned to help shape next-generation mobility and tap into opportunities in other areas of application for new technologies, while maintaining a balanced opportunity and risk profile.

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, 2023, 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. The rights and obligations associated with the shares are set out in the German Stock Corporation Act. 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 direct or indirect shareholdings in the capital of ElringKlinger AG with more than 10% of the voting rights based on the shareholding figures most recently communicated to ElringKlinger AG pursuant to Sections 33, 34 of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and Sections 21 et seqq. WPHG in the version applicable prior to January 3, 2018, are listed below:

Date	Disclosed by	Shareholding
May 17, 2018	Lechler Stiftung, Stuttgart/Germany	52.04% (attributed: 51.05%)
May 17, 2018	Stiftung Klaus Lechler, Basel/Switzerland	51.05% (attributed: 51.05%)
May 17, 2018	Klaus Lechler Familienstiftung, Neuhausen a.d. Fildern/Germany	51.05% (attributed: 51.05%)
November 13, 2014	Paul Lechler GmbH & Co. KG, Neuhausen a.d. Fildern/Germany	10.03%
June 13, 2014	Eroca AG, Basel/Switzerland	29.01% (attributed: 19.80%)
June 13, 2014	Klaus Lechler Beteiligungs-GmbH, Ludwigsburg/Germany	29.01% (attributed: 28.43%)
June 13, 2014	KWL Beteiligungs-GmbH, Ludwigsburg/Germany	29.01% (attributed: 28.43%)
June 13, 2014	Paul Lechler Stiftung gGmbH, Ludwigsburg/Germany	29.997% (attributed: 29.01%)
June 13, 2014	Lechler Beteiligungs-GmbH, Stuttgart/Germany	29.01% (attributed: 19.55%)
June 13, 2014	Inlovo GmbH, Ludwigsburg/Germany	29.01% (attributed: 29.00%)
June 13, 2014	Elrena GmbH, Basel/Switzerland	29.01% (attributed: 19.26%)

No shareholder is equipped with special rights constituting controlling powers. The Management Board is not aware of any restrictions relating to voting rights or the transfer of shares.

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 dismissal of Management Board members is performed in accordance with Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 31 (2–5) MitbestG. 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 dismissal 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.

Pursuant to the resolution of the Annual General Meeting on May 19, 2022, the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period up to May 19, 2027, through the issue of new shares for cash/non-cash contributions, in one or more stages, by an aggregate of no more than EUR 31,679,995 (Authorized Capital 2022). Fundamentally, shareholders are to be furnished with a subscription right. The shares may also be taken up by one or several banks, with the proviso that said shares shall be offered to shareholders for subsequent subscription. However, the Management Board shall be authorized, with the consent of the Supervisory Board, to exclude the subscription right of shareholders

- in order to eliminate fractional amounts;
- if and when the increase in share capital is executed for a non-cash contribution in particular for the purpose of acquiring companies, parts of companies, or shareholdings in companies or other assets associated with acquisition plans or as part of business combinations and the shares issued with an exclusion of the subscription right represent no more than 10% of the share capital in total, this being the case neither at the date at which this authorization comes into effect nor at the date at which it is exercised;
- if and when the new shares are issued for a cash contribution and the issue price for each new share is not significantly below the market price of the existing exchange-listed shares and the shares issued with an exclusion of the subscription right pursuant to Section 186(3) sentence 4 AktG represent no more than 10% of the share capital in total, this being the case neither at the date at which this authorization comes into effect nor at the date at which it is exercised. Shares that are issued or sold during the validity of this authorization with the exclusion of subscription rights, in direct or analogous application of Section 186(3) sentence 4 AktG, shall be included in the maximum limit of 10% of share capital.

The conditions and details of share issuances from Authorized Capital 2022 shall be determined by the Management Board with the approval of the Supervisory Board. The Management Board has not yet made use of this authorization.

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 combined 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 https://elringklinger.de/en/company/corporate-governance/corporate-governance-statement

Combined Non-Financial Report

ElringKlinger has prepared a separate combined non-financial report for the 2023 financial year in accordance with Sections 289b and 315b HGB*, which is included in the 2023 Annual Report as a separate section entitled "Combined non-financial report." The 2023 annual report is to be published on March 27, 2024, on ElringKlinger's website at https://elringklinger.de/en/investor-relations/reports-presentations/financial-reports-pulse-magazine.

Report on Expected Developments

Forecasts by economists suggest that global economic growth will remain subdued in 2024. Based on projections by the International Monetary Fund (IMF), global GDP growth is likely to remain unchanged year on year at 3.1%. According to market analysts, global automotive production is set to decline by 0.4% compared to 2023. ElringKlinger is currently operating in a complex market environment characterized by a high degree of uncertainty and volatility. In pursuing its transformation, the Group anticipates profitable growth for the future. Particularly in view of the series production nominations secured by ElringKlinger, this means that the Group can look forward to achieving organic revenue growth, expanding its adjusted EBIT margin in the medium term, and generating operating free cash flow at a sustainable level.

Outlook – Market and Sector

Global economy set for modest growth

Based on current estimates, global economic growth in 2024 is again likely to be tepid, with figures remaining subdued and below average in a multi-year comparison. In its global economic outlook published in January 2024, the IMF forecasts that growth in 2024 will be on a par with the previous year's figure at 3.1% – without any signs of immediate acceleration.

The US economy and several emerging markets remain much more resilient than expected, which should provide an economic tailwind. Likewise, fiscal policy stimulus in response to a lackluster Chinese economy is likely to have a positive impact. According to the IMF, global inflation is set to fall further in 2024 from an average of 6.8% in 2023 to 5.8%, despite the fact that a potential cut in key interest rates is not expected before the middle of the year.

Among the downside factors for growth, economists see an increasing number of trade barriers, which may impede global trade in particular. In this context, the IMF refers to geoeconomic fragmentation, which is attributable to political intervention in international economic relations, thus resulting in deglobalization. Export-driven economies such as Germany would be among those most affected by the detrimental effects. Geopolitical crises such as the protracted war in Ukraine, hostilities associated with the rekindled conflict in the Middle East, or potential environmental disasters caused by climate change also harbor economic uncertainties, for example in the form of supply-side disruptions or spiraling commodity prices.

According to forecasts made by independent bodies[8], the US economy looks set to benefit from stronger corporate investment and robust consumer spending in 2024, underpinned by government stimulus programs, and is likely to take a prominent position among the industrialized nations. By contrast, Europe is expected to contribute very little to global growth, as the region is facing a high cost of living and consumer restraint, unfavorable refinancing conditions as a result of restrictive monetary policy, and sluggish global trade. In China, the world's second largest economy, problems within the real estate market are having adverse effects on economic performance.

GDP growth projections

Year-on-year change in %	2023	Projections 2024
World	**3.1**	**3.1**
Advanced economies	1.6	1.5
Emerging and developing countries	4.1	4.1
Eurozone	0.5	0.9
Germany	-0.3	0.5
USA	2.5	2.1
Brazil	3.1	1.7
China	5.2	4.6
India	6.7	6.5
Japan	1.9	0.9

Source: International Monetary Fund (Jan. 2024)

Light vehicle production

	Million units		Year-on-year change
Region	2023	Projections 2024	
Europe[1]	17.3	16.7	-3.6%
China	29.0	29.7	2.3%
Japan/Korea	12.8	12.1	-5.3%
Middle East & Africa	2.3	2.3	-1.0%
North America	15.7	15.8	0.6%
South America	2.9	2.9	-0.8%
South Asia	9.8	9.8	0.8%
World	**90.3**	**90.0**	**-0.4%**

[1] Without Russia
Source: S&P Global Mobility (Feb. 2024)

No economic tailwind for auto production

With supply chain problems having eased in the previous year, vehicle manufacturers were able to tackle pent-up order backlog and expand their inventory levels. Against this backdrop, market analysts estimate that car production in 2024 will once again be driven to a larger extent by demand-side markets and underlying economic conditions. According to estimates by industry institute S&P Global Mobility, global automotive production of light vehicles (passenger cars and light commercial vehicles) will decline slightly overall in 2024. Accordingly, 90.0 million vehicles are expected to roll off the production lines, down 0.4% on 2023.

As regards this overall figure, however, trends in the individual regions are still expected to vary considerably. China, the world's largest single market, is likely to step up production of vehicles destined for export, particularly in the e-mobility segment. Having said this, Chinese output, which has long since exceeded the pre-crisis level of 2019 (24.7 million vehicles), is not expected to gain much momentum in 2024. European vehicle production, which is exposed to increasing cost-related pressure, is expected to dip slightly in 2024 and remain well below its 2019 level (19.5 million vehicles) with a volume of 16.7 million vehicles. Meanwhile, North America, at 15.8 million light vehicles, should be able to come close to its pre-crisis level of 2019 (16.3 million vehicles).

[8] Statements on projections relating to economic performance are based on the company's own research in conjunction with publications by independent institutes and bodies such as the IMF, the OECD, and the German Federal Ministry for Economic Affairs and Climate Action.

Sluggish demand for cars and light vehicles around the globe

Against the backdrop of dynamic trajectories in 2023, the outlook for sales markets in 2024 is much more subdued. According to the German Association of the Automotive Industry (Verband der Automobilindustrie – VDA), the global passenger car market is expected to see a modest increase of around 2.0% to 77.4 million vehicles in terms of newly registered passenger cars and light vehicles. This would push the total close to the level of pre-crisis 2019, when 78.8 million units were sold.

From a regional perspective, Europe (excluding Russia) would see an increase of around 4.0% to 13.3 million cars, the USA would experience growth of around 2.0% to 15.7 million light vehicles, China would see an expansion of around 1.0% to 26.1 million cars, and Brazil could look forward to growth of around 5.0% to 2.3 million light vehicles. According to the VDA's assessment, the German market remains weak and is expected to decline by one percent to 2.8 million newly registered cars.

Commercial vehicle markets lose momentum

Compared to the previous year, which benefited from the release of pent-up demand and improved supply chains, sales and production figures for the global commercial vehicle market are expected to be lackluster overall in 2024. The market institute S&P Global Mobility has forecast just a slight uptick of 1.2% in global commercial vehicle production (including buses) in 2024. The heavy-duty truck segment (from 16 tons), which represents around two-thirds of the volume, is forecast to decline slightly by around 1.0%. Based on the data provided, the truck sector is expected to see a particularly sharp decline of 11.5% in Europe (excluding Russia) and 13.4% in the USA, reversing the substantial growth rates recorded in the previous year. By contrast, the South American market is expected to expand by 14.7% – partly due to the fact that this region had recorded a substantial decline in 2023.

Outlook – Company

In the following sections, ElringKlinger presents and elucidates its forecast for the Group in respect of both the current financial year 2024 and the medium term. The Group defines this as a period of 3 to 5 years.

Business environment marked by high degree of uncertainty and volatility

The economic environment continues to be dominated by a high degree of uncertainty and volatility. Amid the protracted war in Ukraine, the Middle East has been faced with a rekindled conflict in the region. Global supply chains are being jeopardized by armed aggression, as experienced at the southern entrance to the Red Sea, for example. Despite these circumstances, global light vehicle production recovered in the past financial year as it emerged from the mire of the coronavirus pandemic and grew by 9.7%. Although inflation eased somewhat, it remained at a comparatively high level. Similar price trends can be observed in many parts of the commodity market.

Added to this is the mixed macroeconomic performance of the individual countries in which ElringKlinger operates. While GDP in the United States, for example, grew by 2.5% in the financial year just ended, GDP in China rose by 5.2%, and European economies such as France, Spain, and Italy also showed signs of expansion, the economy in Germany, the Group's home country, contracted by 0.3%.

Against this backdrop, it is still not possible to paint a consistent picture with regard to global economic – and political – conditions in the current financial year 2024. The same applies to the global automotive markets, measured in terms of expected light vehicle production. Moreover, external factors such as unforeseeable consequences of geopolitical conflicts, trade barriers, extreme weather events, or further waves of the pandemic may influence the direction or scale of projected developments at any time.

High-volume nominations for e-mobility applications

The numerous nominations received in the financial year just ended have helped to underpin the Group's transformation path in the form of concrete revenue expectations. These include high-volume nominations, such as from the BMW Group for cell contacting systems for its so-called "Neue Klasse" ("New Class") or from a global Tier 1* supplier for battery housings.

Orders return to normal levels after strong previous periods

Nominations have to be distinguished from the Group's order intake* and order backlog. Order backlog refers to the customer call-offs, systematically recorded, executed as part of their delivery scheduling arrangements, which extend over periods of several months up to 24 months from the date of data collection. Order intake encompasses the changes in these call-offs within a specific period.

Order intake totaled EUR 1,690.5 million in the financial year just ended (2022: EUR 1,874.1 million). Alongside the buoyant first quarter of 2023 with EUR 474.9 million, the fourth quarter of 2023 in particular contributed to the full-year figure with order intake of EUR 465.0 million. Declining by EUR 183.6 million or 9.8% year on year, order intake returned to a more normal level after the particularly dynamic intake in previous years. Currency developments had a dilutive effect. Assuming constant exchange rates, the Group received orders worth EUR 1,725.5 million, which would have reduced the year-on-year decline by 1.9% or 190 basis points.

This trend is reflected in order backlog, which encompasses customer call-offs executed as part of their scheduling arrangements: it amounted to EUR 1,305.2 million at the end of the year and was therefore EUR 156.7 million or 10.7% below the previous year's level. The effects of currency translation were negligible at EUR 8.8 million or 60 basis points.

Expansion in revenue, fueled in part by ramp-up of high-volume orders

Despite the challenges seen within the wider business arena, the Group anticipates further growth. This will be driven primarily by ramp-ups relating to high-volume orders in the field of new technologies, e.g., in the context of the nomination for cell contacting systems to be supplied to a global battery manufacturer with a total volume in the mid triple-digit million euro range. This is based on the assumption that global production markets develop in line with expectations. Industry service provider S&P Global Mobility has forecast a slight global decline of 0.4% – with growth in China (+2.3%) and North America (+0.6%), driven in both cases by all-electric and hybrid vehicles. On this basis, the Group anticipates slight organic growth in revenue compared to the previous year. In the medium term, i.e., over a period of 3 to 5 years, the Group expects revenue to increase at an annual growth rate of around 5 to 7% on the basis of the nominations received.

Predicting currency effects remains difficult. Acquisitions cannot be ruled out for the 2024 financial year either. The management is constantly reviewing opportunities of this kind, prioritizing the acquisition of companies that would either be a logical complement to ElringKlinger's existing product portfolio or give it better market access. Any such transactions are unlikely to be much larger in volume terms than those carried out to date. Similarly, disposals of segments or parts of segments cannot be ruled out as things stand.

Raw material, energy, and transportation costs remain high

In the wake of the coronavirus pandemic and geopolitical conflicts, commodity prices have risen sharply in some cases in recent years. This also applies to the direction taken by prices of some of the raw materials used by ElringKlinger, particularly in comparison to previous years. Even though market prices for certain commodity groups have eased slightly recently, they remain elevated overall. Energy and transportation costs have also risen. Fundamentally, ElringKlinger anticipates that prices will remain high, particularly in light of the ongoing geopolitical conflicts. Escalating tensions or unforeseeable events, such as natural disasters or logistical restrictions, could trigger a new price spiral.

Adjusted EBIT highlights operating profitability

ElringKlinger calculates "adjusted EBIT" and expresses it in relation to revenue (as the "adjusted EBIT margin") for the purpose of comparing operating profitability over several periods without the influence of non-recurring items. Adjusted EBIT is defined as reported EBIT without the amortization of intangible assets from purchase price allocation* (PPA), changes in the scope of consolidation, and exceptional items. Exceptional items here include, in particular, gains and losses from non-recurring events, such as impairments (including impairments to goodwill), reversals of write-downs, restructuring costs (including severance payments), and gains and losses on disposal from M&A* activities.

* Cf. glossary

Earnings influenced by order-related ramp-ups and transformation costs

In view of the difficult macroeconomic environment, the Group's earnings performance is influenced by numerous factors. In the coming years, the Group will be commencing work on several large-scale series production orders, which are associated with corresponding ramp-up costs prior to the start of production. At the same time, the costs attributable to inputs – i. e., raw materials, energy, transportation, and wages – are at a fundamentally high level and are evolving along divergent lines. There are signs of more favorable trends in certain commodity groups, while wages in Germany, for example, are facing new collective bargaining rounds, which may translate into higher wage costs. Overall, ElringKlinger therefore anticipates an adjusted EBIT margin* of around 5% of Group revenue for 2024; no adjustment items are expected at the time of reporting. In the medium term, the Group expects to be able to increase its adjusted EBIT margin to a figure of around 7%.

Operating free cash flow in positive double-digit million euro range

Operating free cash flow is driven primarily by operating profitability, investments, and the development of net working capital*. Based on the projections for these financial indicators, the Group anticipates that operating free cash flow will be in positive double-digit million euro territory. In relation to projected Group revenue, the management estimates a figure in the region of approximately 2% for the 2024 financial year. In the medium term, this metric is expected to improve further, as a result of which a figure of around 3% is conceivable.

Double-digit ROCE in the medium term

The Group measures its overall profitability on the basis of return on capital employed (ROCE*). Given the multitude of external influencing factors and the fundamentally high degree of uncertainty and volatility, the Group expects a figure of around 6% for 2024. In the medium term, the Group anticipates a percentage figure of around 11%.

Further reduction in net debt-to-EBITDA ratio

In the financial year just ended, ElringKlinger was able to reduce its net financial liabilities to EUR 323.2 million, despite further growth in sales revenue. In conjunction with the anticipated improvement in profitability, the Group expects to keep the net debt-to-EBITDA ratio (net financial liabilities as a percentage of EBITDA) below the 2.0 threshold in the 2024 financial year. This figure is also being targeted in the medium term.

In the short and medium term, the Group expects an equity ratio of 40 to 50%, the same target range in which this key indicator has remained for several years now.

Research and development efforts within consistent range

As a technologically oriented Group, ElringKlinger is focused on developing innovative solutions for its customers and opening up new areas of business. The Group makes targeted use of its expertise to serve the root-and-branch transformation of the industry in order to develop new products. Overall, the Group is and remains committed to investing around 5 to 6% of its revenue (including capitalized costs) in research and development in both the short and medium term.

Targeted and disciplined investment approach

ElringKlinger will continue to pursue its disciplined investment approach over the course of the current financial year, while embracing the task of ongoing transformation. This includes targeting investments in property, plant, and equipment primarily at the strategic fields of the future and at orders received within the area of new drive technologies. Investment activities in the Group's traditional fields of business will also continue to be actively managed. The Group always considers the need, timescale, and financial commitment required very carefully before embarking on any measures. Overall, the Group is anticipating an investment ratio (in property, plant, and equipment as a percentage of Group revenue) of between 4 and 6% both for the current financial year and in the medium term.

Further improvement in net working capital ratio

The Group is committed to further optimizing its net working capital* ratio, i. e., net working capital as a percentage of Group revenue. To this end, it is looking to reduce trade receivables, extend liabilities-side payment terms, and manage inventories prudently, including in times of general supply chain problems. Against this backdrop, the Group expects the figure for year-end 2024 and in the medium term to be below the level of 25% of Group revenue.

Original Equipment segment

With a revenue share of more than 75%, the Original Equipment segment constitutes the largest segment within the Group. The Group's large-scale series production orders were won in this segment and, as a result, the associated ramp-ups are a key determinant of both the Group's and the segment's performance in respect of revenue. Against this backdrop, it can be assumed that this segment will see slight organic revenue growth in the 2024 financial year. Its adjusted EBIT margin is expected to be just within positive territory.

Engineered Plastics segment

Operating with a wide-ranging product portfolio, the Engineered Plastics segment is capable of serving a broad, cross-industry spectrum of customers. It will continue to benefit from two key trends in the future: the transformation within the automotive industry and the megatrend of miniaturization in the medical industry, complemented by the upturn in the semiconductor industry and the emergence of renewable energy technology, such as hydrogen production and energy storage. There is scope for additional market potential to be leveraged since the properties of the high-performance plastics used make them ideal for a wide range of applications. As a result, the Group expects revenue growth in this segment to be well above the Group average in the 2024 financial year. Even if prices for materials remain at an elevated level, the adjusted EBIT margin is expected to be well above the Group average in 2024.

Aftermarket segment

Aftermarket segment revenue has increased significantly in recent years. Embracing a growth strategy, the segment has penetrated new markets such as the Americas region and China. On this basis, the Group again anticipates moderate revenue growth in this segment for the current 2024 financial year. In this context, possible risks from geopolitical tensions in the sales markets of Eastern Europe and the Middle East on the one hand and opportunities from continuing efforts surrounding the successful pursuit of the growth strategy in the Americas and China on the other must be taken into account. The Group is expecting this segment to achieve an adjusted EBIT margin significantly above the Group average in 2024.

Parent company ElringKlinger AG

ElringKlinger AG, the Group's parent company, accounts for around 40% of Group revenue and therefore plays a prominent role within the Group. With its broad product portfolio, it is primarily focused on mobility and is therefore anticipating an upturn in revenue, particularly in the strategic fields of the future. Assuming that core business in its long-standing units remains solid, this means that the company's revenue in 2024 is expected to grow by around 5% compared to the previous year.

The situation with regard to orders at the parent company developed more or less in line with the Group compared to the previous year. Order backlog at year-end 2023 amounted to EUR 532.3 million (Dec. 31, 2022: EUR 584.0 million). Inventories were down by EUR 51.7 million or 8.9% as a result of inconsistent call-off patterns among customers in connection with their ongoing production scheduling.

As is the case for the Group, the parent company is also affected by a number of factors that have an influence on earnings performance. First and foremost, the persistently high level of commodity, energy, and logistics prices had an adverse effect on earnings. At the same time, staff costs look set to rise if the upcoming round of collective bargaining in Germany pushes wages higher. Overall, the adjusted EBIT margin is expected to be around 6% in the 2024 financial year. Reflecting higher capital spending, the figure for ROCE is set to come in moderately below the level for the Group as a whole. The parent company is expected to generate operating free cash flow in the low to mid double-digit million euro range.

* Cf. glossary

Outlook – ElringKlinger Group

The Group's main indicators for its 2024 outlook and in the medium term are presented in the following table.

Key financial control criteria of the ElringKlinger Group	2024	Medium term (3 to 5 years)	Actual 2023
Revenue	Slight organic growth	Organic growth of 5 to 7% annually	+4.6%
EBIT margin (adjusted)	Approx. 5% of Group revenue	Approx. 7% of Group revenue	5.4%
Operating free cash flow	Approx. 2% of Group revenue	Approx. 3% of Group revenue	2.0%
ROCE	Around 6%	Around 11%	5.6%
Other control criteria			
Net debt-to-EBITDA ratio	Under 2.0		1.6
Equity ratio	40 to 50% of total assets		45.3%
Other indicators			
R&D costs (including capitalized costs)	Approx. 5 to 6% of Group revenue		5.2%
Investments in property, plant, and equipment	Approx. 4 to 6% of Group revenue		3.9%
Net working capital ratio	Under 25% of Group revenue		25.2%

Dettingen/Erms, March 26, 2024

The Management Board

Thomas Jessulat
CEO

Reiner Drews

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