

COMBINED
NON-FINANCIAL REPORT 2020

H₂



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This non-financial Group report has been combined with the non-financial report of the exchange-listed parent company ElringKlinger AG and relates to the 2020 financial year. Unless otherwise specified, the information presented refers to the ElringKlinger Group in its entirety.

The combined non-financial report has been prepared in accordance with the legal provisions set out in Section 289b et seqq. and Section 315b et seqq. of the German Commercial Code (Handelsgesetzbuch – HGB) and, in the interest of focused reporting, does not currently follow a specific framework. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was commissioned to review the combined non-financial report of ElringKlinger AG for the period from January 1, 2020, to December 31, 2020, in the context of a limited assurance engagement.

For purposes of linguistic simplification, this report avoids the simultaneous use of both forms of grammatical gender (masculine and feminine). General designations referring to people relate to all persons, irrespective of gender.

As in previous years, the Group plans to publish a comprehensive sustainability report later in 2021.

Business model of the ElringKlinger Group

The ElringKlinger Group has established itself as an independent, globally positioned development partner, original equipment manufacturer, and series supplier within the automotive industry. The company's product portfolio consists of components for the drivetrain, body, underbody, chassis, and exhaust system in passenger cars and commercial vehicles. This includes innovative lightweighting concepts, thermal and acoustic shielding systems, and sealing technology as well as cutting-edge battery and fuel cell systems and the electric drive train. Beyond the automotive industry, the portfolio includes cross-industry products made of high-performance plastics as well as various machinable thermoplastic materials. Marketed under the "Elring – das Original" brand, ElringKlinger also supplies an extensive range of spare parts.

Operating as a global player in 21 countries and employing close to 10,000 people, ElringKlinger is active primarily in the three principal economic regions of Europe, North America, and Asia-Pacific. As of December 31, 2020, ElringKlinger had 39 production facilities, four sales offices, one logistics center, and one company operating solely within the area of aftermarket sales. ElringKlinger maintains

direct lines of contact with the majority of the world's major vehicle and engine manufacturers. In order to actively exploit the benefits of global interaction, ElringKlinger purchases raw materials in a number of different countries and has established an extensive network of suppliers for this very purpose. Around two-thirds of these goods are procured from Germany, China, and the United States.

The Group has categorized its operating business into four segments: Original Equipment, Aftermarket, Engineered Plastics, and Other. The Original Equipment segment, in turn, comprises several business units. In organizational terms, the Aftermarket and Engineered Plastics segments correspond to business units.

For ElringKlinger, acting in a sustainable manner is an integral part of its long-term corporate strategy aimed at increasing enterprise value. The objective is to combine long-term economic success and growth in all areas of business with the preservation of social and ecological interests. Values, actions, and goals derived from aspects of sustainability are therefore reflected in the Group's guidelines.

Determining materiality

ElringKlinger conducted a materiality analysis for the purpose of determining matters of significance and compliance with statutory obligations in respect of environmental, social, and employee-related matters, respect for human rights, and anti-corruption and bribery matters (Section 289c(3) HGB). In this context, internal experts from all relevant areas of the company, such as Human Resources, Legal

Affairs, Quality, Purchasing, and Strategic Communications, evaluated and prioritized the possible fields of action in respect of their business relevance and possible effects on these aspects. The main focus was, above all, on those issues that are significantly influenced by the business model and the value chain. As a result, ElringKlinger expanded its reporting to include the topic of occupational

health and safety. Among these issues, there is a particularly high relevance in relation to the business operations of the ElringKlinger Group; these business operations, in turn, have an especially strong impact on the reportable matters. The exception is the social aspect, where no major issues were identified. The six key matters identified are:

- Combating bribery and corruption
- Responsibility in the supply chain
- Environmentally-friendly mobility
- Environmental protection in production
- Occupational health and safety
- Targeted recruitment and development of employees

Risk assessment

As regards the sphere of activity of the business operations covered in the combined non-financial report of ElringKlinger AG, no significant risks were identified that are associated with its own business activities and for which the business activities are very likely to have or will in future have a severe negative impact on the reportable aspects. The risk assessment applies both to the Group's business activities and its business relations as well as the products and services of the ElringKlinger Group.

Risk management is seen as an all-embracing function within the company. As such, new risks that may potentially arise are incorporated into the existing risk management system. Relevant risk assessments have been performed by teams of experts for all significant issues presented in this non-financial report; they are continuously updated and reviewed.

Combating bribery and corruption

At ElringKlinger, embracing and meeting corporate responsibility are essential prerequisites for all business activities. Among other aspects, this includes compliance with existing laws and rules. To this end, Group-wide guidelines apply to all employees around the world.

Given the global nature of its business activities, ElringKlinger is subject to national legislation as well as various political, social, and cultural conditions. ElringKlinger has a compliance management system (CMS) in place for the early detection and prevention of breaches of applicable guidelines and laws. The aim is to avoid violations of statutory provisions, such as incidents of corruption and bribery or non-compliance with antitrust law, which, in addition to reputational and financial risks, can also have personal consequences under criminal and labor law. The CMS is based on the three fundamental principles of prevention, detection, and investigation of compliance violations and, in addition to binding compliance rules, also includes requisite measures to comply with laws and directives and to act and behave responsibly.

The “Vision and Mission” guideline, which contains fundamental values and goals of the Group, was drawn up to prevent infringements. The code of conduct and the corporate code, which in turn are complemented by further, more detailed guidelines for the specific areas, have been defined on this basis. The code of conduct includes information relating to the issues of corruption, gratuities, and conflicts of interest. The code serves as an orientation for all employees and as a benchmark for professional interaction. ElringKlinger’s corporate code includes guidelines on how to deal with gifts and instances of attempted bribery. ElringKlinger expects each and every employee to assume responsibility when it comes to actively protecting and upholding the company’s values, and to neither endorse nor tolerate corrupt conduct relating to gratuities from or to business partners.

The Chief Compliance Officer (CCO) is responsible for implementing, structuring, and refining the CMS. The CCO reports all events that occur directly to the CEO, who is responsible for ensuring compliance with legal requirements and internal guidelines. In addition, the Group has regional compliance officers in the high-revenue regions of North and South America, Asia, and Europe who report directly to the CCO. The compliance organization actively follows up on indications of potential compliance-related violations in order to clarify critical issues as quickly as possible and initiate appropriate measures. Such notifications can be submitted via the whistleblower system as well as by telephone, e-mail, or in a personal conversation.

In 2020, ElringKlinger rolled out the “Global Case Management” template across the Group. It structures the procedure for dealing with compliance-related allegations and supports the regional compliance officers in dealing with notifications. In addition, four regular meetings were convened for the first time in the financial year under review, as part of which the regional compliance officers exchanged information with the CCO on the main developments in their area and received training with regard to new programs.

Due to the importance of compliance issues for the Group as a whole, all new employees receive a copy of the code of conduct and corporate code upon joining the company. Furthermore, compliance training is provided in particularly sensitive areas, e.g., for employees from Sales, Purchasing, or Project Management. Due to the coronavirus pandemic, such training was conducted mainly online in 2020 at the company’s sites in Germany and Switzerland. In this

context, the issues of competition law, corruption, and dealing with gratuities and conflicts of interest were dealt with in greater depth.

Fundamentally, risks relating to infringements within the area of corruption and bribery exist throughout the entire

ElringKlinger Group. However, in view of its firmly established corporate culture and expanded CMS, ElringKlinger considers the risk of significant compliance infringements to be low. ElringKlinger was not aware of any case in 2020 in which significant breaches in connection with bribery and corruption occurred within the parent company or the subsidiaries.

Responsibility in the supply chain

ElringKlinger's business activities are subject to exacting standards and requirements. The same high standards also apply to the Group's suppliers. For this reason, an essential element of ElringKlinger's long-term strategy is to work only with suppliers who acknowledge their responsibility with regard to applicable labor, social, and environmental standards and are committed to meeting them accordingly.

At ElringKlinger, the Central Supplier Management department is responsible for selecting and qualifying new suppliers. In parallel with the transition in ElringKlinger's product portfolio, the requirements with regard to supplier management are also changing, as the new fields of business that are an increasing focal point require a large number of new suppliers. In addition, components and systems are becoming ever more complex, prompting an increase in the overall testing workload.

ElringKlinger has set out all requirements in a supplier handbook that was introduced in 2019. At the beginning of 2020, as part of this new approach, all ElringKlinger suppliers were asked to accept the handbook and comply with the aspects covered within it. ElringKlinger aims to achieve an acceptance rate of 70% by the end of the 2021 financial year. The handbook is based on the principles of the International Labour Organization (ILO) and the IATF 16949 standard and covers aspects such as compliance, social and working conditions, and corporate integrity. ElringKlinger also sets great store by environmentally sound operational management and structured conduct and procedures with regard to the implementation of corporate environmental

policy. The Group therefore requires its suppliers to have a quality management system certified to ISO 9001 and IATF 16949 and an environmental management system certified to ISO 14001 or EMAS. In 2020, approximately 90% (2019: approximately 87%) of suppliers were certified according to the quality management standard ISO 9001, around 48% (2019: around 42%) were certified to environmental management standard ISO 14001, and roughly 43% (2019: roughly 40%) were certified to IATF 16949, the quality management standard for the automotive industry. ElringKlinger's aim is for all suppliers to meet ISO 9001 and, by the end of 2023, for 60% of suppliers to be certified to IATF 16949 and ISO 14001.

Each year, Supplier Management conducts supplier audits in accordance with the VDA 6.3 standard in order to review compliance with the required standards. In the event of any deviations from the requirements in the supplier handbook, appropriate remedial measures must be implemented within a defined period of time. The implementation of the measures is then reviewed. Significant deviations can result in the supplier relationship being terminated immediately. While 118 audits were conducted on the basis of the

applicable quality and environmental guidelines in 2019, it was only possible to carry out 48 supplier audits on the basis of the new supplier handbook in 2020 due to the coronavirus pandemic and the related protective measures and travel restrictions. In some cases, these audits also covered sustainability and data protection.

Besides reviewing existing suppliers, the Central Supplier Management department is also responsible for selecting and qualifying new suppliers. For this purpose, the list of criteria for supplier selection includes sustainability criteria such as compliance with labor, social, and environmental standards as well as traditional aspects such as supplier quality, reliability, and liquidity. In addition, regular management reporting provides the Management Board with information on the current situation and developments in supplier management.

With regard to the responsible use of raw materials, ElringKlinger uses the "International Material Data System" (IMDS). In addition, information collected from all automotive suppliers on the material and chemical composition of

semi-finished products and components is passed on to ElringKlinger and customers. The advantage of the system is that all key automotive suppliers and suppliers throughout the supply chain can store their data in a single system so as to create transparency over the exact contents and enable components to be disposed of in an environmentally responsible manner at the end of their life cycle. The database is also used as a platform for quickly checking the countries of origin of conflict minerals. Among other things, the US legislation on conflict minerals (Dodd-Frank Act) requires companies to disclose the origin of certain raw materials. This is intended to rule out the possibility of conflict minerals such as tantalum, gold, tungsten, and tin from the Republic of Congo or neighboring countries from being incorporated into products via supply chains. Although ElringKlinger does use small quantities of several of the aforementioned materials, it does not source these from the countries stated. An analysis of raw materials procured by the ElringKlinger Group in 2020 based on supplier information provided no evidence that conflict minerals were being sourced from the regions listed above.

Environmentally-friendly mobility

Over a period spanning more than two decades, ElringKlinger has been steadily gearing up for the transformation to zero-emissions mobility. To this end, the Group took the decision very early on to focus its activities on the development of innovative, emission-neutral concepts tailored to market requirements. Over the long term, ElringKlinger aims to generate at least 25% of its revenue from products with higher efficiency and lower emissions, such as batteries and fuel cells, electric drive systems, and lightweight structural components.

Consumer interest in all-electric vehicles has been steadily growing. Alongside solely battery-powered drives, next-generation technology centered around hydrogen-based fuel cells is playing an increasingly prominent role – with all the advantages it offers. Due to the fact that hydrogen – like fossil fuels currently in use – is storable, the point of energy production is separate from the point of energy consumption. In addition, propulsion by fuel cells can be considered CO₂-neutral, provided that the hydrogen has been generated by wind, solar, or hydro power. ElringKlinger anticipates that both the battery and the hydrogen-based fuel cell will be of relevance to future forms of mobility. In this context, ElringKlinger expects battery technology to be deployed for short distances, while fuel cells will initially be used in buses and commercial vehicles.

In recent years, therefore, ElringKlinger's management has focused on preparing the Group for the current transition within the market along the lines of its core competences of coating, punching, embossing, forming, and plastic injection molding. The aim here is to make the company independent of combustion engine technology on the one hand and implement environmentally friendly solutions for mobility on the other – an objective that is also enshrined in the Group's mission statement. For instance, ElringKlinger has products relating to battery, fuel cell, and electric drive unit applications that are being actively marketed or are already in series production.

Within the field of fuel cell technology, ElringKlinger's development activities center on mobile applications and

therefore on the low-temperature PEM (proton exchange membrane) fuel cell system. The Group offers both complete fuel cell stacks and individual metallic bipolar plates and plastic media modules in three different performance categories. In 2020, ElringKlinger made far-reaching strategic decisions in this product area. First, ElringKlinger entered into a long-term partnership with the aerospace company Airbus with the aim of making aviation as climate-neutral as possible through the use of fuel cells – a response to the limited supply of fossil fuels and the impact of climate change. Secondly, ElringKlinger and the French automotive supplier Plastic Omnium agreed to work in close collaboration with one another. The subsidiary EKPO Fuel Cell Technologies, in which Plastic Omnium has taken a stake, will be looking to drive forward the development of hydrogen-based mobility and play a leading role within the fuel cell market.

Within the area of battery technology, meanwhile, ElringKlinger offers not only components but also complete battery systems based on prismatic and cylindrical cell architectures.

As regards the electric drivetrain, ElringKlinger has held an interest in the hofer powertrain Engineering Group since 2017. The Nürtingen-based company specializes in products such as e-machines, power electronics, transmissions, thermal management/cooling, and safety concepts. Innovations centered around electric drivetrains can be more swiftly industrialized at domestic and foreign production subsidiaries in a concerted effort with the ElringKlinger Group, which contributes its expertise in production methods, industrial-scale manufacturing, and process development. During the year

under review, preparations were made for series production of new orders at various Group locations in Germany and internationally, with the result that production can now commence, for example, at ElringKlinger's UK subsidiary.

Vehicle weight is also of central importance when it comes to eco-friendly mobility. Less weight helps to reduce fuel consumption and thus also CO₂ emissions. It also reduces tire wear, which translates into lower particulate pollution. ElringKlinger's portfolio therefore comprises both engine-related plastic components such as oil pans and cam covers that replace traditional metal parts and polymer/metal hybrid components for lightweight structural components used in vehicle bodies.

In 2020, ElringKlinger established the Metal Sealing Systems & Drivetrain Components business unit, the aim being to transfer existing expertise in sealing components from the combustion engine to the new drive concepts and

to evolve these skills. As part of this move, the two development departments operating within the former Specialty Gaskets and Cylinder-head Gaskets business units were merged and the newly created unit was also realigned with a view to incorporating the field of new drive technologies. As a result, the new business unit now also develops new product groups by drawing on the company's core competences of punching, forming, and coating. A prime example: newly developed metal assemblies for rotors and stators, in which thinner layers can be punched with the help of pre-coated multilayer die-cuts. This in turn provides the basis for higher performance in the end product.

In positioning the Group in this way, ElringKlinger aims to generate – in the long term – at least 25% of its revenue in e-mobility and structural lightweighting, both strategic fields of the future. The share of revenue for 2020 was 11% (2019: around 8%) and is to be steadily improved.

Environmental protection in production

Products developed by ElringKlinger have an impact on the environment at every stage of their life cycle. As a result, the Group has a high degree of ecological responsibility, which it strives to fulfill within the context of its environmental and quality policy. For this reason, the Group aims to dedicate around 1% of its total capital expenditure* each year to measures that help reduce emissions.

The Paris Agreement on Climate Change has generated forward momentum when it comes to global climate change policy. An important lever in combating climate change is the decarbonization of the world's industrial companies. ElringKlinger faces up to this responsibility and has formulated its commitment in its quality and environmental policy, which also applies to suppliers.

Overall responsibility for environmental protection and other sustainability-related matters rests with ElringKlinger's Management Board. ElringKlinger AG's environmental officer is always involved in investment decisions of environmental relevance. The corporate and business units are responsible for mapping out environmental topics, and the environmental officers appointed at the individual production sites are responsible for implementation.

A total of 34 companies and their sites were included in environmental reporting in 2020. In this context, the plants at Fort Wayne and Fremont, USA, have been included in the analysis for the first time. As well as 33 production sites, ElringKlinger Logistic Service GmbH in Ergenzingen, Germany, was also included. The excluded production sites in Nürtingen, Germany, and in Timisoara, Romania, Wels, Austria, Warwick, UK, and Chongqing, China, are not reported due to their small size and minor relevance to the environmental indicators. In total, 85% of the Group's production sites were covered by environmental reporting in 2020, representing 99% of Group revenue and 98% of the Group's workforce.

The focus in the 2020 reporting year was on the introduction of the "EnergyManagerPro" software at the main plant in Dettingen/Erms and associated staff training. With the help of the new software energy flows and consumption levels can be measured more accurately. Around 450 electricity meters were covered by the system for this purpose. The TÜV-certified system meets the requirements of ISO 50001. As part of the first stage, it enables cross-site energy analyses with the help of the automated determination of key figures and reporting. The next stage will involve introducing the software at other production plants. The companies covered in this report have an environmental management system that has been implemented and certified according to the international DIN EN ISO 14001:2015 standard. The only exceptions to this are the production sites in Karawang, Indonesia, and in Fort Wayne and Fremont, USA. In addition to external system certification, internal audits are also performed at the production sites, for example with regard to energy and hazardous materials management. The indicators shown below are calculated once per year, analyzed, and submitted to the Management Board for information purposes and as a basis for possible actions.

The ElringKlinger Group subdivides the environmental indicators into Scope 1, Scope 2, and Scope 3 emissions. Direct emissions attributable to the company itself include emissions from gas, heating oil, engine test benches, and the company's own vehicle fleet (Scope 1 emissions). Scope 2 emissions are indirect CO₂ emissions caused by electricity consumption. The reported Scope 3 emissions relate to employee air travel.

* The capital expenditure made in order to achieve the target (particularly additional capital expenditure on energy-saving measures) involves the emission-reducing elements of investment in property and buildings, in technical equipment and machinery, and in other equipment (operating and office equipment).

| | 2020 | 2019 |
|---|---------------|----------------|
| Total direct and indirect CO₂ emissions in t | 90,330 | 115,300 |
| CO₂ emissions per EUR 1 million of revenue in t | 61.0 | 66.8 |
| Total direct CO₂ emissions in t¹ | 20,870 | 25,500 |
| of which direct CO ₂ emissions from gas, oil, engine test benches, etc. in t | 19,900 | 24,300 |
| of which direct CO ₂ emissions by the vehicle fleet in t ² | 970 | 1,200 |
| Total indirect CO₂ emissions in t | 69,460 | 89,800 |
| of which indirect CO ₂ emissions from electricity in t ³ | 68,700 | 84,800 |
| of which indirect CO ₂ emissions from air travel in t ^{4,5} | 760 | 5,000 |

¹ At the parent company, ElringKlinger AG, 10,800 tons (2019: 12,200 tons) of direct CO₂ emissions arose from gas, oil, engine test benches, etc. Direct CO₂ emissions produced by the ElringKlinger AG vehicle fleet amounted to 750 tons (2019: 800 tons).

² Emissions are calculated by multiplying the annual mileage of vehicles by the CO₂ emissions stated by the relevant vehicle manufacturer. The fleet of company vehicles includes all vehicles at ElringKlinger sites in Germany. The figures for rental vehicles also comprise the Rest of Europe, the USA, and Canada.

³ At the parent company, ElringKlinger AG, 19,800 tons (2019: 26,300 tons) of indirect CO₂ emissions arose from electricity.

⁴ Of the indirect CO₂ emissions from air travel, ElringKlinger AG accounted for 600 tons in 2020 (2019: 4,200 tons).

⁵ Air travel from the locations in Germany, Austria, Switzerland, France, and Hungary, as well as centrally recorded flights from the locations in Italy, Turkey, and the USA.

The coronavirus pandemic had an impact on total direct and indirect CO₂ emissions in 2020, as production capacities had to be scaled back temporarily for the purpose of containing the spread of the pandemic. Direct and indirect CO₂ emissions declined by 21.7% to 90,330 tons in 2020 (2019: 115,300 tons). The CO₂ emissions per EUR 1 million of total Group revenue stood at 61.0 tons (2019: 66.8 tons).

Of the total direct CO₂ emissions in tons, 19,900 tons (2019: 24,300 tons) were Scope 1 emissions from gas and heating oil consumption. These are lower than in the previous year, as less gas and heating oil was consumed, mainly due to the drop in production during the pandemic. In addition, office workspaces, for example, were also temporarily heated to a lesser extent due to home office solutions.

The average CO₂ emissions per vehicle in the company vehicle fleet and by rental vehicles amounted to 133 g/km in 2020 (2019: 137 g/km). Direct CO₂ emissions by the vehicle fleet and rental vehicles fell to 970 tons (2019: 1,200 tons). The number of company vehicles was also reduced to 225 in the year under review (2019: 235 vehicles). The reporting period saw a more pronounced use of electric and hybrid vehicles within the fleet. The fleet of company vehicles includes all vehicles at ElringKlinger sites in Germany. The figures for rental vehicles also relate to the Rest of Europe, the USA, and Canada.

Total indirect CO₂ emissions declined by 22.7% to 69,460 tons (2019: 89,800 tons). Among other things, this reduction was attributable to significantly lower electricity consumption (Scope 2 emissions). For example, emissions relating to electricity consumption were substantially lower in the 2020 reporting year, falling to 68,700 tons (2019: 84,800 tons). This was due in particular to the more widespread cancellation of shifts in response to lower production output. In addition, emissions associated with air travel (Scope 3 emissions) also fell significantly due to temporary travel restrictions implemented during the year under review.

ElringKlinger is actively committed to climate protection. The Group already provides charging stations for this purpose and is increasingly using electric vehicles within its vehicle pool. Beyond this, continuous process optimization and the procurement of energy-efficient equipment also help to lower consumption of finite resources. Other activities aimed at reducing emissions include building maintenance, which also brings energy savings. Although these measures generally contribute to lower emissions, Group growth and the procurement of new equipment or the commissioning of further production plants may be accompanied by step-fixed increases in CO₂ emissions. Changes in the CO₂ emissions in the Group are constantly monitored and analyzed by the environmental officer.

The Group attaches great importance to the responsible use of the energy required for the manufacture of its products. To this end, the Group maintains a metering infrastructure at its European production plants to facilitate an end-to-end assessment of energy flows. This has enabled previously unused potential for energy efficiency to be tapped, energy costs to be lowered, and the emission of greenhouse gases (e.g., CO₂ emissions) to be reduced. As part of the process of matrix certification to ISO 50001 at the European sites in 2016, a steering and a working group was established with the aim of defining systems and processes in such a way that energy-related performance can be continually improved.

As a manufacturing company with a total of 39 production sites worldwide, ElringKlinger is reliant on a constant supply of energy. The Group tries to use this as economically as possible. At some sites, ElringKlinger has installed combined heat and power (CHP) units as well as wind and solar plants so as to protect the environment and become more independent of electricity suppliers. The advantage of a CHP unit is that electricity and heat can be obtained in parallel. In 2020, energy consumption (electricity, gas, heating oil, and fuel for engine test benches) was down on the prior-year level to 269,800 MWh (2019: 303,200 MWh). Of this, 101,500 MWh (2019: 112,200 MWh) are attributable to ElringKlinger AG. This reduction in energy consumption is also due to a much lower capacity utilization rate at the production plants compared with the previous year.

In addition to its impact on energy consumption, the coronavirus pandemic also affected capital expenditure. Due to production downtime and lower output, ElringKlinger postponed some of the investments it had originally scheduled for the Group. Capital expenditure on property, plant, and equipment and investment property was down by around one-third on the prior-year figure. In 2020, ElringKlinger channeled 0.8% of its overall capital expenditure into measures aimed at reducing emissions. Among other items, investment spending ranged from the installation of LED lighting at some plants to the purchase of heat recovery systems for new buildings in addition to capital expenditure on software technology that is designed for the smart management of energy consumption. Due to the pandemic, ElringKlinger fell short of its target of channeling around 1% of total investments into emission-reducing measures, as environmental protection measures originally planned for the production plants were not implemented during the 2020 financial year. By 2030, the Group aims to achieve carbon neutrality in terms of Scope 1 and Scope 2 emissions. To this end, as an initial step, ElringKlinger is making preparations for carbon neutrality at all its German production sites from 2021. As part of the subsequent stage of the project, the non-domestic companies are to be integrated by 2030. In 2020, ElringKlinger's management defined a total of four different fields of action to achieve this goal. This includes increasing energy efficiency with regard to all buildings and facilities, expanding renewable energies, switching to green electricity, and offsetting CO₂ emissions that are considered completely unavoidable by investing in external projects aimed at reducing CO₂ emissions.

Occupational health and safety

ElringKlinger's mission is to avoid any kind of accident at work and promote employee health. The right to bodily integrity is one of a human being's fundamental rights. For this reason, commercial activities and decisions must not be allowed to impair the safety, security, and health of staff either. ElringKlinger is well aware of its corporate responsibility as an employer in this regard and wants to ensure a healthy, safe, and secure working environment, while complying with the relevant country-specific legal requirements governing occupational health and safety.

ElringKlinger has drawn up an occupational health and safety policy and a central organizational directive on occupational health and safety management, which apply equally to all employees across the whole Group. By adopting a proactive approach, ElringKlinger endeavors to prevent all forms of occupational accident. Clear work instructions on the issue of safety, regular safety training, preventive measures in individual workplaces and suitable protective equipment are intended to ensure that this is the case. Occupational health and safety is also covered in the "ElringKlinger Operating System" (EKOS), the production system that ElringKlinger uses to standardize and improve processes across the Group. Among other things, it stipulates that the daily shop-floor meetings in Production focus on "safety first" and start with the issue of health and safety at work. The monthly safety updates, which are sent out to the plants around the world in seven different languages, also form part of the EKOS program. In addition, risk assessments and safety visits are regularly carried out at the production companies, while compliance with the regulations is verified in regular internal and external audits. Any findings from these are set out in plans of action, and improvements are expected to be made as quickly as possible.

The ElringKlinger Group experienced 107 occupational accidents in 2020 (2019: 167 occupational accidents) that resulted in staff being off work for more than three days. Depending on local legislation, reported occupational accidents also include commuting accidents. Of these, a total of 39 occupational accidents (2019: 69 occupational accidents)

were related to ElringKlinger AG. The accident rate per 1,000 employees was reduced to 11.0 (2019: 16.1) in the Group as a whole and 12.1 (2019: 20.5) at the parent company. This marked fall was primarily due to temporary production stoppages and short-time work that were required in the Group as a result of the coronavirus pandemic. The cause of occupational accidents and the related course of events are always analyzed in detail and existing safety standards revised accordingly. Since 2021, the figure for occupational accidents causing staff to be off work for more than three days has been part of a new ElringKlinger scorecard, which is presented to the Management Board every month to aid its management of the Group.

The coronavirus pandemic made protecting the health of employees and business partners a particular priority in 2020. To combat this crisis, ElringKlinger formed a covid-19 task force in the first quarter of 2020, which has been coordinating the activities of the ElringKlinger sites across the world since then. ElringKlinger also set up local teams to provide support at the individual plants. Numerous protective and hygiene measures were introduced in order to protect employees, including the wearing of protective masks at the plants, extensive travel and visiting bans, rules on minimum spacing between workstations, and having more staff work from home. The processes and practices devised by the task force are based on recommendations from expert organizations and government authorities and on the experience gained so far with tackling the pandemic. Information is shared within the company via the intranet. Alongside internal

memos, the specially created covid-19 platform includes document templates, manuals, FAQs, and much more. All relevant information on the issue is also e-mailed to the business unit managers and the international management team and pinned to noticeboards.

ElringKlinger has largely managed the issue of occupational health and safety at local level up until now. However, it is currently building up a cross-company organizational

structure so that relevant work instructions planned in the future can be standardized across the Group. In a first step, the production plant at company headquarters is to be certified to ISO 45001 in 2021. This international standard sets out the requirements for an effective occupational health and safety management system. Management is the responsibility of the Quality and Environment corporate unit, which reports directly to the Management Board of ElringKlinger AG.

Targeted recruitment and development of employees

ElringKlinger aims to optimize the recruitment of skilled professionals in order to avoid potential staff shortages. At the same time, the Group promotes the advancement of employees through specific training measures in order to open up prospects for employees while ensuring the company retains their services for the long term. In 2020, the impact of the coronavirus pandemic was instrumental in the accelerated digitalization of training options and the recruitment process.

ElringKlinger is not expecting any improvement to the fraught labor market in the near future; nor does it expect the shortage of skilled personnel in the automobile industry to ease. This is why the ElringKlinger Group – and its competitors – find themselves challenged to compete for the best people. For a technology-focused organization like ElringKlinger, attracting dedicated and qualified personnel is a very high priority. In the promising field of alternative drive technologies especially – a field of special strategic significance to the Group – staff members with strong technical qualifications and a depth of expertise are in demand.

Employee development is a key component in the corporate culture of the Group; as such it is specifically referenced in the corporate code and the principles of management. When making important decisions, the department maintains close contact with senior management.

On account of the general situation at ElringKlinger as regards the coronavirus pandemic and the ongoing short-time hours in place at its sites, recruitment activity has been scaled back. The use of digital media has played an increasingly important role in the recruitment process. With the exception of one vocational training fair held in February, all such events were either canceled or postponed. ElringKlinger arranged a “Digital INFO Day” on training and study in October and took part in a virtual open day for students arranged by DHBW Stuttgart in November. The company reached out to the various target groups via the full range of

social media channels (including LinkedIn, Instagram, and Facebook) and through the company’s own careers page, various job search sites, and partner universities. 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. Since the initiative was launched in September 2018, a total of 10 new employees have been brought on board.

Alongside the external recruitment of specialists, our internal training programs are an important resource when it comes to retaining qualified employees within the company for the long haul. While consolidating its expertise through a range of training programs, the Group also offers various work-study courses. In September 2020, seven work-study students and 17 apprentices embarked on courses at the main site in Dettingen/Erms.

With initial preparations finalized in 2019 for two new job profiles (“Electronics Engineer for Devices and Systems” and “Mechatronics Engineer”), the training workshop was extensively remodeled in 2020 as relevant course content was developed and training plans were drawn up. On September 1, 2020, two Electronics Engineers for Devices and Systems and three Mechatronics Engineers commenced their apprenticeships at ElringKlinger. In future, both job profiles will feature firmly in the training program as the Group ramps up the production of components and systems as part of the shift towards alternative drive technologies.

In tandem with the dual training concept in Germany, which is steadily being expanded, the vocational training program is being rolled out across the Group. Taking their cue from the German training system, nine employees at the production site in Suzhou have completed a dual course of study leading to qualification as Technicians. Six more training places for Setup Technicians which were due to commence at the Toluca site have had to be postponed owing to the coronavirus pandemic. In spite of the difficult situation, two Maintenance Technicians were able to start training belatedly in January 2020. As much as 80% of training content has already been standardized throughout the Group, with 20% of content specially adapted to regional circumstances.

Given the major changes to the product portfolio, ElringKlinger is offering specific professional development programs for engineers who are already trained. On this theme, the company is also an industry partner to a project supported by the state of Baden-Württemberg which looks at the transfer of qualifications for technical specialists and industry experts in a time of structural change. Training content for the fields of e-mobility and digitalization is a high priority for ElringKlinger as regards the development of technical specialists. At present, training providers and participating research institutes are planning content for training modules in detail before the (scheduled) official commencement of courses in 2022.

During the 2020 financial year, an average of 122 employees were engaged in training at the parent company ElringKlinger AG in Dettingen/Erms (2019: 132 employees). In 2020, the training ratio for the parent company (number of trainees and internal students in relation to the total number of employees) declined marginally to 3.7% (2019: 3.9%), as the uncertain economic situation caused both the number of staff members in training and the total number of employees to fall slightly. The vocational training ratio for the Group stood at 1.8% on average (2019: 2.0%).

Despite the exacerbating circumstances of 2020, ElringKlinger has managed to adapt its training program, significantly

expanding digital training options for managers and employees alike. The courses are helping managerial staff and employees to keep their technical knowledge up to date while acquiring new skills. To this end, digital training formats such as webinars, live online training, EDP sessions and video courses have been deployed. The “mobile training factory” conceived in 2019, which takes an interdisciplinary, simulation-based approach, has been retained, although it has been temporarily interrupted until on-site training becomes possible again. The digitalization of practically oriented processes is not fully feasible here since the focus is on realizing efficient production processes while training staff involved in the production side as internal trainers.

The high-potential program introduced across the Group in 2019 with a view to developing new managers has now gone global, having initially been restricted to Germany. Group employees with strong development potential are being identified in three regions – APAC (Asia-Pacific), Americas (USA, Canada, Mexico, and Brazil), and EMEA (Europe, Middle East, and Africa) – and developed in the framework of a training course comprising several modules. Participants also convene for an annual networking event.

Regular staff appraisal meetings were also held in 2020, although because of the pandemic many of these were virtual. In the process, individual needs, achievements, and goals were determined and assessed by immediate line managers. The ratio (proportion of performance appraisals to average number of employees, not including trainees and internal students) stood at 72.6% for the Group in 2020; the ratio of performance appraisals in the 2019 financial year was 73.6%. For the parent company ElringKlinger AG, the ratio rose to 69.5% (2019: 66.5%) as additional appraisals were introduced for non-pay-scale employees in 2020. A system-based, globally standardized process introduced in 2020 is designed to ensure that all indirect and general employees around the world receive feedback on their skills and personal performance at least once a year.

For the future, ElringKlinger is aiming to maintain its successful position on the labor market and attract qualified and motivated staff through a “best place to work” culture. The coronavirus pandemic has given rise to new challenges, as can clearly be seen in the Group’s use of digital channels to engage with relevant target groups. With demand for qualified staff remaining especially high in the field of alternative drive technologies, further education and training will continue to play a critical role.

Dettingen/Erms, March 25, 2021

The Management Board



Dr. Stefan Wolf
CEO



Theo Becker



Thomas Jessulat



Reiner Drews

Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial report 2020 of ElringKlinger AG. The following text is a translation of the original German Independent Assurance Report.

To ElringKlinger AG, Dettingen/Erms

We have performed a limited assurance engagement on the non-financial report of ElringKlinger AG according to § 289b HGB ("Handelsgesetzbuch": German Commercial Code), which is combined with the non-financial report of the group according to § 315b HGB, for the reporting period from 1 January 2020 to 31 December 2020 (hereafter non-financial report).

Management's responsibility

The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud or error.

Auditor's declaration relating to independence and quality control

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und

vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial report of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement, the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between February and March 2021, we performed amongst others the following assurance and other procedures:

- Inquiries of employees and inspection of relevant documents regarding the selection of topics for the non-financial report, the risk assessment and the concepts the parent company and the group for the topics that have been identified as material,

- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the non-financial report,
- Identification of likely risks of material misstatement in the non-financial report,
- Inspection of relevant documentation of the systems and processes for compiling, aggregating and validating data in the relevant areas in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the non-financial report at the level of the parent company and the group,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the non-financial report.

Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of ElringKlinger AG for the period from 1 January 2020 to 31 December 2020 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended use of the assurance report

We issue this report on the basis of the engagement agreed with ElringKlinger AG. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

Engagement terms and liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, 25 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter
Wirtschaftsprüferin
(German Public Auditor)

Annette Johne
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