

Risk management

Basic principles of risk management (Enterprise Risk Management)

The Semperit Group's risk policy supports the efforts to achieve competitive advantages, thereby increasing the Semperit Group's enterprise value in the long term. Risk management serves to create robust operational processes. In addition to fulfilling legal requirements (compliance), the strategic focus is on the early identification of negative developments in the strategic, operational, market and financial areas that could be detrimental to the success of the Semperit Group. An essential integrative component here comprises environment, social and governance (ESG) topics as well as areas for securing the supply chains and ensuring on-time deliveries. The chosen systematic risk management process is also intended to increase risk awareness. The resulting findings are incorporated into strategic corporate development and daily operational work.

The Semperit Group manages risks by avoiding, reducing or transferring them, or creates a framework for the company to accept and thus bear risks. The Group-wide risk management is an integral component of planning and implementing the business strategy and serves as a sparring partner for the ongoing evaluation of target achievement. The risk policy is defined by the Executive Board. In accordance with the organization and the accountability structure, all Semperit companies are obliged to follow and implement the defined risk management process. Enterprise Risk Management is organizationally part of the "Group Risk Management & Assurance" department.

The enterprise risk management process

The Semperit Group uses coordinated internal control and risk management systems for early identifying and reducing material risks and negative deviations representing risks to the company as a going concern. These systems are based on Group-wide processes that serve to assess potential risks as early as possible before major business decisions are made. The internal reporting system facilitates more thorough monitoring of such risks in the course of business.

The Semperit Group's risk management is based on a comprehensive enterprise risk management approach (ERM approach) that is integrated into the business organization. The ERM approach is based on the globally recognized conceptual framework drafted by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the "Enterprise Risk Management – Integrated Framework". The ERM process aims at the early identification, assessment and control of risks, which could have a significant influence on the achievement of the Group's strategic, operational, financial, and social goals as well as goals related to governance and compliance, health, occupational safety and the environment (HSEQ and ESG).

Risks are identified and evaluated along a structured process combining elements of both the bottom-up and top-down approaches. As part of the ERM approach, the reporting period for risk assessment is at least one year and – in accordance with medium-term planning – up to five years. ESG-relevant risks can have a deviating, longer observation period. With regard to climate risks in particular, assumptions are considered in decades and up to 80 years into the future in accordance with regulatory requirements.

The ERM is based on a net principle, according to which only risks remaining after the implementation of existing measures to mitigate or transfer risks are addressed. If potential negative deviations have already been accounted for in the consolidated financial statements, in the budget or in medium-term planning, they are no longer shown as risks. The progress made in implementing risk-reducing measures is monitored on a regular basis and is broken down to the individual Group companies in the internal risk reporting.

The "Group Risk Management & Assurance" department is responsible for the central coordination, moderation and monitoring of the structured risk management process for the entire Semperit

Group. Relevant risks are prioritized from different perspectives and, in a further step, assessed with regard to their potential impact and their probability of occurrence. The bottom-up identification and prioritization process is supported by (remote) workshops with the management of the respective Semperit Group companies. This bottom-up element ensures that potential new risks are brought up for discussion at the management level and incorporated into the reporting, if relevant. These risks are coordinated with the business management (top-down). Individual reporting takes place immediately after the respective risk update in the respective Group businesses. At least once a year, a comprehensive risk reporting of the individual risks including aggregation is made at Group level, and a quarterly progress report on current developments, changes and additions to the risk portfolio is submitted to the Audit Committee and Supervisory Board. The regular reporting process is supplemented by an ad hoc reporting process to draw attention to critical issues in a timely manner.

Integrated risk management must also identify, assess and manage internal and external trends and effects in the field of ESG (Environment, Social and Governance). In order to address current and future issues, the Semperit Group conducts an annual ESG (Environment, Social and Governance) Risk & Opportunity Assessment. In a comprehensive process that takes place in parallel with the traditional risk process, the ESG and Group Risk Management & Assurance departments identify and evaluate the main risks. This process will be integrated into the general risk assessment from the 2024 financial year onwards.

In addition to the assessment of risks with regard to their impact on the planned EBITDA figure, possible effects on liquidity have also been taken into account on the basis of a cash flow analysis since the 2023 financial year. This approach is used to assess the risk-bearing capacity, i.e., the maximum level of risk that the company can bear without jeopardizing its continued existence. Following the acquisition of the Rico Group as of 31 July 2023, the implementation of the risk management system also began there; it had not yet been fully integrated by the end of the 2023 financial year.

Organization of risk management and responsibilities

To monitor the ERM process and to further drive the integration and standardization of existing control activities in accordance with legal and operational requirements, risks, changes and developments in the risk management process are discussed in the Executive Board, Audit Committee and Supervisory Board meetings on a quarterly basis.

The Group Risk Management & Assurance department is supported in the process by the individual Group companies and central functions. An update on the progress of measures is provided by the persons responsible for risks or measures. Insurable risks are covered by insurance policies as far as economically reasonable (see also "Insurable risks").

The legal framework and principles relevant to risk management are set forth in the Risk Management Guideline.

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. audited and confirmed the functionality of the Semperit Group's risk management system for the 2023 financial year in the 2024 reporting year in accordance with C-Rule 83 of the Austrian Corporate Governance Code.

Risk report

As an internationally active corporate group, the Semperit Group is continuously confronted with new challenges posed by pronounced regional differences in global economic development. The countries in which the Semperit Group operates differ in terms of economic conditions as well as political, constitutional and social development. The success of the two divisions Semperit Industrial Applications and Semperit Engineered Applications and the five operating business units depends on the overall economic situation to varying degrees due to their strategic orientation.

The slowdown in macroeconomic development, consistently high inflation rates and the limited ability to pass on the associated additional costs to customers led to negative financial effects overall in the 2023 financial year. Political tensions, such as the Russia-Ukraine conflict, availability (sourcing) as well as inflationary pressure and the price development of raw materials and energy also characterized the 2023 financial year. These uncertainties again posed challenges for the Semperit Group. However, thanks to its global presence and the different market dynamics of the five business units, the Semperit Group was able to address the risk accordingly.

At the time this management report was prepared, no risks were identified in connection with future developments that could threaten the continued existence of the Semperit Group either in isolation or jointly. Adequate insurance has been taken out for specific liability risks and damages when reasonable and cost effective. Selected individual risks that could have a significant negative effect on the financial position, financial performance, and profit situation of the Semperit Group are discussed below. In addition to the risks listed here, further risks possibly exist, including strategic, operational, financial, and social risks, governance- and compliance-related risks, and health, safety, and environmental risks (HSEQ and ESG) as well as other internal and external risks that are currently unknown to the Semperit Group or which it is presently not aware of. If one or more known or unknown risks occur, this may have significant adverse effects on the financial position, financial performance, and profit situation as well as the reputation of the Semperit Group.

Strategic risks

Transformation, governance and sustainability risks

The structure of the Semperit Group was significantly influenced by the first and major closing of the sale of the medical business and the acquisition of the Rico Group in 2023. The transformation into an industrial rubber and elastomers specialist was thus implemented. The definition of the refined new strategy and the adjustment of the organizational structure to this strategic realignment were accompanied by the risk management team identifying opportunities and risks. In order to perform management and control tasks, projects to optimize information flows were driven forward and processes were implemented, particularly in the areas of finance and IT. The risks relating to the implementation of transformation and governance measures, such as a longer implementation period, higher costs or a lower positive effect than originally estimated, were incorporated into the risk management system.

Furthermore, the Semperit Group has committed itself to complying with the Austrian Code of Corporate Governance and achieving sustainability targets. Deviations from these goals can result in risks such as loss of reputation or higher interest rates.

The Semperit Group sees several opportunities in the introduction of the new divisional structure, which is based on the two main business models. These include a reduction in complexity and an increase in efficiency, which can lead to faster decisions, lower costs and an overall more effective way of working. Furthermore, the flexible organizational structure can strengthen the Semperit Group's innovative capability.

Risks from technology development

Innovative and disruptive technologies as well as regulations for industrial chemicals can have a significant impact on the Semperit Group's business areas and products. New technologies can lead to the displacement or replacement of Semperit products (e.g., the use of direct extrusion for window seals). With respect to environmental requirements, the significance of low-carbon products and circular economy will continue to increase. In addition, chemicals used by the Semperit Group could be added to the list of Substances of Very High Concern (SVHC) defined under the REACH Regulation (Registration, Evaluation, Authorisation and Restriction of Chemicals). It is updated twice a year and must be taken into account in the selection of raw materials and in product development and production.

In order to ensure its competitiveness, the Semperit Group is continuously working on the development of innovative materials and products as well as on the improvement of manufacturing processes. Topics such as resource and energy efficiency, consideration of the life cycle perspective as well as health and environmental compatibility in product application are becoming increasingly important.

The innovation projects initiated in connection with the utilization of new raw materials, the introduction of new products and technologies can be associated with the investment of significant financial resources and cannot always be successful. If capital expenditures do not lead to the expected success or are not met with the expected market acceptance, it could lead to a negative influence on the financial performance. Existing patents and other intellectual property rights of the Semperit Group cannot completely prevent competitors from developing and selling similar products. Furthermore, not all trade secrets are patentable. In order to ensure appropriate secrecy, confidentiality agreements are agreed in service contracts or non-competition clauses.

Risks relating to customer needs and market trends

The competitiveness of the Semperit Group is based on the ability to recognize market trends in good time and the flexibility to adapt products, production and services to them in a timely manner. For example, EPDM (ethylene propylene diene rubber) seals in PVC windows are being replaced by alternative products such as thermoplastic elastomers. If market trends and potential substitute products are not recognized in time and no countermeasures are taken, this could have a major adverse effect on the earnings situation of the Semperit Group. In order to profitably exploit market trends with the development of new or sustainable products, Semperit works closely with customers and supports scientific research – with a focus on innovative materials, technologies and products. The aim of the research activities is to secure and further strengthen the market position of the Semperit Group in the long term and at the same time to become more attractive for sustainable investments, for example through the successive improvement of ESG rating results.

Operational risks

Investment and divestment risks

In the case of investments and divestments, the opportunities arising from corporate development and sustainable transformation are contrasted by numerous risks. These include transaction risks (market, liquidity, creditworthiness, inflation, currency, operational, regulatory, social and environmental risks, political and geopolitical risks as well as industry and company risks), the risk of cost remanence, misjudgments in the transaction process and legacy risks of all kinds. The mentioned risks were taken into account in the investment (acquisition of the Rico Group, expansion of the Odry site to include DH5 hose production, expansion of the Rico Group site in Thalheim) and divestment projects (sale of the medical business) by implementing each of them as separate projects, taking into account modern management disciplines (project management including risk management) and with external support. The risks arising from transaction processes were countered by structuring the contractually agreed guarantees and indemnities accordingly and by taking out W&I insurance. Longer-term risks, above all financial risks (liquidity and interest), were transferred to the risk management system. Furthermore, delays in growth projects can lead to strategic risks. Company acquisitions may result in the recognition of goodwill, which reflects intangible assets that cannot be recognized in the balance sheet, expected synergies and positive future prospects of an acquired company. Such goodwill must be tested annually for impairment. Goodwill is only recoverable if the original expectations can be realized or even exceeded. Otherwise, impairment losses in the form of extraordinary depreciation would result. Such an impairment risk naturally increases with the amount of goodwill and its share of Group equity. In order to confirm the recoverability of the goodwill resulting from the acquisition of the Rico Group amounting to EUR 49.4 million, the management determined the recoverable amount of this business as at 30 September 2023. The recoverable amount was calculated as the value in use. The increased forecasting uncertainty caused by the economic slowdown and geopolitical crises was countered by considering alternative planning scenarios. Rico's products are used in particular in the automotive and medical technology industries as well as in the consumer and household goods industries.

The Semperit Group sees the acquisition of companies with complementary products or services as an opportunity to diversify its offering, expand its range of services and realize synergies. By acquiring the Rico Group or another company with advanced technologies and know-how, particularly in the area of production automation, the Semperit Group can strengthen its technological lead and accelerate innovation.

Value chain risks

The value chain of the Semperit Group covers all stages from research and development, through supply chain management and production to marketing and sales of products. In particular in raw material and energy supply, bottlenecks may arise along the value chain; likewise, production disruptions, scrap, quality defects in products/packaging/storage/ delivery may occur and thus lead to additional costs and delivery bottlenecks and/or delays. Moreover, this may result in reputational damage and loss of orders as well as potential product liability, occupational safety, compliance and environmental risks, which may have a negative effect on the financial position, financial performance, and profit situation of the Semperit Group.

The earnings position of the Semperit Group depends on the reliable and effective management of the supply chain for raw materials and mixes as well as on ensuring the appropriate cost-optimized logistics. Capacity limitations and supply shortages – also in the face of global disruptions in the transport chains – could lead to delays and additional costs as well as an increase in greenhouse gas emissions due to longer freight times. The most recent examples of this development are the rebel attacks on international shipping in the Red Sea and the water shortage in the Panama Canal.

Price increases for raw materials, components, personnel costs and energy, for example due to market bottlenecks, could also have a negative impact on the financial position, financial performance, and profit situation of the Semperit Group. This also applies to delays and interruptions in the supply chain as a result of (economic, geopolitical, pandemic or climate-related) disasters, especially if it is not possible to develop alternative sources of supply in different countries or regions.

Active management of the supplier portfolio and globally oriented and coordinated Group-wide purchasing and supply chain management counteract these risks.

Procurement risks

The Semperit Group purchases large amounts of raw materials such as rubber (natural and synthetic rubber), chemicals, fillers and both textile and steel reinforcing materials as well as energy (gas, electricity) for manufacturing its products. These raw materials can be subject to significant price volatility. If price increases, for example for raw materials, cannot be passed on to customers, or can only partially be passed on or with delay, this will lead to a negative impact on earnings. There are also monopolistic and oligopolistic supply situations for some raw material and chemical suppliers as well as energy and water suppliers, which means that the Semperit Group has only limited options for negotiations. Geopolitical unrest can significantly increase this risk.

A supply shortage of individual raw materials or finished products, restrictions on imports, limitations due to geopolitical tensions or international restrictions and sanctions or the loss of an important supplier can lead to a production loss and a negative impact on the financial position, financial performance, and profit situation of the Semperit Group.

The management of appropriate safety stocks, multiple sourcing and reducing dependence on individual suppliers, the conclusion of long-term contracts and price escalation clauses with suppliers and the continuous monitoring of their sustainability performance counteract these risks.

Production and utilization risks

The Semperit machine park includes facilities which are essential for production and for which there are no adequate replacements. A long-term failure of one of these machines would lead to a (partial) loss of production and negative effects on the financial position, financial performance, and profit situation of the Semperit Group.

In the 2023 financial year, further investments were made in the replacement of equipment that had been in use for a longer period and in the expansion of production facilities. In addition, the risk that production facilities may break down is counteracted by regular inspections, including preventive maintenance and servicing. As far as possible, such risks are optimized through technical preventive measures and insurance in an economically reasonable dimension.

Quality problems may arise in Semperit products, which are caused by low-quality raw materials or result from the development or production of these products. Despite all efforts, the risk of operational downtimes, accidents, underutilization or overloading of production sites as well as limited availability of space for production, room to move and storage cannot be completely ruled out. Such risks may lead to delayed deliveries and, subsequently, to a potential loss of customers, with possible negative effects on the financial position, financial performance, and profit situation of the Semperit Group.

In connection with the replacement of older production facilities, the Semperit Group sees opportunities in increasing the degree of automation of the production process and the associated efficiency gains.

Risks related to information technology (IT), cyber-attacks, and data protection

The majority of production and control systems as well as services are dependent on a functioning and error-free IT/OT (information technology and operation technology) landscape. The failure of essential servers and production scheduling units as well as enterprise resource planning (ERP) systems, non-availability, and unauthorized access to IT networks (cyber-crime) may lead to an irrecoverable loss of production volumes, quality impairment as well as delivery delays and loss of orders and thus be detrimental for the Semperit Group. Like other multi-national companies, the Semperit Group is also subject to the risk of cyber-attacks. In addition, the risk of cybercrime could continue to increase as a result of international conflicts such as the Russia-Ukraine conflict and potentially result in the disclosure, falsification, espionage or loss of information, abuses of information systems or product faults, production losses and supply shortages. This would have negative effects on the reputation and competitiveness as well as the financial position, financial performance, and profit situation of the Semperit Group. The company continuously invests in resources for the further development of training measures and projects that serve to increase cyber security.

Additional risks are posed by IT/OT systems developed in-house and a wide variety of different systems in use requiring a large number of manual interventions or depending on specific persons, which could have a negative effect on data quality and processes. Ensuring the traceability of produced goods may not be possible due to faulty and non-existent systems. This risk is countered with strategic projects to standardize IT/OT processes and ERP systems.

Fraud and cyber-attacks (e.g., email fraud, fake president fraud, etc.) generally represent a major risk for the company, which is also countered with ongoing Group-wide awareness training as part of the "Sempercyber" project, ICS training (internal control system training) and projects in the area of payment security. The non-detection of such attacks or the failure of internal control systems cannot be completely ruled out and could therefore contribute to a deterioration of the business, financial position, financial performance, and profit situation.

Handling sensitive/confidential data inappropriately or not in compliance with legal requirements (particularly with the General Data Protection Regulation GDPR) may also represent a risk. A data protection organization has been set up based on the Group-wide data protection guidelines, and regular training courses are held.

Personnel risks

The Semperit Group's business performance will be largely determined by the recruitment of adequately qualified professional and managerial staff at the individual locations, their integration, further development, and long-term retention. Risks arising from the departure of key personnel should be countered by training internal successors in due time. The orientation of the Semperit Group with regard to social aspects such as diversity, inclusion and attractive work is becoming increasingly important. This applies to existing and potential staff and will be successively expanded through appropriate additional benefits and activities to increase employer attractiveness. Should this not be possible, it may lead to a risk of a deterioration of the financial position, financial performance, and profit situation of the Semperit Group.

Labor shortages or restrictions on the admission of guest workers or outsourcing, state minimum wage regimes, strikes or outflow of know-how may lead to an impairment of production and to limitations in other business areas, thus also burdening productivity and the financial position, financial performance, and profit situation. The risk of a staff shortage is countered with substitutions, flexibilization, and preventive measures using shift models and remote working.

Financial risks

As an internationally active company, the Semperit Group is exposed to financial risks, which can have an impact in particular in the areas of capital, liquidity and financing risks, foreign currency and interest rate risks, as well as in the default risks of customers and banks. As required by IFRS 7.31, the financial risks and their management are described in detail in the notes under chapter 11.

Capital, liquidity and financial risks (capital management)

Capital risk is the risk of capital tied in investments. Liquidity risk (also known as refinancing risk) refers to the risk of being unable to raise the necessary cash for possible payments or only at increased refinancing costs. Financing risk refers to the risk that financing instruments are not available or not available to the required extent and thus threaten to cause payment difficulties or even insolvency.

Market risks to which the Semperit Group is exposed include political and economic developments that negatively influence the financial markets all over the world. These may be, for example, more restrictive regulations for the finance sector, monetary policy of central banks or a limited availability of financial resources, including due to the consideration of sustainability aspects, e.g., in connection with the EU Taxonomy Regulation. Changes in the credit ranking and limitations of the legal capacity of banks and other funders, changes in interest rates or restrictions on the use of financial instruments are risks, which may affect the company's scope of action regarding the taking up of financing operations or which impair the financing costs and deposit conditions.

Furthermore, the Semperit Group is subject to corporate risks in capital management. For example, a deterioration of its own creditworthiness may lead to higher expenses for borrowings, or no further financing granted by creditors. An increase in credit risk premiums may also result in a negative change of the market values of financial assets due to uncertainty and risk aversion on the financial markets.

Foreign currency risks

Foreign currency risks can generally be divided in transaction and translation risks. Due to international trade relations and existing subsidiaries all over the world, the Semperit Group is exposed to both risks. Furthermore, in some countries there are capital controls that limit the Semperit Group in its freedom of action. Some national banks, for example, have restrictions on trade in currencies and hedging instruments.

Interest rate risks

Interest rate risks arise from the change in interest rates, both for variable and fixed interest financing, in the form of interest change risks or cash value risks. The external financing of the Semperit Group exists primarily at the level of Semperit AG Holding. Since 2023, there has also been local financing at the Czech subsidiary Semperflex Optimit s.r.o. and within the Rico Group, which was newly acquired in the 2023 financial year. The majority of this financing has a variable interest rate, while a small portion has a fixed interest rate. According to the latest forecast, yield curves have already peaked, and interest rates are expected to fall in the near future.

Default risks of customers and banks

The Semperit Group is exposed to the risk of loss of orders or receivables on the part of customers. If the credit rating of Semperit customers deteriorates, their default risk increases. Credit risks and the risk of payment default are managed through standardized credit checks, defined credit limits and credit insurance. The default of a key business partner could have a negative impact on the results and the liquidity of the Semperit Group. This is particularly relevant for the Rico Group, as it has not yet been integrated into the Semperit Group's credit insurance program.

In addition, there are default risks in relation to the credit balances that the Semperit Group holds with banks. Although the risk of bankruptcy of individual banks or of another banking and/or financial market crisis tends to be low for the Semperit Group's partners, it would be associated with considerable potential effects. In the event of such a default, the Semperit Group may not be able to access this liquidity or credit lines or may only be able to do so partially or with a delay.

Tax risks

The group companies of the Semperit Group are subject to local tax legislation in the respective countries and have to pay income taxes as well as other (local) taxes and fees. Changes in tax legislation and regulations in these jurisdictions could lead to higher tax expenses. The constant change and, in some cases, tightening of tax regulations increases the demands on tax compliance to comply with and monitor these regulations. Inadequate controls in business processes or lack of documentation can lead to the violation of regulations in national and international tax law and result in negative findings in tax audits.

Unused tax loss carryforwards could also be subject to tax audits and be questioned in part. The Semperit Group and its local companies are subject to regular tax audits by financial authorities which may entail negative findings.

Compliance risks

The constant tightening of international codes of conduct and laws increases the requirements for compliance and monitoring of these regulations. Inadequate controls in business processes or insufficient documentation can lead to the violation of applicable rules and jeopardize the company's reputation and economic success through compliance violations. Among other things, the Semperit Group counters this risk with a Group-wide Code of Conduct and continuous training for all employees worldwide in order to further increase awareness of non-compliant actions. The implemented whistle-blowing system also makes an important contribution by pointing out concerns and potential abuses regarding unethical or illegal behavior.

Regulatory risks and potential sanctions

The Semperit Group had or has business activities with customers and suppliers, which are subject to export and import control regulations or other forms of trade restrictions (for example through the USA and the EU). New or extended sanctions could lead to restrictions of the raw material supply and the existing business activities in these countries, or indirectly in other countries. In addition, the Semperit Group could be subject to claims or other measures by customers due to the termination of their business in countries, which are subject to sanctions.

For business activities in emerging countries, there are risks such as unrest, health risks, cultural differences, for example regarding employment relationships and business practices, volatility of the gross domestic product, economic and governmental instability and legal uncertainty, possible nationalization of private assets as well as imposition of currency restrictions and stricter environmental requirements.

Risks arising from cartel and corruption allegations

Proceedings against the Semperit Group regarding corruption and cartel allegations as well as due to other violations of laws could lead to monetary fines under criminal or civil law as well as to penalties, sanctions, court orders regarding future behavior, disgorgement of profits, to the exclusion from directly or indirectly participating in certain business transactions, to the loss of trade licenses or other restrictions and legal consequences. Part of the Semperit Group's business activities are conducted with state-owned companies. Investigations into corruption or cartel allegations or allegations regarding other legal violations could have a long-term impact on the Semperit Group's business, including even an exclusion from public and private-sector orders. Moreover, such investigations could also lead to the cancellation of existing contracts and loss of orders and customers, and proceedings against the Semperit Group could be initiated.

Developments in ongoing or potential future investigations, such as the reaction to requests by the authorities and cooperation with the authorities, could distract the attention and resources of the management from other business matters.

Risks related to legal proceedings

The Semperit Group is, and will be in the future, confronted with different legal disputes and proceedings as part of its ordinary business activities. As a consequence of such litigation, the payments of damages, punitive damages, meeting other claims as well as criminal or civil sanctions, fines or disgorgements may be imposed on the Group. In addition, this may in individual cases result in the formal or informal exclusion from tendering procedures, or withdrawal or loss of business licenses or permits. Moreover, further proceedings may be initiated, and existing proceedings could be extended. Asserted claims from litigation are generally subject to interest payments.

In some of these legal disputes, negative decisions can be made against the Semperit Group, which may have significant effects on the business, financial position, financial performance, and profit situation of the company.

The Asian markets are of major importance for the Semperit Group. These legal systems there are subject to regular changes, which could have negative effects on the financial position, financial performance, and profit situation of the Semperit Group.

Occupational safety, health, and environmental risks (HSEQ)

The safety and health of employees are focal points of the corporate strategy with the aim of ensuring the protection of employees, further raising awareness of hazardous situations and continuously improving occupational safety.

Present or future occupational safety-related, health-related, and environmental or other state regulations, or changes of such regulations, could require adjustments of the operating activities of the Semperit Group and lead to a significant increase in operating costs. Moreover, there are risks regarding a possible occupational safety-related, environmental, and health-related incident, also when handling hazardous substances, as well as non-compliance with environmental, health- or occupational safety-related regulations, which could subsequently lead to severe accidents, staff absences, reputation loss and legal consequences. Environmental damage could result in losses for the Semperit Group which exceed the insured amount or are not covered by insurance. Such losses could have a negative impact on the financial position, financial performance, and profit situation.

Compliance risks with respect to corporate social responsibility (ESG)

Due to existing local and international requirements as well as regulations in the area of environment, social and governance (ESG), risks that are not sufficiently known at the current time may arise. These can be based on legal requirements in the respective countries, but also on international requirements and, in addition to burdens on the business, financial position, financial performance, and profit situation of the company, can also lead to reputational damage and loss of customers. A detailed description of ESG and climate change-related risks and opportunities can be found in the Sustainability Report of the Semperit Group (see www.semperitgroup.com/company/sustainability). It includes, for example, risks regarding the impact of climate change, the so-called transition effects on technologies, markets and regulations as well as rising energy costs and additional costs due to decarbonization efforts.

To counter these risks, the Semperit Group regularly undergoes external audits, for example those of the Business Social Compliance Initiative (BSCI). In addition, the Semperit Group is a member of EcoVadis in order to be assessed with regard to its own performance in the fields of the environment, labor and human rights, ethics and sustainable procurement, and to subsequently improve further. Furthermore, since 2021 the Semperit Group has been a member of "Together for Sustainability" (TfS), an initiative of leading chemical companies with the goal of ensuring and successively improving sustainability along the supply chain and thus the environmental and social standards of the relevant suppliers.

Insurable risks

Although the Semperit Group has concluded global insurance programs to cover the risks relevant to its business, for example with regard to fire, natural hazards and natural disasters, there is no guarantee that possible losses will be fully covered by these insurance policies, that the insurance companies will be liable for damages, or that the insurance coverage will be sufficient. In order to counteract this loss potential, the Semperit Group has taken further precautions in the form of additional insurance coverage, for example with regard to so-called earthquake or flood layers, which in some cases doubles coverage in addition to other existing insurance policies. In addition, critical business processes with a high potential threat are regularly examined as part of risk assessments and business continuity management, and preventive strategies and measures are developed to ensure that the company can continue to operate in the event of an emergency. The implementation of these measures is monitored on an ongoing basis.

In this context, specific effects of climate change were also identified based on a climate risk analysis carried out in 2023 and included in the catalogue. This analysis identified immediate physical risks, such as acute events (storms and heavy rainfall), as well as chronic changes (rising sea levels). The consequences for the economy range from storm damage to buildings to temporary disruptions of global supply chains. Indirect physical risks were also identified. These are risks that can arise from the indirect or long-term effects of climate change, for example losses in production due to a shortage of water supply as a result of prolonged periods of drought. According to this analysis, none of the Semperit sites are currently exposed to a physical climate risk in the short term. In the medium and long term, water-related risks such as flooding and water shortages were identified at the Roha, Odry and Bełchatów sites. Projects for efficient water use and sustainable water management have been initiated to counter these risks.

In any case, Semperit ensures that the risk of insurable natural hazards is reduced as much as possible through regular exchanges with contracted insurers. Legal disputes that exceed the sum insured or are not covered by the insurance may result in additional losses for the Semperit Group. A further risk lies in the fact that it cannot be guaranteed that the Semperit Group will continue to receive adequate insurance cover at economically reasonable conditions in the future.

Market risks

Competitive environment

The global markets for the Semperit Group's products are highly competitive in terms of pricing, product and service quality, production technology, product development and introduction times, customer service and financing conditions, and regarding shifts in market needs. The Semperit Group continues to be confronted with strong competitors, partially also from emerging countries, which have a more favorable cost structure, often also due to higher energy costs in Europe. Some industries in which the Semperit Group operates are undergoing consolidation, which could lead to increased competition and a change in the relative market position of the Semperit Group. Furthermore, it must be noted that suppliers are also increasingly becoming serious competitors for the Semperit Group. In order to further strengthen the competitiveness of the Semperit Group, projects with the goal to increase the strengthening of innovative power, reduce costs, improve efficiency, reduce waste and maintain sustainable energy management are being implemented.

Economic, political, and geopolitical environment

From the Semperit Group's perspective there is currently an insecurity regarding the future development of the global economy. The global markets were recently considerably affected by geopolitical crises and their impact on the supply chain. Since February 2022, the development of the global economic climate has been significantly influenced by the Russia-Ukraine conflict and the uncertainty in the energy sector due to generally higher or strongly fluctuating energy prices as well as high inflation. There is a risk that the global economy will recover more slowly than expected and that the negative impact particularly in Asia, Europe and the USA will continue. A slowdown in economic growth in Asia or even a collapse of the real estate market, the banking sector or the stock market represent further significant risks. In the euro zone, too, the cooling of the economic climate might continue. This could increase business volatility and represent risks for the financial markets. The investment climate could suffer a slump due to political upheavals in Eastern Europe, further independence movements inside and outside the European Union or because of sustainable successes of protectionist parties and policies that are hostile to business and the EU.

A further intensification of the trade conflicts between the USA and China as well as USA and Russia and the consequences of a dispute with Iran, the tensions between China and Taiwan, and Japan as well as the further development of the Russia-Ukraine conflict could have negative effects on the business performance of the Semperit Group.

A terrorist attack or a series of such attacks in large economies or along supply chains could impair the global economic activity.

If the Semperit Group is not able to further adjust its production and cost structures appropriately in the current economic development, there is a risk of a negative impact on the financial position, financial performance, and profit situation of the company.

Opportunities

In addition to monitoring risks, it is an essential part of corporate management to recognize opportunities in good time and make the best possible use of them for the company. Opportunity management as an entrepreneurial approach that aims to identify, record and utilize the positive aspects and opportunities in a business environment is aimed at managing the uncertainties associated with business activities.

To identify opportunities, the Semperit Group looks for possibilities to recognize potential for growth and improvement, for example through market analyses, innovations or partnerships. Potential opportunities are carefully evaluated and prioritized in order to use resources efficiently. Strategies developed on the basis of identified opportunities can result in the adaptation of business models, product developments or market entry strategies. Opportunity management is therefore a proactive approach that aims to not only minimize risks, but also maximize the positive potential for the Semperit Group.

In the long term, the management sees great potential in the further expansion of the core business as part of the strategic orientation of the Semperit Group as an industrial rubber and elastomer specialist.

Opportunities arising from the new organizational structure

The new divisional structure is oriented towards the two main business models of the Semperit Group, while at the same time reducing complexity and enabling business expansion. This can open up various opportunities for the Semperit Group, such as rationalizing processes and increasing efficiency.

Opportunities through acquisition

The acquisition of the Rico Group in the reporting year, its further growth steps and other potential acquisitions of companies with similar elastomer or complementary products and services may offer the Group the opportunity to gain access to new geographical regions and sales markets or to strengthen its presence in existing markets. This opens up new sales opportunities and the expansion of the customer base. The acquisition of the Rico Group, for example, has given Semperit a leading technological position in liquid silicone and high-end toolmaking. This goes hand in hand with servicing high-growth sectors such as healthcare and industrial household applications. In addition, synergy effects can be achieved through acquisitions by rationalizing redundant functions and resources, for example in the areas of sales, logistics and administration. The acquisition of a company with advanced technologies, such as the Rico Group or another company with advanced technologies and know-how, especially in the area of production automation, strengthens the technological lead of the Semperit Group, can accelerate innovation and provides access to highly qualified employees. Instead of developing new markets or products organically, an acquisition enables faster market entry. This is particularly important in fast-moving industries. As a further opportunity, a broader business base through acquisitions can help to diversify risk.

Opportunities through automation

Increasing the level of automation is a key component of the Semperit Group's strategic orientation. This is reflected, for example, in the construction of the DH5 hose production facility in Odry, where automation in production and internal logistics is intended to achieve a very high and consistent level of quality throughout the entire production process, and in the recent acquisition of the Rico Group. Increased use of automation technologies leads to cost savings, error reduction and time savings, which in turn improves responsiveness to customer requirements. Automated systems are often easier to adapt to fluctuating demand than manual processes, which is particularly advantageous in a volatile market environment. In addition, processing information in real time enables data-driven decision-making processes.

Opportunities through sustainability

The Semperit Group's commitment to sustainability can strengthen its reputation and market value. Consumers and stakeholders increasingly value companies that assume social and ecological responsibility. Sustainability is becoming an important decision-making factor for many consumers when purchasing products or services. Sustainable practices can therefore help to attract new customers and retain existing customers in the long term.

In order to drive the development of new or sustainable products and identify corresponding market trends, the Semperit Group is cooperating closely with customers and supporting scientific research – with a focus on innovative materials, technologies and products. The aim of the research activities is to secure and further strengthen the market position of the Semperit Group in the long term while at the same time becoming more attractive for sustainable investments, for example through the successive improvement of ESG rating results. In the production of sealing profiles, for example, the Semperit Group is working on a gradual increase in the reuse of recycled material.

Opportunities through innovation

Innovations offer a variety of opportunities for the Semperit Group to achieve competitive advantages, promote growth and increase market success. Examples of innovative products that satisfy new market trends are the "Hybrid Handrail" and "SemperSilentPads". The former, a newly developed escalator handrail, consists of two materials (rubber and Smart Polymer) and combines the best of both material worlds. The SemperSilentPads are an innovative solution for a rail pad that significantly reduces noise compared to competitor products.

Opportunities through digitalization

The consistent implementation of digitalization projects will allow the Semperit Group to collect, store and analyze large amounts of cross-location data on production and financial processes. This will enable even faster reactions to market trends, changes in demand and external threats. Current major projects such as "oneERP" with the introduction of SAP S/4 Hana serve to harmonize the IT infrastructure. On the other hand, automation and digital back-office projects are being used to further increase efficiency.

Internal Control System (ICS)

The Semperit Group's internal control system is designed to ensure the effectiveness and efficiency of its business activities, the reliability of its financial reporting and compliance with relevant statutory regulations. It also supports the early recognition and monitoring of risks deriving from inadequate monitoring systems and fraudulent actions and is improved and expanded on an ongoing basis by the Group Risk Management & Assurance department together with the relevant specialist departments. The management of the respective business unit is responsible for implementing and monitoring the ICS and the risk management system. The Executive Board of Semperit AG Holding stipulates cross-divisional framework conditions and regulations that are applicable throughout the group. Regular follow-up audits are performed at the locations to ensure the sustained implementation of the framework conditions and regulations.

The following principles form the basics of ICS:

- Ensuring the accuracy of accounting and reporting
- Compliance with internal regulations (limits of authority) and external laws and regulations
- Increased payment security based on a predefined corset of payment transaction controls
- Ensuring adequate implementation and segregation of duties
- Ensuring the controls provided in the process
- Auditability by independent experts
- Protection of property
- Recognition of potential operating risks and making losses visible that have already occurred
- Improvement in operating effectiveness

Essential characteristics of the internal control and risk management system with regard to the financial reporting process

The key points of the existing internal control system and the risk management system with regard to the (consolidated) financial reporting process are summarized as follows:

- With regard to the financial reporting process, the functions of accounting are separated from other areas of responsibility such as treasury.
- The applied financial systems are protected against unauthorized access by appropriate IT facilities.
- With regard to applied financial systems, standard software is widely used.
- A guideline system (e.g., accounting guidelines, payment guidelines) has been implemented.
- Received or forwarded accounting data will be examined for completeness and correctness, e.g., by means of random samples, by the responsible persons.
- The dual-control principle is applied in accounting-related processes.
- Accounting-related processes are examined on a random basis by internal audit.