

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. 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 are detrimental to the success of the Semperit Group. This applies particularly to the areas of occupational safety, health, and the environment, as well as in securing the supply chains and punctuality of deliveries. The chosen systematic risk management process is also intended to increase risk awareness. The resulting findings are incorporated into operational activities and into strategic corporate development.

The Semperit Group manages risks by reducing, avoiding, or transferring them. The Group-wide risk management is an integral component of planning and implementing the business strategies, whereby the risk policies are defined by the Executive Board. In accordance with the organisation and the accountability structure, all Semperit companies are obliged to follow and implement the defined risk management process. Enterprise Risk Management is assigned to the Group Risk Management & Assurance department.

The enterprise risk management process

The Semperit Group uses coordinated internal control and risk management systems to support the Group in early identifying and reducing material risks and negative surprises representing risks to the company as a going concern. In this context, the greatest importance is attached to 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), which is integrated into the business organisation. The ERM approach is based on a globally recognised 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. They 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).

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. The additional evaluation of a five-year risk assessment period began in 2019.

The ERM is based on a net principle, according to which only risks remaining after the implementation of existing (control) measures 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 prioritised 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 prioritisation 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 subsequently incorporated into the reporting, if relevant. These risks are coordinated with the segment management (top-down). Individual reporting takes place immediately after the respective risk update in the respective Group divisions. At least once a year, a comprehensive risk report of the individual risks including aggregation at Group level is made 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, Semperit conducts an annual ESG (Environment, Social and Governance) Risk & Opportunity Assessment. In a comprehensive process that is temporally independent of the classic risk process, the main risks are identified and evaluated together with Group Risk Management & Assurance department.

Organisation of risk management and responsibilities

To monitor the ERM process and to further drive the integration and standardisation 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 meetings on a quarterly basis. In addition, the top risks are monitored quarterly by the Risk Management Board, which consists of all Executive Board members.

The Group Risk Management & Assurance department is supported in the process by the individual Group companies and divisions. 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 2022 financial 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 Semperit Group operates in countries with different economic environments. The countries are also going through different phases of political, constitutional and social development. The success of the Semperit Group's two sectors and five operating segments depends to varying degrees on the general economic situation based on their strategic orientation.

2022 was characterised by political tensions, such as the Russia-Ukraine conflict, the global corona pandemic with the related transport and travel restrictions and government-imposed temporary plant closures, as well as the availability (sourcing) and the price development of raw materials and energy. These uncertainties once again confronted the Semperit Group with major challenges. However, the Semperit Group was able to spread the risk thanks to its worldwide presence and the diverse market dynamics of the five segments.

Selected individual risks 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 business position, financial position, financial performance, and profit situation as well as the reputation of the Semperit Group.

Strategic risks

Transformation, governance and sustainability risks

The consistently pursued modernisation of management information systems and the implementation of new structures and standardised processes will result in considerable opportunities for management and control tasks. The modernisation of management information systems and the implementation of new structures and standardised processes has not yet been fully completed and could therefore lead to risks in corporate management.

This risk is countered on the one hand by the advancement of transformation projects in the IT and finance areas. On the other hand, various projects to harmonise processes across the value chain and to standardise IT systems are intended to counteract this risk.

In particular, there is a risk that the transformation and governance measures will take longer and involve higher costs, so that their actual benefit may be less than originally estimated, it takes effect later than assumed or its effect fails to materialise at all. In any case, the Semperit Group's profitability is influenced by savings actually achieved and the Group's ability to sustain the implementation of its ongoing projects.

Furthermore, there are ESG-related risks within the corporate strategy that arise in connection with the business activities, the demands of various stakeholders, and the effects of climate change. In order to address these risks, the objectives of the sustainability strategy in the areas of environment, social and governance have been consistently pursued.

Technological development

The markets in which the Semperit Group operates are not only becoming increasingly sensitive with regard to sustainability but are also subject to other significant changes resulting from the introduc-

tion of innovative and disruptive technologies. In the area of digitalisation (Industry 4.0), there is the risk that existing products are substituted and the risk that new business models replace traditional ones. In addition, there is a risk that competitors will be able to launch their products and solutions in the market earlier than the Semperit Group due to faster time-to-market strategies. With respect to environmental requirements, the significance of low-carbon products as well as promoting different aspects of 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), which is updated every six months. To that effect, the selection of raw materials as well as in product development and production must be taken into account accordingly. The development of the results strongly depends on the ability to anticipate changes in markets, to adapt accordingly and also be able to offer environmentally friendly and low-carbon products. The innovation projects initiated in connection with the introduction of new products and technologies are associated with the investment of significant financial resources and are not always 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 products that are very similar to Semperit products. Furthermore, not all trade secrets are patentable. In order to ensure appropriate secrecy, confidentiality instructions are agreed in service contracts or non-competition clauses.

Customer needs and market trends

An inherent risk for the Semperit Group is not recognising market trends (including those related to ESG issues) in a timely manner, or not being flexible enough to adapt products, production, and services to these market changes in a timely manner. This could result in an uncompetitive cost position and a major adverse effect on the business, financial and earnings position of the Semperit Group.

Operational risks

Organisational risks

The organisation of the Semperit Group in the form of a matrix organisation partially includes the risk of process overlaps, inflexibility, and inefficiency, which is typical for the management model. Decision-making procedures in response to market-related or critical developments potentially bear the risk of time delays or other inefficiencies. The control systems and the measurement of key figures against internal and external benchmarks are subject to ongoing further development. As transparency and comparability can temporarily be limited, wrong decisions could be made. In addition, there is a potential risk of losing existing competitive advantages or not being able to generate new ones.

Investment and divestment risks

The Semperit Group invests in existing and new sites, for example by constructing new buildings, purchasing new machines, and replacement investments. In case of potential acquisitions of new companies and divisions or divestments of existing parts of the company (e.g., due to sale or closures) a variety of risks arise. In the course of such investments and divestments the opportunities from the company's development and from the sustainable transformation into an industrial rubber specialist are offset by transaction risks, the risk of cost remanence, the risk of misjudgements in the transaction process and the emergence of legacy issues of any kind, among other things.

In addition, there is a high degree of uncertainty among the workforce in connection with the strategic decision to transform the company into an industrial rubber specialist and the associated extensive separation from the medical business planned for mid-2023. This could lead to increased staff fluctuation, reduced productivity, impaired customer and supplier relationships and the loss of operational and technical know-how.

Value chain risks

The value chain of the Semperit Group covers virtually all stages. It starts from R&D, continues with supply chain management and production to marketing and sales. In particular, bottlenecks in raw material and energy supply may arise along the value chain; likewise, production disruptions, scrap, quality defects in products/packaging/storage/ delivery may occur and 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 asset, financial and earnings position 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-optimised logistical framework conditions, such as transport facilities. Capacity limitations and supply shortages – also in the face of the Russia-Ukraine conflict, the corona pandemic, and the global disruptions in the transport chains – could lead to delays and additional costs. The Semperit Group is fully dependent on external suppliers with regard to raw material and energy supply, and partially depends on them for the supply of mixes. This reduces the indirect possibilities of influencing productivity, quality assurance, delivery dates and costs, and increases the risk of not being able to react in due time and adequately to changing situations. The Russia-Ukraine conflict, the remaining effect of the corona pandemic, which is partly subsiding, and possible disruptions in transport logistics can have a negative impact on the supply chain and lead to interruptions as the Semperit Group regularly sources raw materials from different regions around the world. Active management of the supplier portfolio and globally oriented and coordinated Group-wide purchasing and supply chain management counteract these risks.

Supply shortages and delays can damage the business activities of the Semperit Group to a significant extent. Price increases for raw materials and components, wages, and energy, for example due to market shortages, could also have a negative effect on the asset, financial and earnings position of the Semperit Group. Furthermore, the Semperit Group could be confronted with the risk of delays and disruptions of the supply chain as a result of (economic, geopolitical, pandemic or also climate-related) disasters, especially if the Semperit Group does not manage to open up alternative sources of supply for various countries and regions. If the Semperit Group is not able to gain sufficient security along the supply chain, its reputation could also be adversely affected.

Procurement risks

The Semperit Group purchases large amounts of raw materials such as rubber (natural and synthetic rubber), chemicals, bulking agents and both textile and steel reinforcing materials as well as energy (gas and electricity) for manufacturing its products. These raw materials are subject to high price volatility. Price increases can be passed on to the customer only partially or only with delay – depending on the respective market situation. Therefore, an increase in raw material prices may have a negative impact on earnings. With raw material and chemical suppliers and energy or water suppliers, there are also monopolistic and oligopolistic supply situations, which lead to only limited options for negotiations for the Semperit Group. Geopolitical unrest can significantly increase this risk.

The management of appropriate safety stocks, multiple sourcing (i.e., reducing dependence on individual suppliers), the conclusion of long-term contracts and price escalation clauses with suppliers,

and the continuous review of these suppliers with regard to their sustainability performance counteract these risks. Semperit's presence in Asia, the world's most important region for the extraction of natural rubber, ensures proximity to producers along the entire value chain.

Furthermore, the Sempermed segment is partly dependent on the supply of finished products by third parties, which can be volatile and requires flexible shifts in volumes within the supplier portfolio.

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 massive production loss and a strongly negative impact on the assets, financial and earnings position of the Semperit Group.

Production and utilisation risks

Within the Semperit machine park, there are (partly outdated) facilities which are essential for production and for which there are no adequate replacements. A longer failure of one of these machines would lead to a (partial) loss of production and negative effects on the asset, financial and earnings position of the Semperit Group.

In the 2022 financial year, further investments were made in the replacement of outdated equipment and 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. Disruptions can also be caused by natural hazards, which are beyond the control of the Semperit Group. As far as possible, such risks are optimised through technical preventive measures and insurance in an economically reasonable dimension.

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

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 landscape. The failure of essential servers and production scheduling units, enterprise resource planning (ERP) systems, non-availability, and unauthorised access to IT networks (cyber-crime) may lead to lower and irrecoverable production volumes, a negative impact on quality or delivery delays 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. Such attacks can potentially lead to the disclosure, falsification, espionage or loss of information, abuses of information systems or product faults, production losses and supply shortages, with negative effects on the reputation and competitiveness as well as the asset, earnings, and financial position of the Semperit Group. Measures to increase cyber security have been defined and are subject to continuous development. Semperit 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 standardise IT processes and ERP systems.

Handling sensitive/confidential data inappropriately or not in compliance with legal requirements (particularly GDPR) may also represent a risk.

External criminal actions

Fraud and cyber-attacks (e.g., e-mail fraud, fake president fraud, etc.) generally represent a major risk for companies, which is also countered with ongoing Group-wide awareness trainings within the project "Sempercyber", with ICS (internal control system) trainings and payment security projects. Non-identification of such attacks or the failure of internal control systems cannot entirely be ruled out and can thus contribute to a deterioration of the business, asset, financial and earnings position.

Personnel risks

The Semperit Group continuously needs highly qualified employees. The competition for qualified employees continues to be intensive in regions where the company operates. Some Semperit sites are located in regions with persistently low unemployment and constant high demand for qualified skilled workers. The Semperit Group's future 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. The potential departure of key personnel must be covered by internal successors who have been trained in due time or by appropriate employer branding to support external recruiting processes. 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 employees and will be successively expanded through appropriate additional benefits and activities. Should this not be possible, it may lead to a risk of a deterioration of the business, asset, liabilities, financial, and earnings position of the Semperit Group.

Labour shortages or restrictions on the admission of guest workers or outsourcing, state minimum wage regimes, strikes or outflow/unauthorised disclosure of know-how may lead to an impairment of production and to limitations in other business areas, thus also burdening productivity and the business, asset, financial and earnings position. The risk of a staff shortage due to high absences caused by illness is countered with substitutions, flexibilization, and preventive measures using shift models for attendances and remote working – as is also the case in other situations of long-term staff absences.

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 of the finance sector or policies of central banks, the 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 legal capacity of banks and other funders, changes in interest rates or restrictions on the use of financial instruments are risks, which 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.

The risks from capital management may have a significant negative impact on the business, asset, financial and earnings situation of the company.

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.

The risks from foreign currency risk management may have a significant negative impact on the business, asset, financial and earnings situation of the Semperit Group.

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. In addition, there is a negative interest rate risk, albeit reduced compared to 2021, in connection with corporate deposits.

The interest rate risks may have a significantly negative influence on the business, asset, financial and earnings position of the company.

Default risks of customers and banks

The Semperit Group is exposed to the default risk with regard to receivables from customers. If the credit rating of Semperit customers deteriorates, the default risk increases. Credit risks and the risk of payment default are managed through standardised business partner and 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. Due to a higher default risk caused by the corona pandemic and the Russia-Ukraine conflict, the costs for hedging credit risks could be increased.

In addition, there are default risks relating to the Semperit Group's bank deposits. These balances are partially or not at all protected by deposit protection funds. There is an investment guideline that limits the amount of liquid funds that may be held per bank and that defines the financial instruments in which the excess liquidity may be invested. In the event of the bankruptcy of individual banks or a renewed banking and/or financial market crisis, the Semperit Group may not be able to access this liquidity or credit lines, or may only be able to do so in part or with a delay. With regard to investments in near-liquid money market fund units, the default risk is basically comparable to that of short-term bonds with high credit ratings but is significantly reduced due to the fund's special asset status and the diversification into different investment securities and issuers within the fund.

The risks associated with non-payment on the part of customers or banks may have a significant negative impact on the company's business, assets, financial and earnings position.

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.

A negative influence on tax receivables and liabilities of the Semperit Group as well as on deferred tax assets and liabilities is also possible. Unused tax loss carryforwards could be subject to tax audits and be questioned in part. Moreover, uncertainties in the tax environment of some regions could limit the possibilities of enforcing our own rights. The Semperit Group and its local companies are subject to regular tax audits by financial authorities which may entail negative findings.

If one or several of the above-mentioned events occur, a negative effect on the business, asset, financial and earnings position has to be assumed.

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 jeopardise the company's reputation and economic success through compliance violations. Among other things, the Semperit Group counters this risk with a new 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 can also make a valuable contribution in this regard by pointing out concerns and abuses regarding unethical or illegal behaviour.

Regulatory risks and potential sanctions

The Semperit Group has business activities with customers and suppliers in countries such as Russia, Belarus, Ukraine, or China, 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 in countries in which the Semperit Group has business operations could lead to restrictions of the raw material supply and also 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 nationalisation of private assets as well as imposition of currency restrictions and stricter environmental requirements.

Risks arising from cartel and corruption allegations

Current and future proceedings against the Semperit Group regarding corruption and cartel allegations as well as other violations of laws could lead to monetary fines under criminal or civil law as well as to penalties, sanctions, court orders regarding future behaviour, disgorgement of profits, to the exclusion from directly or indirectly participating in certain business transactions, to the loss of trade licences or other restrictions and legal consequences. Part of the Semperit Group's business activities is accounted for by state-owned companies. Pending and possible future investigations into corrup-

tion 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.

One subsidiary is currently involved in unfair competition proceedings. The case is currently at a stage at which the outcome cannot be estimated with a sufficient degree of probability. The case is being heard before the authorities in consultation with local specialists. The subsidiary is cooperating with the competent authorities and is providing all the necessary assistance. For the anticipated costs and the appropriate risk, an appropriate provision has been made according to the assessment of the Semperit Group.

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 licences 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, asset, financial and earnings position of the company.

The Asian markets are of major importance for the Semperit Group. The local legal systems are subject to regular changes, which could have negative effects on the business, asset, financial and earnings position of the Semperit Group.

Occupational safety, health, and environmental risks (HSEQ)

Personnel safety and health are focal points of the corporate strategy with the aim of ensuring the protection of employees and 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 or lead to a significant increase in operating costs, as is the case under the general conditions of the corona pandemic. In the course of the corona pandemic, additional disinfection measures were taken, and social distancing rules were implemented at all locations. The possibility of working remotely from home was also newly established and subsequently expedited where necessary. 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 business, asset, financial and earnings position.

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, assets, financial and earnings situation of the company, can also lead to reputational damage and loss of customers. A detailed description of the ESG risks can be found in the Sustainability Report of the Semperit Group.

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, labour 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 sustainability along the supply chain and thus successively improving the environmental and social standards of the relevant suppliers.

Insurable risks

The existing insurance cover does not protect the Semperit Group from possible reputational damage or the occurrence of natural hazards such as fire or natural disasters.

Fire, natural hazards and natural disasters hold significant loss potential for the Semperit Group, which may not be fully covered despite the insurance programme in place. In addition, the company may suffer, among other things, losses from legal disputes that exceed the insured amounts or are not covered by insurance.

Finally, it cannot be guaranteed that the Semperit Group will also receive adequate insurance cover on 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 with regard to changes in market needs. The Semperit Group is confronted with strong competitors, partially also from emerging countries, which have a more favourable cost structure. 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 to strengthen 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 a high level of insecurity regarding the future development of the global economy. The global markets were recently considerably affected by the corona crisis. Since February 2022, the development of the global economic climate has been significantly influenced by the Russia-Ukraine conflict and the growing uncertainty in the energy sector due to high or strongly fluctuating energy prices and an impending gas shortage that is difficult to calculate. There is a risk that the global economic climate 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 (EU) 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 could impair the global economic activity and cause the business climate to collapse. Further risks include political tensions, for example in Russia, Ukraine, Belarus, Syria, Turkey, Iran and Egypt. In particular since February 2022, the conflict between Russia and Ukraine has developed into another economic threat.

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 asset, financial and

earnings position of the company. For example, the financing options of the customers could deteriorate or payment systems (e.g., SWIFT) may possibly no longer be available. As a result, intended purchases of the company's products could be changed, delayed or dropped, or purchases or contracts that have been commenced could not be completed. Moreover, the margins on Semperit products could drop to a greater extent than the Semperit Group can currently foresee. In addition, contractual terms of payment could change to the disadvantage of Semperit, which could lead to negative effects on the company's financial position.

Internal Control System (ICS)

The Semperit Group's internal control system (ICS) 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 basis of the ICS:

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

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.

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

The key points of the existing ICS and the risk management system with regard to the (consolidated) financial reporting process are summarised 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 unauthorised 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.