2. SUMMARIZED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT

BASIS OF THE GROUP

BUSINESS MODEL

STS offers its customers a wide range of systems and solutions for the interior and exterior trim of vehicles. In the process, STS components visually enhance the vehicle design, contribute to the vehicle's aerodynamics and ensure significant weight reduction thanks to their lightweight construction. Due to its high level of vertical integration, STS is able to map the complete manufacturing process of each component from the idea to the finished product. As a one-stop-shop supplier with many years of expertise, the Management Board sees a clear competitive advantage. Production facilities and logistics are mainly designed for small and medium series typical of light to heavy commercial vehicles, but also for special models and electromobility or weight-optimized plastic solutions such as those increasingly found in the passenger car sector.

The STS production facilities are located close to the respective sites of the customer plants. This makes all aspects of cooperation easier, more efficient and more sustainable. Headquartered in Germany, the Group operates a global network in all major markets. STS has twelve plants in four countries on three continents.

STS combines the manufacturing technologies of injection molding and hot and compression molding of composites. STS has a high degree of vertical integration. It manufactures the semi-finished product, the composites itself, and can thus respond flexibly to customer-specific requirements.

OVERVIEW LOCATIONS

The Group produces parts and systems for commercial vehicles and passenger cars. The customer base includes in particular well-known commercial vehicle manufacturers as well as automotive manufacturers, including many market leaders. Numerous manufacturers also rely on the expertise of the STS Group in the rapidly growing market for electric vehicles. For rapid product development and innovation, the Group has three research and development centers, two in France and one in China.

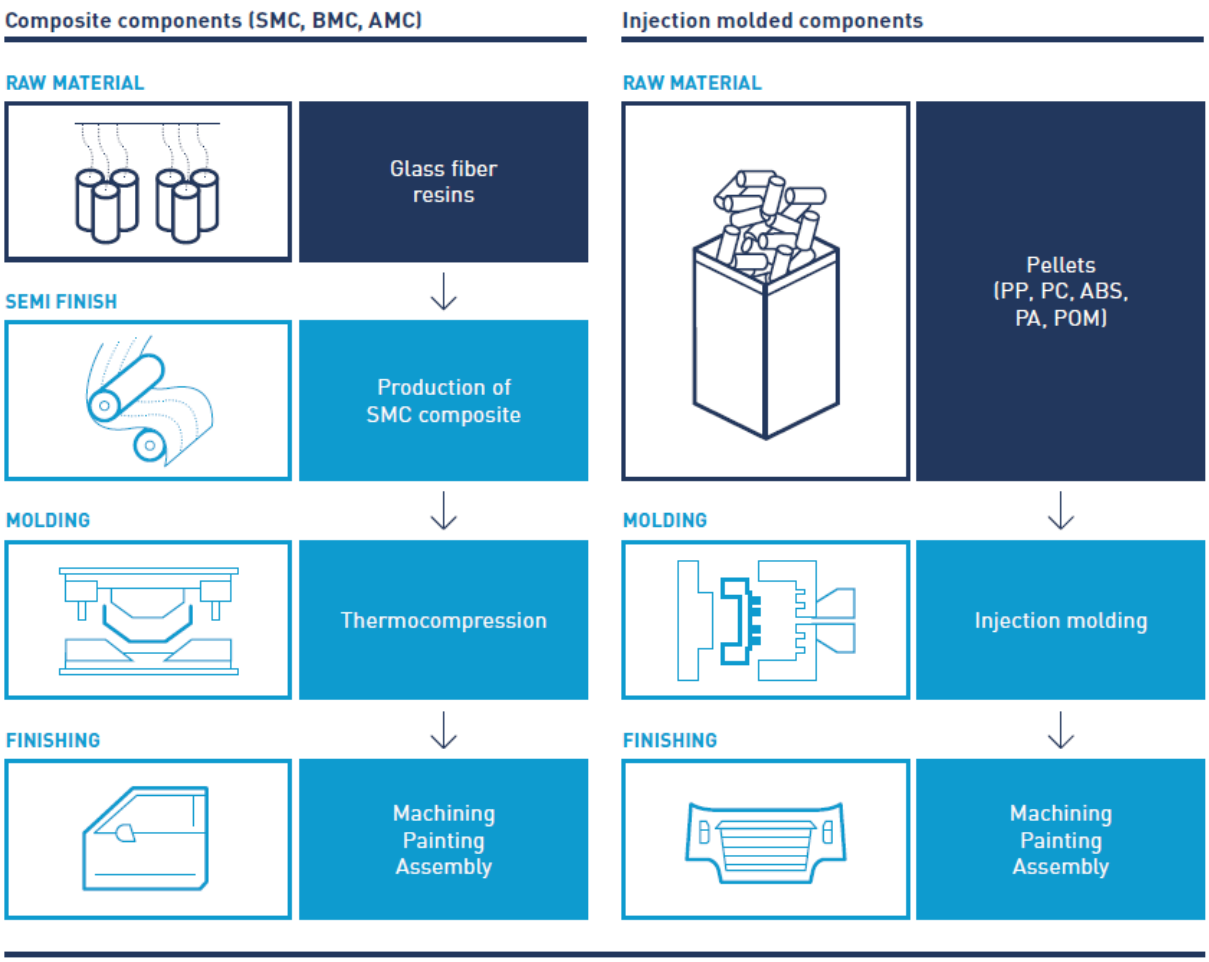
BUSINESS ACTIVITY

The business activities of the STS Group are managed partly by product type and partly by geography. This principle is reflected in the following segmentation of business activities:

Plastics: The segment manufactures a wide range of exterior body panels and interior modules for trucks, commercial vehicles and passenger cars. It includes hard trim products made from injection molding and composite materials such as SMC. The semi-finished product plays an important role in automotive production thanks to its numerous positive properties, such as high stiffness and heat resistance. For example, it frequently replaces structural parts made of metal and makes an important contribution in covering battery systems in electric vehicles. The Plastics segment has production sites in Europe and Mexico. Customers in North America are supplied from Mexico.t. Hard trim systems are used in commercial vehicles, e.g. for exterior parts (e.g. front modules, roof modules and other aerodynamic trim) or interior modules ("bunk box" under the driver's bed and shelf elements), and in passenger cars, e.g. for structural parts (tailgate). In addition, the segment has its own capacities for painting plastics.

China: This segment combines activities in the Chinese market. These comprise the supply of customers with plastic parts for the exterior trim of vehicles, predominantly for the cabins of commercial vehicles, but increasingly also for those of passenger cars. The product range offers solutions and components for commercial vehicles, such as bumpers, front panels, deflectors, roofs, fenders and entrances, as well as parts for passenger cars, such as the battery cover for electric vehicles, through to complex structural parts, for example the tailgate for SUVs. Composite molding processes and injection molding technology are used. The segment also has its own capacities for painting plastics.

Materials: This segment comprises the development and production of semi-finished products (Sheet Molding Compound - SMC), fiber molding compounds (Bulk Molding Compound - BMC) and advanced fiber molding compounds (Advanced Molding Compound - AMC). The semi-finished products are used both internally within the Group for hard trim applications and supplied to external third parties. During the development of these base materials, it is already possible to influence key parameters of the end product.



Historically, the Group recorded significant growth through acquisitions, particularly in fiscal years 2016 and 2017. Originally, it emerged from the acquisition of the commercial vehicles business of the Swiss-based Autoneum Group, which was acquired by Mutares SE & Co. KGaA (formerly mutares AG), in 2013 as part of a carve-out. In December 2016, the Group acquired the truck business of the French automotive supplier Mecaplast France SAS (now Novares France) and thus entered the hard trim business. With the acquisition of the commercial vehicle supply business of the Plastic Omnium Group in June 2017, STS significantly expanded its product portfolio with composite semi-finished products and composite components for exterior parts for truck cabs and light commercial vehicles, as well as structural parts for passenger cars (tailgate). In addition, the presence in Eastern and Northern Europe was expanded with a production facility in Poland, which started up in 2017. Furthermore, the Group expanded the Acoustics business by acquiring the Autoneum Group's production facility in Brazil in September 2017. In Wuxi, the Group has had a new headquarters for the Chinese market since the fourth quarter of 2018, which at the same time bundles the local development activities. In April 2019, STS opened its third production facility in total in Shiyan, China. In addition, the Group is represented in Qingdao and Jiangyin. Having won a major order from a leading international commercial vehicle manufacturer, STS is entering

the North American market and will start construction of a production site in the northeastern region of the USA by the end of 2022.

In the course of the 2020 financial year, STS decided to focus on the core technologies of injection molding and composite technologies. This was followed by the divestment of the Acoustics segment to the Adler Pelzer Group in the third quarter of 2020. With the divestment, the STS Group parted with five plants, three each in Italy, one plant in Brazil and one plant in Poland. This marked the beginning of a realignment with the aim of further expanding the promising lightweight solutions for commercial and electric vehicles.

The strategic realignment of the Company was further advanced in fiscal year 2021. As of June 30, 2021, the Adler Pelzer Group acquired 73.25% of the shares in the STS Group from Mutares SE & Co. KGaA. As the new majority shareholder, Adler Pelzer Group was able to lay essential foundations for expanding the positioning of STS Group as one of the leading system suppliers in the automotive industry, even in the still challenging times ahead. On the one hand, the change of the majority shareholder was accompanied by a change in the Management Board, with Mr. Purrey stepping down from his position and Mr. Becker being appointed as the new sole member of the Management Board. In addition, three new Supervisory Board members, Mr. Scudieri, Mr. Gaeta and Mr. Lardini, were elected with the Annual General Meeting on July 23, 2021.

GROUP STRATEGY AND MANAGEMENT

GOALS AND STRATEGY

STS Group AG is one of the leading suppliers of components and systems for the commercial vehicle and automotive industries. The aim is to expand this positioning. The focus is on components made of composite materials and injection molding from the initial idea to the finished product. Following the strategic realignment in fiscal 2020 and 2021, these activities will focus on the future markets of lightweight components and e-mobility.

STS products are designed to make vehicles fit for the future by making significant contributions to weight reduction and thus to reducing CO_2 emissions. In addition, our products improve the look, feel and functionality of vehicles.

Thanks to process optimization, including increased automation of manufacturing processes, STS products are also important components in issues relating to autonomous driving or the switch to e-mobility.

To expand our competitive position and make it sustainably profitable, the Group is focusing on four strategic pillars: "Market Leadership," "Technology Leadership," "Customer Proximity," and "Operational Excellence.

CONTROL SYSTEM

All business units and subsidiaries report monthly on their results of operations, financial position and net assets, which are included in the Company's half-yearly and annual reports. In addition, the business units provide a monthly assessment of current and expected business performance, and the business unit managers present monthly variance analyses on specific operating indicators (including productivity, absenteeism rates, scrap) to the Management Board.

In addition, the following components essentially ensure compliance with the internal control system:

- Regular meetings of the Management Board and Supervisory Board
- Regular shareholders' meetings at the subsidiaries
- Risk and opportunity management
- Liquidity planning
- Management reporting

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

The Group's key financial performance indicators include in particular sales, earnings before interest, taxes, depreciation and amortization (EBITDA), and adjusted EBITDA. EBITDA for the financial year 2021 is adjusted for special expenses of EUR 0.8 million (previous year: EUR 3.0 million). The special charges in the financial year 2021 related primarily to legal and consulting costs for a preventive corporate financial restructuring process in France. In the previous year, special charges included EUR 2.7 million in restructuring and severance costs and EUR 0.3 million in expenses in connection with the sale of the Acoustics segment.

Adjusted EBITDA is used to measure and assess the operating performance excluding special factors. The reconciliation of adjusted EBITDA to EBITDA and earnings before taxes (before income from discontinued operations) is as follows as follows:

EUR million	2021	2020
Adjusted EBITDA Group	19.9	17.7
Management adjustments (netted)	0.8	3.0
EBITDA Group	19.1	14.7
Depreciation and amortization expenses	-15.5	-16.1
Earnings before interest and income taxes (EBIT)	3.6	-1.4
Interest and similar income	0.1	0.0
Interest and similar expenses	-2.5	-2.2
Finance result	**-2.5**	**-2.2**
Earnings before income taxes	**1.1**	**-3.6**

The STS Group does not have any significant non-financial performance indicators that are used for internal management purposes or that are relevant to compensation.

EMPLOYEES

Motivated employees expect an attractive and fair working environment in which they can act independently, contribute their ideas and develop further. The key to successful and appreciative cooperation is the joint development of an STS culture and its anchoring in everyday interaction.

STS continues to attach great importance to accident prevention and health promotion. This is reflected, among other things, in accident prevention measures such as employee training, safety audits, cross-site exchange of best practices, improved process monitoring and technical measures for machine safety. STS promotes health through a variety of local initiatives: there are free vaccinations for employees, cancer screenings and training on mindfulness. In addition, the external reviews of operational measures addressed in the previous year are being continued. The main individual companies have OHSAS 18001 (occupational health and safety) certifications.

In the past fiscal year, the focus remained on protecting employees from infection in connection with the global COVID-19 pandemic. To this end, numerous hygiene, distance and

protection measures were introduced at all sites. In the indirect functions, the introduction of home offices was also used to the greatest possible extent.

Due to the wide range of HR requirements and laws, HR work is the responsibility of the individual countries and implemented locally as required. To reinforce development and career prospects, managers hold regular employee appraisals to discuss with employees the issue of future opportunities for influence both within and outside the company. The results of these discussions form the basis for individual development plans and further training measures derived from them. The results of the employee appraisals are supported by regular performance reviews, which are intended to help reconcile employees' self-assessments and assessments by others and to define appropriate measures for developing competencies.

As of December 31, 2021, a total of 1,516 people (2020: 1,601) were employed throughout the Group.

RESEARCH AND DEVELOPMENT

Innovative products are a cornerstone of the Group's strategy and are expected to contribute to the achievement of the medium-term goals of profitable and sustainable growth. In 2021, the global impact of the COVID-19 pandemic and raw material shortages continued to constrain and delay customers' programs. The R&D budget was maintained. STS Group's strategy was to leverage available development center resources to accelerate innovation programs.

The innovation team was further strengthened by the recruitment of an engineer as innovation project manager. Our three research and development centers in France and China continue to pool their expertise and exploit synergy effects. Finite element analysis and thermoplastic rheology are carried out internally by the Chinese development center in Wuxi, and rheology for SMC composites is developed by the French team. This strengthens our simulation capabilities.

R&D activities led to great success in acquiring new projects for our new product lines:

- Tailgate: Composite structure with TP outer skin in body color for a Chinese OEM (BEV).
- An additional lightweight composite trunk lid for a European OEM
- Innovation Award from Volvo Truck
- Prototyping a backlit body panel for a major truck OEM

The innovation process is fully implemented, including technology development monitoring, patent management, creativity sessions, idea selection, proof of concept, and TRL tracking, and has produced new concepts that are co-developed with customers:

- Composite module for hydrogen-powered commercial vehicles. Joint development of a heat shield to protect occupants in case of fire with an H2 fuel cell integrator. Under homologation by UTAC
- Long-haul truck: interior module for driver comfort on board when parking
- Sustainability: workshop with a truck OEM on the use of recycled and bio-based thermoplastics for parts already in series production and in development
- "Green" composites: development of SMC compounds with biologically produced and recycled materials.

Our vertical integration - materials development is done in-house - enables us to quickly turn ideas into opportunities. The expertise of the research and development team and our well-equipped development centers and prototyping facilities around the world enable us to offer innovative and reliable solutions for these new opportunities.

At the end of the year, the STS Group's research and development centers employed 57 people worldwide (compared with 60 in 2020).

In the reporting period, non-capitalized development costs of EUR 1.2 million were above the previous year's level (2020: EUR 0.8 million /+59.2%). In the reporting period, development costs of EUR 2.0 million out of a total of EUR 3.3 million (December 31, 2020: EUR 0.7 million) were capitalized and no amortization was recognized.

ECONOMIC REPORT

MACROECONOMIC AND INDUSTRY-RELATED GENERAL CONDITIONS

MACROECONOMIC DEVELOPMENT

Recovery of the global economy despite burdens

Following the pandemic-related slump in 2020, global economic momentum recovered in the first half of 2021, but was stagnant and regionally uneven from the second half of the year. The emergence of new virus variants and increasing infection rates from the coronavirus slowed global economic activity, according to the Kiel Institute for the World Economy (IfW). In the summer of 2021, an increased incidence of infection in Asia led to economic burdens. From the third quarter onwards, economic development in the western industrialized nations weakened. Capacity problems in the logistics system and supply bottlenecks for relevant input products such as semiconductors further hampered the upturn in industrial production in the year as a whole. Overall, global production grew by 5.7% in 2021 after contracting by 3.1% in 2020.[1]

China with high growth and cloudy outlook

In the People's Republic of China, economic activity largely recovered after the outbreak of the coronavirus pandemic in 2020. From the summer of 2021, economic momentum in China stalled, according to Germany Trade & Invest (GTAI), the Federal Republic of Germany's foreign trade and location marketing company.[2] Due to the spreading delta variant, individual provinces, cities, and in some cases airports and container ports were quarantined by the government, causing disruptions in the logistics chain and exacerbating shortages of primary products and raw materials. Investment propensity weakened in the construction and real estate sectors during 2021 due to the insolvency of the Evergrande real estate group.[3] In the industrial sector, investment remained at a high level, especially foreign direct investment. The Chinese national economy grew by 7.9% in 2021 as a whole (2020: 2.3%). This development was supported by a strong export economy. By contrast, consumer spending clouded over. Growth in the People's Republic is expected to slow in the coming years. [4]

Euro area with recovery and rising inflation

According to the IfW, the economy in the euro zone in 2021 approached the production level achieved before the Corona crisis, although there was still underutilization of production capacity in the industrial sector due to disruptions in the logistics chain. Price-adjusted

1 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_85_2021-Q4_Welt_DE.pdf

2 https://www.gtai.de/gtai-de/trade/china/wirtschaftsumfeld1/die-fetten-jahre-sind-in-china-erst-einmal-vorbei-251412

3 https://www.gtai.de/gtai-de/trade/china/branchen/evergrande-krise-ueberschattet-bau-und-immobiliensektor-722280

4 https://www.gtai.de/gtai-de/trade/china/wirtschaftsumfeld1/die-fetten-jahre-sind-in-china-erst-einmal-vorbei-251412

investments increased by 3.5% year-on-year. Overall, GDP grew by 5% in 2021 after a decline of 6.0% in 2020. Consumer prices at the end of 2021 were 5% higher than at the end of 2020, mainly due to a sharp rise in energy prices.[5] The unemployment rate had returned to pre-crisis levels by summer 2021, rising to 7.6%.[6] From the fourth quarter onward, however, the spread of the Omikron variant accompanied by sharp rises in Corona case numbers once again limited overall economic momentum in the euro zone.

Upturn in North America slows down

According to GTAI, Mexico's economy grew by 6.4% year-on-year in real terms in the first nine months of 2021. For the year as a whole, an increase of 6% is expected due to weaker development in the fourth quarter. Alongside exports, the main driver of the upturn was private consumption, which increased by 8.7% year-on-year between January and August 2021. Demand increased in particular for durable goods such as cars, furniture and household electronics. Sharply rising costs for energy boosted inflation to a level of around 7%, the highest level in around 20 years.[7] As the world's sixth-largest automotive manufacturer, Mexico has been hit hard by global chip shortages and supply chain bottlenecks. Between January and November 2021, the automotive sector produced around 2.8 million vehicles, down 0.7% year-on-year.[8]

INDUSTRY ECONOMIC DEVELOPMENT

The global commercial vehicle market in 2021 was still dominated by the effects of the coronavirus pandemic. Supply chain disruptions put pressure on both producers and suppliers, leading to production declines and supply bottlenecks. IHS Markit already reduced its full-year forecast for 2021 by 6.2% in September of last year. According to this, 75.8 million units were produced worldwide. For 2022, a decline of 9.3% is expected in the segment. For 2023, the forecast was lowered by 1.05 million units, or 1.1%, to 92.0 million units.[9] A total of 79.8 million vehicles were sold in the light commercial vehicles segment worldwide in 2021. More than 15 million vehicles were sold in Europe, and 24.2 million and 17.7 million in China and North America, respectively.[10] The medium- and heavy-duty vehicle segment produced 3.6 million units worldwide in 2021. According to IHS Markit, 568,000 units were produced in Europe, 558,000 in North America and 1.65 million in China. The German commercial vehicle market saw approximately 345,000 new commercial vehicle registrations. This corresponds to a decline of 1.0%. According to VDIK forecasts, the German passenger car market contracted by 11.0% in 2021. Compared to the pre-crisis year 2019, a total of around one million fewer units are likely to have been newly registered.[11]

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5 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_85_2021-Q4_Welt_DE.pdf

6 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_82_2021_Q3_Euroraum_DE.pdf

7 https://www.gtai.de/gtai-de/trade/mexiko/wirtschaftsumfeld1/wachsende-risiken-gefaehrden-konjunkturerholung-252914

8 https://www.gtai.de/gtai-de/trade/mexiko/branchen/branchen-entwickeln-sich-gemischt-253118

9 https://ihsmarkit.com/research-analysis/major-revision-for-global-light-vehicle-production-forecast.html

10 https://cdn.ihs.com/www/prot/pdf/0519/Automotive-LV-Sales-sample.pdf

11 https://www.vdik.de/pkw-markt-bricht-2021-unerwartet-stark-ein/

BUSINESS PERFORMANCE

After the crisis year of 2020, the STS Group benefited from the recovery of the global economy and, in particular, from growth rates in the automotive and commercial vehicle sectors.

The China segment developed positively, particularly in the first half of 2021. The Chinese commercial vehicle market started 2021 at a high level and benefited from the stricter controls on permitted transport volumes implemented in 2019 and the resulting increased expansion of the commercial vehicle fleet of logistics companies. In addition, new local emissions standards led to increased replacement of vehicles with new tractors that meet the standards. This dynamic led to a significant increase in local production figures in China. At the end of the first half of 2021, however, the first signs of market normalization emerged. In the second half of the year, the Chinese commercial vehicle market cooled back to the level of 2019 and remained at this level until the end of the year. In 2021 as a whole, the truck market in China was characterized by significant volatility.

In Europe, too, after a good start to the year, the market recovery in the commercial vehicle sector slowed down, especially in the third quarter of 2021. Here, supply bottlenecks in semiconductor production in particular led to production losses at European STS customers, who subsequently had to adjust their call-off figures. The STS plants in Germany and France responded accordingly to these short-term adjustments. Overall, the STS plants showed good utilization of production volumes in the difficult environment of the pandemic as well as a positive sales development, especially in the last quarter of the past fiscal year.

The second half of 2021 was characterized in particular by the majority acquisition of STS Group by Adler Pelzer Group. On June 30, 2021, the share purchase agreement signed on March 11, 2021 between Mutares SE & Co. KGaA and Adler Pelzer Holding GmbH for the complete sale of the majority shareholding amounting to approximately 73.25% of the share capital of STS Group AG was successfully concluded.

In the context of the sale of the majority stake of Mutares SE & Co. KGaA in STS Group AG to Adler Pelzer Holding GmbH, the sole member of the Management Board Mathieu Purrey resigned from his position as member of the Management Board of STS Group AG on June 29, 2021. Mr. Mathieu Purrey was appointed as sole member of the Management Board of the Company for a period of three years as of July 3, 2020. On June 30, 2021, the Supervisory Board of STS Group had appointed Mr. Andreas Becker, who was already CEO of STS Group from 2013 to 2020, to the Management Board of the Company.

The term of office of all Supervisory Board members and substitute members ended at the close of the Annual General Meeting on July 23, 2021. The shareholders' meeting elected Mr. Paolo Scudieri (Chairman), Mr. Pietro Lardini (Deputy Chairman) and Mr. Pietro Gaeta as new members of the Supervisory Board.

On June 29, 2021, STS Group AG was informed about the publication of the decision to submit a voluntary takeover offer to the shareholders of STS Group AG by Adler Pelzer Holding GmbH pursuant to Section 10 (3) in conjunction with Section 29 of the German Securities Acquisition and Takeover Act (WpÜG).

On August 9, 2021, Adler Pelzer Holding GmbH published the offer document regarding a voluntary public takeover offer in combination with a delisting acquisition offer to the shareholders of STS Group AG pursuant to section 34, 14 para. 2 and 3 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, WpÜG) in conjunction with section 39 para. 2 sentence 3 no. 1 of the German Stock Exchange Act (Börsengesetz, BörsG) on its website www.adler-pelzer-offer.com. The voluntary public takeover offer and delisting offer were directed to all shareholders of STS Group AG and to the acquisition of all ordinary bearer shares of the company for a cash consideration of EUR 7.31 per share. The total number of STS Group shares for which the takeover offer and the delisting offer had been accepted by the reporting date, plus the 4,761,327 STS Group shares already held directly by Adler Pelzer Holding GmbH, thus amounts to a total of 4,783,447 STS Group shares. This corresponds to a share of approximately 73.59% of the share capital and voting rights of STS Group existing as of the reporting date.

The business activities of the Adler Pelzer Group and the STS Group are highly complementary and offer new opportunities and synergy potential for the entire Group. For the Adler Pelzer Group, the STS Group's attractive lightweight solutions for vehicle interiors and exteriors represent a technological diversification to further position itself as a key supplier to its customers. As a globally active automotive supplier, the Adler Pelzer Group is taking a concrete growth step in the hard trim sector with the integration of the STS Group, which complements its expertise in soft trim and acoustics. The Adler Pelzer Group in turn provides the STS Group with corresponding tailwind to further drive the expansion of its business in China as well as in the North American market. In particular, joint projects were discussed in the third quarter of 2021 and various measures were implemented to leverage synergies within the new Group.
The expansion of the business in North America also plays an essential role. With the start of plant expansion in the northeastern United States, the STS Group is counting on the support of majority shareholder Adler Pelzer, which has been active in this region since 1990.

In summary, the STS Group can look back on a satisfactory year. The adjusted EBITDA margin reached the expected high single-digit level of 8.2% in 2021. Organic sales growth of plus 3% was below the forecast for 2021 of around 10%, but was nevertheless satisfactory, as this assumption was based on the Chinese business being at the high level of 2020. The essential core market in China had already anticipated the trend of revived demand momentum in the commercial vehicle sector in 2020, so sales in China could not be maintained at the previous year's level as originally expected. In France, sales increases did not translate into earnings growth to the same extent, due in particular to higher raw material prices. However, this was offset by continued strong earnings in China. Overall, however, the Group held up well in a

market environment characterized by the COVID-19 pandemic and closed 2021 with a solid business performance.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS OF THE GROUP

EARNINGS SITUATION

The consolidated financial statements are prepared in euros (EUR). All amounts have been rounded up or down to millions of euros (EUR million) in accordance with commercial rounding practice, unless otherwise stated. Totals in tables have been calculated on the basis of precise figures and rounded to millions of euros. Differences of up to one unit (million, %) are due to rounding for computational reasons.

The Group's earnings situation in fiscal year 2021 was again impacted by the challenges posed by the Corona pandemic and the strategic realignment of the company. Looking at the year as a whole, STS Group AG was able to generate increases in sales and earnings despite difficult conditions.

Sales and earnings of the STS Group segments for the reporting year 2021 compared to the previous year are as follows:

EUR million	2021	2020	Delta	Delta %
Revenue	242.0	235.0	6.9	3.0%
Segment Plastics	151.7	129.9	21.7	16.7%
Segment China	71.8	85.0	-13.1	-15.5%
Segment Materials	25.2	26.7	-1.5	-5.6%
Corporate/Consolidation	-6.7	-6.6	-0.1	-2.0%
EBITDA	19.1	14.7	4.4	29.6%
Segment Plastics	4.5	1.6	3.0	190.6%
Segment China	16.9	17.4	-0.5	-2.8%
Segment Materials	-1.4	1.4	-2.7	above -100%
Corporate/Consolidation	-1.0	-5.6	4.6	-82.7%
EBITDA (in % of revenue)	7.9%	6.3%		
Adjustments EBITDA	*0.8*	*3.0*	*-2.2*	-73.2%
Adjusted EBITDA	19.9	17.7	2.2	12.4%
Adjustments Segment Plastics	*0.6*	*0.7*	*-0.1*	-16.5%
Segment Plastics	5.2	2.3	2.9	124.6%
Adjustments Segment China	*0.0*	*0.0*	*0.0*	-100.0%
Segment China	16.9	17.4	-0.5	-2.8%
Adjustments Segment Materials	*0.2*	*0.2*	*0.0*	-20.8%
Segment Materials	-1.2	1.6	-2.8	above -100%
Adjustments Corporate/Consolidation	*0.0*	*2.0*	*-2.0*	-100.0%
Corporate/Consolidation	-1.0	-3.6	2.6	-73.1%
Adjusted EBITDA (in % of revenue)	8.2%	7.5%		

* The comparative period was adjusted for the disclosure of the discontinued operation.

Sales increased by 3.0% to EUR 242.0 million in the reporting period. In fiscal 2021, the Plastics segment benefited from a revival in demand in the commercial vehicle sector. The key core market in China had already anticipated this trend in the previous year, with the result that sales in China could not be maintained at the previous year's level. The Materials segment's sales fell short of the prior year due to supplier consolidation in the automotive industry as a whole.

The increase in sales revenue was also accompanied by an increase in changes in inventories (increase in inventories in 2021: EUR 5.5 million; 2020: decrease in inventories: EUR -1.7 million). This is mainly due to the production of tools for the USA project that is starting up.

Other income amounted to EUR 5.7 million, compared with EUR 4.0 million in the previous year. This includes capitalized development costs of EUR 3.3 million (previous year: EUR 1.5 million). The expansion of the product portfolio with innovative new developments is reflected in both other income and other expenses. Other expenses include R&D costs of EUR 1.2 million (previous year: EUR 0.8 million).

The cost of materials increased in both nominal and relative terms in the reporting period. Rising raw material prices and also the increase in volumes led to increased stockpiling of critical components. As a result of these measures, raw materials and supplies increased from EUR 109.3 million in the previous year to EUR 121.4 million as of December 31, 2021. In total, the cost of materials amounted to EUR 144.7 million (2020: EUR 129.0 million). This corresponds to a materials ratio of 59.8% compared to 54.9% in the previous year.

Personnel expenses as of December 31, 2021 was slightly below the previous year's level and amounted to EUR 61.4 million (2020: EUR 61.8 million). This is mainly due to the reduced personnel expenses in connection with the restructuring of the Group headquarters that took place in the 2020 financial year.

Significant reductions were achieved in the area of other expenses as part of ongoing efficiency improvements within the Group. In total, other expenses decreased by EUR 3.9 million to EUR 27.9 million. This is due to reduced legal and consulting costs (2021: EUR 2.9 million; 2020: EUR 3.4 million), lower selling expenses (2021: EUR 3.5 million; 2020: EUR 4.9 million) and the reduction in maintenance and repair costs (2021: EUR 6.7 million; 2020: EUR 9.0 million).

Earnings before interest, taxes, depreciation and amortization (EBITDA) improved to EUR 19.1 million in fiscal year 2021, compared to EUR 14.7 million in the previous year, due to the cost savings. Adjusted for restructuring-related special effects, EBITDA amounted to EUR 19.9 million in fiscal year 2021 (2020: EUR 17.7 million). This corresponds to an adjusted EBITDA margin of 8.2% (2020: 7.5%).

Depreciation and amortization also decreased to EUR 15.5 million as of December 31, 2021 (2020: EUR 16.1 million). Depreciation of property, plant and equipment amounted to EUR 11.4

million (2020: EUR 12.4 million), thereof capitalized rights of use EUR 4.0 million (2020: EUR 4.5 million), while amortization of intangible assets was EUR 4.1 million (2020: EUR 3.6 million), thereof capitalized rights of use EUR 0.3 million (2020: EUR 0.3 million).

As a result, earnings before interest and taxes (EBIT) amounted to EUR 3.6 million (2020: minus EUR 1.4 million).

The previous year's consolidated result is characterized by non-recurring effects from the sale of the Acoustics division and is therefore not comparable for the operating business development of the existing core markets of STS Group AG. This included a result from the discontinued Acoustics division of EUR -13.2 million (2019: EUR -7.6 million) from the first 10 months, with the gain on the disposal of the Acoustics division having an offsetting effect of EUR 3.9 million. The latter is calculated on the basis of a negative purchase price of EUR 2.5 million, taking into account the disposal of negative equity from the division. For the fiscal year 2021, STS Group AG reports a consolidated result of EUR 1.8 million (2020: minus EUR 15.9 million).

Earnings per share according to IFRS basic and diluted amounted to EUR 0.3 (2020: minus EUR 2.6).

EARNINGS POSITION BY SEGMENT

PLASTICS SEGMENT

After the previous year was affected by an above-average decline in demand due to the COVID-19 pandemic, demand for commercial vehicles picked up again in fiscal 2021 as the corona pandemic situation normalized. This led to a 16.7% increase in revenue to EUR 151.7 million (2020: EUR 129.9 million). Despite this significant increase in sales, the sales level prior to the Corona pandemic (2019: EUR 169.0 million) could not yet be reached again. The sales increases did not lead to earnings growth to the same extent, which was also due in particular to the rise in raw material prices. Nevertheless, the earnings situation improved due to the consistent implementation of cost-saving measures in this segment. Adjusted EBITDA amounted to EUR 5.2 million in the reporting year, compared with EUR 2.3 million in the previous year. This corresponds to an adjusted EBITDA margin of 3.4% (2020: 1.8 %). Adjusted EBITDA includes special effects of EUR 0.6 million (2020: EUR 0.7 million), which were incurred in the course of the restructuring process of the French units.

SEGMENT CHINA

China confirmed its position as an important core market in fiscal 2021. While the previous year was strongly influenced by a special economic situation in the commercial vehicle sector, the level of sales stabilized at a sustainable level in fiscal year 2021. Net sales amounted to EUR 71.8 million (2020: EUR 85.0 million; 2019: EUR 50.4 million). The earnings strength could be improved again despite the sales fluctuations in fiscal year 2021. Adjusted EBITDA amounted to EUR 16.9 million in the reporting year 2021 (2020: EUR 17.4 million). This corresponds to an adjusted EBITDA margin of 23.5% (2020: 20.5%). The China segment is not affected by the reorganization of the Group; consequently, there were no non-operating special effects.

SEGMENT MATERIALS

The Materials segment was not yet able to record any recovery effects in fiscal 2021. In addition to the continuing reluctance to buy due to the corona pandemic, consolidation aspects in the automotive industry also had a negative impact. As a result, sales revenue decreased by EUR 1.5 million and amounted to EUR 25.2 million in fiscal 2021. The revenue losses could not be fully offset by accompanying restructuring measures. Adjusted EBITDA decreased to minus EUR 1.2 million in the reporting year (2020: EUR 1.6 million). Adjusted EBITDA includes special effects of EUR 0.2 million (previous year: EUR 0.2 million), which were incurred in the course of the restructuring measures implemented.

FINANCIAL POSITION

PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT AND DIVIDEND POLICY

The Group's financing strategy is geared to providing the necessary funds for implementing the corporate strategy and to the requirements of the operating business. The aim is to secure the necessary funds for growth, limit the associated financial risk and optimize the cost of capital. This involves the use of various financing instruments such as loans, factoring, leasing, credit lines and short-term credits.

A dividend payment of EUR 0.04 per share is planned for the financial year 2021. The Company intends to use a significant portion of its future potential profits to finance its further growth in the coming financial years and to pay a dividend only to the extent that this is compatible with its business and investment plans.

The Group has fixed and floating rate loans. The floating rate loans are based on 1-, 3- and 6-months EURIBOR plus a margin. Some loans are based on financial covenants and some loans are secured. For information on financial liabilities, please refer to section 4.12. Non-current and current financial liabilities in the notes to the consolidated financial statements.

CASH FLOW

EUR million	2021	2020
Net cash flow from operating activities	36.1	-1.6
Net cash flow from investing activities	-16.8	-23.7
Net cash flow from financing activities	-10.3	28.1
Effect of currency translation on cash and cash equivalents	-0.7	-0.1
Net increase/decrease in cash and cash equivalents	8.3	**2.7**

* The comparative period was adjusted for the disclosure of the discontinued operation.

In fiscal year 2021, the STS Group generated positive **net cash flow** from **operating activities of** EUR 36.1 million (2020: EUR -1.6 million). In addition to the improved earnings situation of the STS Group, the changes in net working capital also had a positive effect on the operating cash flow. The change in net working capital resulted in a cash inflow of EUR 4.9 million in the reporting period (2020: cash outflow of EUR 7.8 million). The main driver of the cash inflow was the reduction in trade receivables. The inflow from other liabilities contributed EUR 16.0 million (2020: cash outflow EUR 7.7 million).

In fiscal year 2021, **cash flow from investing activities amounted to** minus EUR 16.8 million. The previous year's figure of minus EUR 23.7 million was significantly influenced by the change in the scope of consolidation due to the sale of the Acoustics division (EUR -13.0

million). Investing activities were mainly attributable to investments in property, plant and equipment of EUR 10.0 million (2020: EUR 8.5 million), in intangible assets of EUR 3.5 million (2020: EUR 2.4 million), as well as the disbursement of a loan to related parties of EUR -4.2 million (2020: EUR 0).

The Group's financing activities resulted in a cash outflow of EUR 10.3 million in fiscal year 2021, while a cash inflow of EUR 28.1 million was recorded in fiscal year 2020. While the previous year's figure was dominated by borrowings of EUR 28.6 million, this was followed in the reporting year by repayments of loan portions amounting to EUR 11.5 million, as agreed. Some of the borrowings in the 2020 financial year were government-guaranteed loans granted in the wake of the COVID-19 pandemic, particularly for the French and Italian units.

LIQUID FUNDS

The balance of freely available cash and cash equivalents amounted to EUR 28.3 million as of December 31, 2021 (December 31, 2020: EUR 20.0 million) and mainly comprised bank balances. Of the cash and cash equivalents, EUR 2.1 million was restricted as of the reporting date. This relates to an instructed bill of exchange that serves to settle a supplier liability in the subsequent period. They are therefore not available for general use but are nevertheless to be allocated to cash and cash equivalents.

NET FINANCIAL DEBT

The Group's net financial debt[1] decreased by EUR 10.7 million to EUR 12.2 million as of December 31, 2021 (December 31, 2020: EUR 22.9 million). The increased level of cash and cash equivalents as of December 31, 2021 had a positive effect, while loans to third parties developed in the opposite direction.

[1] Net financial debt = liabilities to banks + liabilities from loans + liabilities from factoring + lease liabilities - cash and cash equivalents

From the Group's perspective, the overall liquidity situation improved. Where individual companies required support due to the heterogeneous development of their business, this was and is provided internally within the Group or by the majority shareholder and by applying for national state aid. In addition, a preventive corporate financial restructuring process was implemented in France to ensure that the financial liabilities of the units there are covered. In particular, this involved contract adjustments with customers, existing loans were restructured and social security contributions refinanced. To compensate for this, the Company can draw on the high liquidity of the Chinese companies, some of which was paid out in the form of dividends in the fiscal year. The Management Board considers the equity base to be sufficient.

ASSETS

EUR million	31.12.2021	31.12.2020
Non-current assets	92.7	86.3
Current assets	106.7	99.4
Total assets	199.4	**185.7**
Total equity	58.3	51.1
Non-current liabilities	44.9	41.7
Current liabilities	96.2	92.9
Total equity and liabilities	199.4	**185.7**

Total assets increased from EUR 185.7 million to EUR 199.4 million as of December 31, 2021.

Non-current assets amounted to EUR 92.7 million as of December 31, 2021. This corresponds to an increase of EUR 6.4 million compared to the previous year. The increase is mainly due to the increase in property, plant and equipment. Property, plant and equipment includes advance payments and assets under construction of EUR 12.3 million (2020: EUR 6.7 million).

The increase in **current assets** is primarily due to increased inventories (2021: EUR 30.0 million; 2020: EUR 23.7 million) and improved liquidity (2021: EUR 28.3 million; 2020: EUR 20.0 million). Opposing effects can be seen in the decrease in trade receivables (2021: EUR 35.8 million; 2020: EUR 46.9 million), which is due in particular to the reduced sales volume in China. In total, current assets increased by EUR 7.2 million to EUR 106.7 million.

Due to the positive consolidated result, **equity** increased from EUR 51.1 million to EUR 58.3 million. With a simultaneous increase in total assets, this corresponds to an equity ratio of 29.2%, compared to 27.5% in the previous year.
Non-current liabilities increased from EUR 41.7 million to EUR 44.9 million, due on the one hand to higher non-current contractual liabilities in connection with the manufacture of tools for the customer project in the USA. On the other hand, loans to banks decreased in the reporting period. The covenant breaches for two bank loans led to a full classification as current liabilities.

Current liabilities increased from EUR 92.9 million to EUR 96.2 million. On the one hand, contractual liabilities decreased, while on the other hand, trade payables, income tax liabilities and loans to third parties developed in the opposite direction. Loans to former shareholders were repaid in the amount of EUR 2.3 million. Furthermore, there are liabilities to former shareholders in the amount of EUR 4.0 million.

OVERALL STATEMENT OF THE MANAGEMENT BOARD ON THE ECONOMIC SITUATION

Fiscal 2021 continued to be affected by the challenges posed by the corona pandemic. In addition, consolidation aspects in the automotive industry had a negative impact on individual business units. At Group level, demand has not yet returned to pre-Corona levels.

China confirmed its position as an important core market in fiscal 2021 and made a significant contribution to the company's earnings. The market position will continue to be expanded in the future with an active R&D policy.

The sales and earnings outlook for the Plastics segment also developed positively. Restructuring measures were implemented with a sense of proportion so as not to jeopardize the ability to restart this segment when demand picks up again.

Business performance in the Materials segment fell short of expectations. At the current sales level it was not possible to break even.

Despite this heterogeneous business development, the STS Group increased EBITDA in both nominal and relative terms. The adjusted EBITDA margin was 8.2% in the reporting year 2021, compared with 7.5% in the previous year.

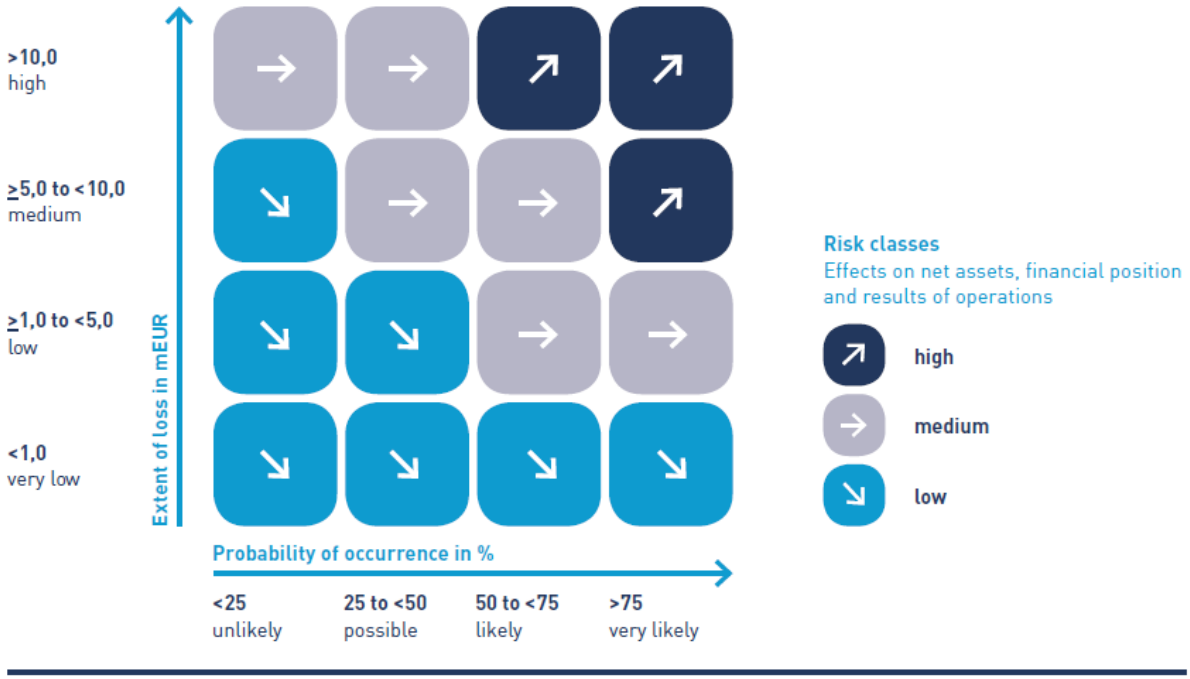
OPPORTUNITIES AND RISKS REPORT

RISK MANAGEMENT SYSTEM

Risk management as the totality of all organizational regulations and measures for the early identification of risks and the adequate handling of the risks of our entrepreneurial activities plays an important role in our business model. The Management Board has installed an early risk detection system to ensure early identification of developments that could potentially jeopardize the continued existence of the Company. All critical business developments and liability risks are subjected to a critical review and regularly reported in the reviews of the subsidiaries and the Management Board and Supervisory Board meetings. The Management Board monitors the business performance of the subsidiaries in regular reviews and is informed about the revenue, earnings and liquidity situation of all segments on the basis of the reporting system implemented. The STS Group maintains sufficient free financial capacities to be able to react flexibly and appropriately if necessary. In addition, risk management was expanded and extended in the year under review in accordance with auditing standard IDW PS 340 new Version, particularly with regard to risk aggregation and risk-bearing capacity.

In risk assessment, a distinction is made between gross and net assessment. Measures already taken can reduce the gross risk both in terms of the monetary impact and in terms of the possible occurrence of the risk. The net risk then represents the amount of damage and probability of occurrence, taking into account the damage-reducing measures already initiated by the reporting date. Only risks that exceed a threshold value of EUR 0.1 million net and EUR 1 million gross in terms of their impact on EBIT are considered in the context of risk management. Risks are assessed according to their monetary impact (extent of damage) and their probability of occurrence. When assessing the monetary impact, a distinction is made between the four categories very low, low, medium and high. The extent of damage in relation to one year is decisive for the assessment. The probability of occurrence is assessed on a percentage scale and divided into the four categories unlikely, possible, likely and very likely. The combination of extent of damage and probability of occurrence defines the risk class, which is classified as low, medium and high in terms of its effect on the net assets, financial position and results of operations. The latter is derived from the key performance indicator EBIT. The classification of risks into the respective risk classes is based on the risk matrix.

RISK MATRIX[1]



1 Classification of net risk

The identified risks are to be actively managed by the identified "risk owner" in order to achieve the risk reduction targeted by the company. All risks for which no suitable countermeasures can be taken are to be classified as business risks. The management of risks that have a minor impact on the STS Group is the responsibility of the operationally responsible management. Current risks are regularly reported to the Management Board. Within the scope of its respective area of responsibility, the Management Board is responsible for establishing the system and has overall responsibility for the process. In addition, the Board of Management ensures the implementation of any necessary measures and monitors their ongoing implementation.

Internal control and risk management system as part of the accounting process

The internal control and risk management system has an appropriate structure and processes that are defined accordingly. It is set up in such a way as to ensure that all business processes and transactions are recorded promptly, uniformly and correctly in the accounts. For the consolidation of the subsidiaries included in the consolidated financial statements, the internal control system ensures compliance with legal standards, accounting regulations and internal accounting instructions. Changes in these are analyzed on an ongoing basis with regard to their relevance and impact on the consolidated financial statements and taken into account accordingly. A schedule for the monthly, quarterly and annual preparation of the consolidated financial statements is specified by the STS Group for the subsidiaries. For the quarterly and annual financial statements, instructions are sent to the subsidiaries and supplementary data/information is requested, which is necessary for all

relevant topics regarding the contents as well as the processes and deadlines for the preparation of the financial statements. For the consolidation of the STS Group, a uniform Group chart of accounts as well as uniform accounting guidelines are used. Appropriate consolidation software is used for consolidation. Within the scope of Group accounting, there is a close exchange between the operating units and the central department. Following the introduction of new consolidation software at the beginning of the 2020 financial year, far-reaching activities (such as the preparation of the monthly reporting package) in this context were transferred to the local finance departments, and the consolidation process was also further automated. Due to the far-reaching restructuring of the Group headquarters, external experts are also regularly called in to provide support. In addition to defined controls, key elements of the internal control system include technical and manual reconciliation processes, the separation of executive and control functions, and compliance with guidelines and work instructions. Quality assurance with regard to the accounting data included in the Group is performed centrally on a monthly basis by the central department by means of analyses and plausibility checks.

The Group companies are responsible for compliance with the applicable guidelines and accounting-related processes and for the proper and timely preparation of the financial statements. The Group companies are supported in the accounting process by central contacts.

Financial Risk Management

STS Group's management monitors and manages the financial risks associated with the STS Group's business areas using internal risk reporting, which analyses risks by degree and extent. These risks include credit, liquidity and market risks (currency and interest rate risks).

MACROECONOMIC OPPORTUNITIES AND RISKS

Pandemic course continues to pose risks for global economy

According to the IfW, risks for the global economy and its framework conditions arise from uncertainty about the further course of the pandemic. The momentum of the global economic recovery has slowed significantly in 2021 as a result of new COVID-19 surges and problems in supply chains. Due to new significantly contagious virus variants, there is a risk that new waves of infection will further slow the normalization of economic activity. However, due to increasing vaccination rates, the economic impact is likely to diminish over time and the global economic recovery should continue at a moderate pace. Supply bottlenecks, which have proved an additional braking factor in recent months, should gradually be overcome as production capacities and value chains are increasingly adjusted.[12] In China, rising energy prices, rising inflation rates, weakening consumer spending and a very restrictive zero COVID-19 policy on the part of the government harbor the risk of a sustained slowdown in economic momentum in China.[13] The Chinese central bank has responded to this risk by cutting key interest rates twice. The euro zone also shows a rising incidence of infection with high incidence values, which reduced economic recovery momentum in the fourth quarter of 2021. By contrast, a wide range of financial, labor market and monetary policy measures on the part of governments and the European Central Bank (ECB) are ensuring solid macroeconomic conditions. The ECB considers the dynamic rise in inflation rates to be a temporary effect and is maintaining its expansionary monetary policy. In Mexico, COVID-19 case rates were at relatively low levels throughout 2021, largely lifting restrictions on economic and social life. However, a resurgence in the incidence of infection is possible, as only 49% of the population is fully vaccinated as of mid-November 2021.[14] Overall, the global economic situation is regionally uneven and depends to a large extent on the further course of the pandemic, inflation developments, and fiscal and monetary policy stimuli. If the rise in consumer prices slows in the course of the year, private consumption in particular is likely to benefit from further catch-up effects. In terms of the extent of damage and probability of occurrence, and with regard to their impact on the net assets, financial position and results of operations, the Management Board assesses the risk as medium.

ECONOMIC RISKS IN CHINA

China remains a clear growth driver for the global economy. However, the Chinese economy is no longer growing as fast as it used to. Burdensome risk factors include high corporate debt, lockdowns and associated plant closures, and disruptions in supply chains. Even before the Corona crisis, China had the highest corporate debt in Asia, according to the International Monetary Fund (IMF). The Chinese government is increasingly responding to industrial overcapacity and declining productivity in corporate investment with rigid management and control measures. International corporations are also putting their China strategy to the test

12 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_85_2021-Q4_Welt_DE.pdf

13 https://www.gtai.de/gtai-de/trade/china/wirtschaftsumfeld1/die-fetten-jahre-sind-in-china-erst-einmal-vorbei-251412

14 https://www.gtai.de/gtai-de/trade/mexiko/wirtschaftsumfeld1/wachsende-risiken-gefaehrden-konjunkturerholung-252914

in order to make their supply chains more robust and to diversify.[15] With rising infection figures, the Chinese government's restrictive zero-COVID policy also poses the risk of dampening economic momentum in China in the long term. Accordingly, the growth of the Chinese economy is likely to slow down in the coming years. In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board assesses the risk as medium.

STABLE DEVELOPMENT IN THE EURO AREA OFFERS OPPORTUNITIES FOR ECONOMIC STABILITY

Public budgets in the euro area continue to be affected by the Corona pandemic. The persistence of the epidemic has led many governments to extend measures to support businesses and households. In 2021, for example, spending on monetary social benefits and subsidies in the euro area was unusually high. Despite significantly higher inflation rates, monetary policy conditions will remain unchanged for the foreseeable future. Unemployment and employment have remained comparatively stable despite the drastic production slumps. Supply bottlenecks and raw material shortages pose a risk of slowing the economic recovery.[16] In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board assesses the risk as low.

ECONOMIC RISKS FROM THE UKRAINE WAR STILL UNCLEAR

The extent of the economic impact of the war in Ukraine cannot yet be predicted. Short-term consequences of the economic sanctions, such as the increase in inflation and significantly rising energy costs and logistics costs, are already visible in the euro zone. The war in Ukraine is thus weighing on economic momentum at a time when inflation has already risen sharply.

The war in Ukraine is having an enormous impact on the global automotive industry in particular. Manufacturers and suppliers are reacting with production and delivery stops beyond the applicable sanctions. The exact effects of the war cannot yet be accurately estimated. Due to the complex value creation networks of the automotive industry, suppliers of upstream production stages could be negatively affected, which could subsequently lead to bottlenecks in the supply of parts to European plants.

Of key importance for the economic effects will be the duration of the war, but also measures to reduce dependency ratios in the energy sector.

The Board of Management assesses the risk as medium in terms of the extent of damage and probability of occurrence and with regard to its effect on the net assets, financial position and results of operations.

15 https://www.gtai.de/gtai-de/trade/china/wirtschaftsumfeld1/die-fetten-jahre-sind-in-china-erst-einmal-vorbei-251412

16 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_82_2021_Q3_Euroraum_DE.pdf

PANDEMIC COURSE DETERMINES RECOVERY IN NORTH AMERICA

Mexico is currently benefiting from its proximity to the USA and its strong industrial base. On the other hand, there is a trend toward nearshoring, which could lead to a possible preference for locally produced electric cars in the USA. If this trend were to be confirmed, it would harm Mexico as a production location in the medium term. In addition, Mexico is affected by supply bottlenecks and the global chip shortage. Even if further protectionist measures cannot be ruled out, Mexico remains very relevant as a production location for the North American market. The energy policy of the current government also harbors uncertainties for the attractiveness of Mexico as an investment location for foreign capital.[17] In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board assesses the risk as low.

17 https://www.gtai.de/gtai-de/trade/mexiko/wirtschaftsumfeld1/wachsende-risiken-gefaehrden-konjunkturerholung-252914

INDUSTRY OPPORTUNITIES AND RISKS

Emission-free commercial vehicles are on the rise

In Europe, road freight transport accounts for around 75% of transport performance. Forecasts predict that the transport volume and transport performance of freight transport as a whole will continue to increase moderately. Commercial vehicle manufacturers and suppliers are acknowledging their responsibility to make their contribution to achieving climate targets with new drive concepts.[18] Road freight transport currently accounts for 15 % of European CO_2 emissions. Around 70% of these emissions come from the medium- and heavy-duty vehicle segments. In order to significantly reduce emissions in line with the goals of the Paris Climate Agreement, there is a need for investment. Research by the McKinsey Center for Future Mobility indicates that by 2025, around 4% of all commercial vehicles sold in Europe will be emission-free. This share could grow to 37% by 2030, equivalent to about 150,000 vehicles.[19] Two main technologies are currently competing for acceptance: battery electric vehicles (BEVs) and hydrogen-powered fuel cell electric vehicles. Therefore, the market will most likely include a mix of both propulsion technologies. A key challenge will be to provide a well-developed charging infrastructure as soon as possible. According to McKinsey, public subsidies for the purchase and installation of appropriate charging infrastructure as well as for the purchase of zero-emission commercial vehicles are conceivable in order to accelerate market development.[20] The associated investments as well as the technical progress in electromobility result in new opportunities and possibilities for value creation and profit realization for both vehicle manufacturers and suppliers. In addition to electrification, the introduction of weight-reducing technologies also represents a key aspect of emissions reduction. In the future, heavy metal components will be replaced by fiber-reinforced plastic parts that contribute equally to stability. The latter can contribute up to a 50 percent weight reduction. The STS Group contributes to the reduction of emissions from commercial vehicles and automobiles through components that improve aerodynamics and reduce weight. Thus, STS Group is a potential profit driver of industry-specific developments. From a technological point of view, the electrification of commercial vehicles is becoming increasingly difficult with increasing range requirements in combination with a high total weight. For this reason, the Management Board assesses the advancing introduction of emission reduction technologies as a low risk in terms of the extent of damage and probability of occurrence and with regard to its effect on the net assets, financial position and results of operations, and as an opportunity for the future development of the company.

According to market research company LMC Automotive, there are risks for the development of the global commercial vehicle and automotive markets. The spread of the Omikron virus variant, bottlenecks in global supply chains, rising inflation rates worldwide and the war in

18 https://en.vda.de/de/services/Publikationen/zuk-nftige--antriebstechnologien-aus-sicht-der-deutschen-nutzfahrzeugindustrie.html

19 https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/road-freight-global-pathways-report

20 https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/road-freight-global-pathways-report

Ukraine are causing uncertainty and could have a negative impact on industry development.[21]

The Ukraine war may lead to disruptions in supply chains and transport routes, which would result in immediate production stops in the automotive sector. Due to its regional market and procurement structure, the STS Group is not expected to be affected by this development.

The Board of Management considers the overall industry risks to be low in terms of the extent of damage and probability of occurrence, and in terms of their impact on the net assets, financial position and results of operations.

21 https://lmc-auto.com/wp-content/uploads/2022/01/2022005-January-Forecast.pdf

OTHER RISK AREAS AND SIGNIFICANT OPPORTUNITIES AND INDIVIDUAL RISKS

RISKS

STS Group enters into long-term agreements (LTA's) with its customers. In the course of these activities, obligations or commitments are entered into that must be fulfilled over a longer period of time or that could not be fulfilled as a result of unforeseen events. In retrospect, these activities may prove to be unfavorable and have a negative impact on the financial position and results of operations. In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board assesses the risk as medium.

The STS Group is dependent on a limited number of major customers and its relationships with them. A loss of these business relationships could have a material adverse effect on STS Group's business, results of operations and financial condition. Management is proactively in discussions primarily with truck manufacturers in order to win new projects for itself and thus reduce its dependence on a limited number of major customers. In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board assesses the risk as low.

Environmental protection is a high priority for STS Group. The STS Group's production and manufacturing sites are located in different countries and are subject to a wide range of environmental protection standards. Newly enacted laws or changes in the legal framework at international level may pose risks for production and also result in liability claims. The Management Board assesses the risk as medium with regard to the extent of damage and probability of occurrence and with reference to its effect on the net assets, financial position and results of operations.

General disruptions in the automotive and truck supply chain could have a negative impact on STS Group's business, even if STS Group itself is not subject to any supply bottleneck with its suppliers. If STS Group's suppliers are no longer able to supply the raw materials or components required and needed for STS Group's business, this could have a negative impact on STS Group's business. The Management Board assesses the risk as medium with regard to the extent of damage and probability of occurrence and with reference to its effect on the net assets, financial position and results of operations.

The STS Group's production is very plant-intensive and therefore involves high fixed costs. A decline in capacity utilization at the plants due to reductions in order intake by their customers consequently leads to rising costs and possibly to plant closures. In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board assesses the risk as low.

The development of negative economic and political circumstances in the main regional markets in which the STS Group operates or in which its customers use its products could have a significant negative impact on the Group's business activities and net assets, financial position and results of operations. The Management Board assesses the risk as medium with regard to the extent of damage and probability of occurrence and with reference to its effect on the net assets, financial position and results of operations.

As a result of company acquisitions in the past as well as in the future, the STS Group could become involved in legal disputes, in particular with regard to the interpretation of purchase price components, which could have a significant negative impact on the financial position and results of operations. The Management Board assesses the risk as medium with regard to the extent of damage and probability of occurrence and with reference to its effect on the net assets, financial position and results of operations.

STS Group depends on its ability to adapt to changing technologies and new trends and to continue developing new products. One of the most important trends is electromobility, which is becoming mainstream and significantly influencing the market. We assess the trend as follows: The market ramp-up for electromobility in the passenger car segment is receiving further tailwind from the European Commission with its "Fit for 55" package of measures. For manufacturers (OEMs) and dealers, the electromobility growth market with strong demand and high diversification potential offers attractive revenue opportunities. According to PwC, sales of e-cars in the new car segment are expected to increase by 23% by 2024.[22] Among all consumers surveyed in Germany, the biggest incentives cited are the lower mileage costs of an e-car (19%), environmental aspects (16%) and the ability to charge the vehicle at home (14%). At the same time, concerns about insufficient range (22%), high purchase costs (20%) and long charging times (16%) still play a role as barriers to purchase.[23] With 75% market share of e-cars in all newly registered passenger cars in 2030, McKinsey predicts that Europe will lead the change, ahead of China with 70% and the U.S. with 65% share. In the European Union, one in four passenger cars - a total of more than 70 million vehicles - on the road could already have an electric powertrain by 2030. [24][25] According to the Federal Motor Transport Authority, the number of newly registered e-cars in Germany tripled in 2020. Around 194,000 purely battery-electric cars were newly registered, and together with other alternative drive systems such as plug-in hybrids, gas or hydrogen drive, the figure was just under 395,000 cars. In the first half of 2021, around 149,000 purely battery-electric and 164,000 plug-in hybrids were already registered. Since then, development has continued to pick up speed. From January to December 2021, 1,125,047 passenger cars with alternative drives were newly registered in Germany, of which 355,961 were purely battery-electric vehicles.

22 https://www.strategyand.pwc.com/de/de/presse/2021/emobilitaet.html

23 https://www.strategyand.pwc.com/de/de/presse/2021/emobilitaet.html

24 https://www.mckinsey.de/news/presse/2021-09-06-iaa

25 https://www.mckinsey.de/news/presse/2021-09-06-iaa

There are more than 1.3 billion vehicles worldwide and this figure is expected to rise to two billion by 2035. The potential for alternative drives is therefore also huge from a global perspective.

The associated investments as well as the technical progress in electromobility result in new opportunities and possibilities for value creation and profit realization for both vehicle manufacturers and suppliers.

Risks may lie in the acceptance of electromobility with rising energy costs overall. It can be assumed that the Ukraine war will lead to rising energy costs in the short and medium term.

However, the risk of price increases also affects the end customers of conventional mobility concepts to the same extent, so that the Board of Management considers the risk to be low in terms of the extent of damage and probability of occurrence and with reference to its effect on the net assets, financial position, and results of operations.

In addition to the price increase risk, this issue also gives rise to a product development risk. If the STS Group does not succeed in presenting new products for the automotive and truck industry in the future, it could lose its competitiveness and market share. In terms of the extent of damage and probability of occurrence, and with reference to its effect on the net assets, financial position and results of operations, the Management Board assesses the risk as low.

STS Group may become subject to product liability claims and claims relating to specific performance or defects of its products, which may result in claims for damages or other claims. In addition, STS Group also manufactures its products to customer specifications and performance and quality requirements. If products are not delivered on time or not to the agreed specification, the STS Group may be subject to significant contractual penalties and rework costs. In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board assesses the risk as low

STS Group is subject to audits by tax authorities worldwide in which its reporting entities operate. In current or future audits, tax laws or relevant facts could be interpreted or assessed differently by tax authorities than by STS Group. Consequently, there could be an adjustment to the tax base and the tax liability could increase. An additional payment as a result of the adjustment of the tax base may have an impact on the financial position. In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board assesses the risk as low.

Operational disruptions or prolonged production downtime could affect STS Group's ability to deliver on time or to deliver at all. The interruption of operations may be triggered by internal or external circumstances. If the STS Group is unable to meet its contractual delivery obligations, this could have a negative impact on business activities and customer relations. The Management Board considers the risk to be low in terms of the extent of the damage,

the probability of occurrence and its effect on the net assets, financial position and results of operations.

An unexpected increase in the price of raw materials, components and equipment required by the STS Group for the development and production of its products could lead to price increases that cannot be fully passed on to the STS Group's customers or otherwise offset by other cost-saving programs. As a result of the Ukraine war, we expect cost increases in raw material and energy prices. Against this background, the Management Board assesses the existing price and procurement risks as medium in terms of the extent of damage and probability of occurrence and with reference to their effect on the net assets, financial position and results of operations.

STS Group is highly dependent on both qualified employees and specialists in all areas. Accidents cannot be completely ruled out during production or in other work areas. A safety-oriented corporate culture, appropriate selection of employees and training programs on safe behavior on site minimize the risk of accidents to its employees. The unexpected loss of employees or difficulties in finding suitable employees could have a negative impact on the net assets, financial position and results of operations. In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position and results of operations, the Management Board gauges the risk as low.

Legal risks arise for the STS Group from its business activities. These may result from violations of statutory or other legal requirements. The occurrence of legal risks could have a high impact on earnings. The Management Board considers the risk to be low in terms of the extent of damage and probability of occurrence, and with regard to its effect on the net assets, financial position and results of operations.

STS Group relies on complex IT systems and networks that may become vulnerable to damage, disruption or cyberattack due to increased hacking activity or fraud. Although STS Group has taken precautions to manage its risks related to system and network disruptions, security breaches or similar events, this could result in a prolonged unforeseen interruption of its systems or networks, thereby hampering normal business operations and also leading to the loss of the customer's data and know-how, which could have a material adverse effect on its business and reputation. In terms of the extent of damage and probability of occurrence, and with reference to their effect on the net assets, financial position, and results of operations, the Management Board gauges the risk as low.

Financial risks can always arise from business activities and as a consequence of the COVID-19 pandemic. STS Group's management monitors and manages the financial risks associated with the STS Group's business units using internal risk reporting, which analyzes risks by degree and extent. These risks include credit, liquidity and market risks (currency and interest rate risks).

In a few cases, the STS Group minimizes the impact of these risks by using derivative financial instruments. The use of derivative financial instruments is very limited, as there are currently only very small currency and interest rate exposures. In addition, there are guidelines for managing currency, interest rate and default risks. In addition, basic rules have been laid down for the execution of derivative and non-derivative financial transactions and for the investment of surplus liquidity. The STS Group does not contract or trade financial instruments, including derivative financial instruments, for speculative purposes.

Liquidity management is controlled centrally by STS Group AG with the aim of limiting risks from Group financing. This also includes monitoring compliance with external financing structures and corresponding covenants. Even though there were some covenant breaches in 2021, these had a minor impact. The STS Group also implements factoring transactions to optimize and manage the Company's liquidity position. In order to be able to actively use this management tool, we obtain regular credit ratings for our debtors and set credit limits. The adequate liquidity of the subsidiaries - in particular the subsidiaries in France - is also monitored in the investment controlling system. In addition, a preventive corporate financial restructuring process was implemented in France to ensure that the financial liabilities of the units there are covered. In this context, in particular, contracts with customers were adjusted, existing loans were restructured and social security contributions were refinanced. STS Group AG is most recently subject to the financing risk arising from its dependence on further financing from the majority shareholder or via the subsidiaries (by means of management fees and dividends). This financial dependency is compensated by the annual dividend distribution of the Chinese subsidiary, which had already been made and paid to STS Group AG for the financial year 2021 at the time this management report was prepared. The Group can only dispose of the latter in compliance with applicable foreign exchange restrictions. In addition, short-term loans are also issued by the majority shareholder, if required, to counteract short-term liquidity bottlenecks. Consequently, the Management Board assesses the risk as low with regard to the extent of damage and probability of occurrence and with reference to its effect on the net assets, financial position and results of operations.

In the reporting year, the risk of dependence on major customers was reclassified from medium to low, the risk of the development of negative economic and political circumstances and the unexpected price increase for raw materials, components and equipment were reclassified from low to medium. There are no risks that could jeopardize the company's continued existence. There were no other changes in the reporting year with regard to the extent of damage and probability of occurrence or with reference to their effect on the net assets, financial position and results of operations. The financing risk and risks arising from the war in Ukraine were identified as new risks and included in reporting.

Due to developments after the balance sheet date, particularly in connection with the Ukraine/Russia conflict and the development of the COVID-19 pandemic in China, the Company's risk situation was reviewed again.

STS Group management is constantly monitoring the development of the conflict between Ukraine and Russia; at this point in time, STS' revenues, operations and supply chain have not been affected by the conflict, with the exception of increasing inflationary pressure on raw material and energy prices in Europe. There are no immediate indications of customer production stoppages, significant supply chain disruptions, or immediate reductions in market production volumes. Nevertheless, STS Group management remains vigilant and prepared for any significant change that may occur. The aforementioned inflationary pressures, as well as the evolution of energy market prices for electricity and natural gas in Europe, have risen to unexpected levels due to the imbalance between supply and demand and the market shock caused by the conflict between Ukraine and Russia. Only STS Group's European production facilities are affected by inflationary energy costs. The STS Group is working with the leading European energy suppliers and is in discussions with all customers to obtain full compensation for the additional costs incurred. The energy markets in China and North America are currently not a cause for concern and remain stable at the 2021 level.

While the openings and expansion of public COVID-19 restrictions in Europe and North America continue to show a positive trend; a resurgence of COVID-19 infections is evident in China. This has recently led to lockdown measures in some provinces, partially affecting the ability of STS Group's customers in China to produce vehicles. Cost containment and cost flexibility measures have already been taken and STS Group is closely monitoring market developments and pandemic dynamics in China to determine if further measures will be required.

OPPORTUNITIES

New opportunities are actively sought on an ongoing basis in order to acquire new customers and retain existing ones, and thus to realize sales growth. The further expansion of the product portfolio and the expansion into growth regions offer growth opportunities for the STS Group in the medium and long term.

The return to a growth path of the STS Group depends above all on the ability to follow new technology trends such as autonomous driving and e-mobility, to develop the appropriate solutions and to bring them to market. In addition, STS Group expects that the trend towards autonomous driving will require an adaptation of the product offering to meet the specific characteristics of electronic and electrical devices. Demand in STS Group's key target markets is increasingly influenced by a number of trends, in particular emission reduction trends and the growing focus on e-mobility, driven primarily by emission targets required in various regions of the world. STS Group is addressing these trends by enabling its materials to produce low weight products that reduce the overall weight of vehicles, leading to lower emissions while reducing product costs for structural parts compared to metal products.

STS Group considers STS Plastics to be the only supplier on the market that can offer both thermoset and thermoplastic technologies and is thus able to serve all markets for such products or even combine both technologies into comprehensive system solutions.

STS Group can scale its batch size according to the individual needs of its customers. STS Group has the advantage of being able to produce small and large lot sizes for its customers through its applied technologies such as composite materials. This allows STS Group to address a broad range of customers for all of its products, setting it apart from larger automotive and truck parts suppliers that focus only on serving customers for high-volume orders and are thus subject to economic downturns when such large customers reduce the number of car and truck parts they purchase. STS Group has a strong globally integrated base in its key markets from which it can generate further international growth. STS Group operates 13 facilities in four countries on three continents with major locations in the key regional markets of Europe, China as well as North America. These facilities are strategically selected to be located near or integrated with the sequencing facilities of its major OEM customers and enable STS Group to provide the services and products its customers require in a timely and cost-effective manner through the use of local personnel qualified to operate such facilities and tailored to the needs of local customers. In addition, STS Group can grow organically with its key customers and better respond to the changing needs of its international customers because of their proximity and understanding of their customers' businesses.

Thanks to a major order won on December 19, 2019, STS Group AG will also be able to tap into the US market in the future. In addition to the Chinese and European markets, the STS Group can thus also build on the second-largest commercial vehicle market in the world and gain market share there. The long-nose trucks established there represent a very large sales

potential per vehicle for STS products. In addition, the STS Group can draw on the customer relationships already established in Europe and use these to its advantage for the acquisition of further projects in the USA.

STS Group's experienced management team can monetize its long-standing OEM relationships by leveraging strong customer relationships into cross-selling opportunities.

The company has a lean corporate structure with direct reporting to the Management Board. The long-standing customer relationships of more than 20 years on average (Europe > 20 years, China > 10 years and America > 10 years) support a strong position in a highly competitive market environment on the basis of a high order backlog.

With the acquisition of a majority stake in STS Group AG by the Adler Pelzer Group, the company can count on a strategic majority shareholder with a global presence and in-depth knowledge of the automotive industry. In combination with the Adler Pelzer Group, opportunities lie above all in the strategic realignment of activities in the automotive industry. By bundling economic activities within the STS-Adler Pelzer Group, synergies can be exploited on the procurement side and new and existing markets can be developed and expanded.

FORECAST REPORT

GROWTH OF THE GLOBAL ECONOMY SOMEWHAT SLOWER

In many parts of the world, renewed increases in corona infections are slowing economic activity. Uncertainty about the impact of the new omicron variant on the economy is high. In addition, due to the war in Ukraine, the IfW has revised its estimates for global economic growth in 2022 downward from 4.5% to 3.5%, compared with 5.7% in 2021. Inflation has already picked up sharply at the beginning of 2022 and is being further fueled by the effects of the war in Ukraine. The rise in commodity prices in connection with the war in Ukraine is likely to push inflation rates up further in the coming months. [26]

CHINA WITH MODERATE GROWTH MOMENTUM

Restrictive corona measures and consolidation of the real estate sector are weighing on economic activity in China. The Chinese government continues to pursue a no-COVID strategy and relies on strict local restrictions to control the virus in the event of outbreaks. Entry into China is still only possible with special permission and subsequent quarantine. Local corona outbreaks repeatedly lead to far-reaching lockdowns and production restrictions, including the shutdown of entire plants. A change in strategy on the part of the political leadership is not yet in sight. Last year, China's economic output rose strongly by 8.1%. However, the high growth rate was mainly due to the rapid recovery from the Corona crisis, which had essentially already taken place in 2020. Economic growth is expected to slow to 4.8% in 2022. Provided the impact of the Corona pandemic fades, GDP growth of 5.2% is realistic in 2023. [27]

FURTHER NORMALIZATION IN THE EURO AREA

The IfW expects GDP to increase by 3.5% for the year as a whole. The supply bottlenecks should gradually ease over the year as a whole, allowing strong growth in value added in the manufacturing sector over the course of the year. However, upward pressure on prices for industrial goods is expected to increase. Thus, consumer price inflation is expected to be 2.8%. With the increasing distribution of vaccines and the associated control of infection figures, the far-reaching restrictions on social and economic activity will be steadily lifted, allowing economic activity to pick up again and the pent-up household purchasing power from the past few months to take effect on demand. [28]

26 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2022/KKB_87_2022-Q1_Welt_DE.pdf

27 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2022/KKB_87_2022-Q1_Welt_DE.pdf

28 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_85_2021-Q4_Welt_DE.pdf

The economic effects of the war in Ukraine, in particular the resulting effects of rising inflation and price increases for raw materials and energy, depend to a large extent on the duration of the hostilities and cannot yet be fully assessed.

Dealing with the coronavirus, on the other hand, has become a new reality, so economists believe that related measures should not have a significant impact on normalization in the euro area.

GERMANY WITH HIGH RECOVERY POTENTIAL

The recovery of the German economy was hampered by the infectious event in the winter half of 2021. As a result, there was a setback in private consumer spending and probably also minor declines in gross domestic product in the first quarter of 2022. In its latest spring forecast, IfW Kiel has almost halved its forecast for economic output in Germany in the current year to 2.1% (previously: 4.0%). The war in Ukraine is delaying the return to pre-Corona levels into the second half of the year. Production capacities will remain underutilized until the end of the year. However, industrial companies have record order backlogs of EUR 100 billion, around 17% of total annual production. The inflation rate is expected to rise to 5.8%, the highest since reunification. These special factors are cushioning the impact of the Ukraine war, so the economic recovery after the Corona pandemic will be weighed down in the short term but will not break off. Employment is expected to continue its recovery from the Corona crisis, with the labor force rising from EUR 45.5 million in 2022 to EUR 45.7 million in 2023. [29] As soon as the supply bottlenecks, which are currently weighing heavily on industrial production, ease, a significant recovery in overall economic activity can be expected.[26]

INDUSTRY ECONOMIC FORECAST

Supply chain disruptions, shortages of inputs and raw materials, and rising energy and logistics prices have clouded the industry-specific recovery in the second half of 2021. The industry outlook for 2022 is thus subject to uncertainties. According to figures from the German Association of the Automotive Industry (VDA), passenger car production in Germany was up in January 2022 for the first time since June 2021. In the first month of the current year, a total of 184,100 new passenger cars were registered in Germany, 8% more than in the same period last year. German manufacturers produced 256,300 passenger cars at the start of the year, an increase of 8% year-on-year. [27] In 2021 as a whole, one in four newly registered passenger cars in Germany was already equipped with an electric drive. This industry trend is likely to manifest itself further in principle.[28] The Ukraine war may slow but not stop this trend. The manufacturers and suppliers of the German automotive industry are positioning themselves accordingly and investing more than EUR 220 billion in electromobility,

29 https://www.ifw-kiel.de/de/publikationen/medieninformationen/2022/fruehjahrsprognose-ukraine-krieg-belastet-deutsche-wirtschaft-deutlich-inflation-bricht-rekord/

26 https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2021/deutsche-wirtschaft-im-winter-2021-erholung-vorerst-ausgebremst-16841/

27 https://www.vda.de/vda/de/presse/Pressemeldungen/220203_PM_Deutscher-Pkw-Markt-zum-Jahresauftakt-im-Plus

28 https://www.vda.de/vda/de/presse/Pressemeldungen/220105_Deutscher-Pkw-Markt-2021_Erholung-ausgebremst

including battery technology, digitization and other research fields, from 2022 to 2026.[29] In the European passenger car market, a total of 2% fewer vehicles were registered in 2021 than in the previous year. A recovery from the pandemic-related declines is conceivable in the current year, provided there are no significant disruptions to supply chains as a knock-on effect of the Ukraine war. In the USA, light vehicle sales (cars and light trucks) grew by 3% to 14.9 million vehicles in 2021. The Chinese market grew by 7% in 2021 with a market volume of 21.1 million newly registered vehicles. The Indian market sold 27% more vehicles in 2021 than in the previous year. It is likely that global automotive sales markets will continue to develop unevenly in the current year.[30] IHS Markit forecasts that production of medium and heavy commercial vehicles will decline in 2022. In the current year, 3.609 million vehicles are expected to be produced worldwide. This represents a decline of around 55,000 vehicles compared with 2021. While unit production is expected to increase in Europe (608,000 units) and North America (662,000 units), it is expected to fall in China. Production in China is expected to fall by around 280,000 units to 1.373 million vehicles.[31] In the medium term, the political framework for reducing CO2 emissions, the cost development of the corresponding technologies and price developments on the global energy markets will remain relevant factors influencing the sector as a whole. It can therefore be assumed that the expected price increases in the energy sector resulting from the war in Ukraine will slow down growth in the sector.

29 https://www.vda.de/vda/de/presse/Pressemeldungen/211230_Deutsche-Autoindustrie-investiert-bis-2026-ber-220-Mrd-Euro-in-Forschung-und-Entwicklung

30 https://www.vda.de/vda/de/presse/Pressemeldungen/220118_Internationale-Automobilm-rkte-2021-mit-turbulenter-Entwicklung

31 https://cdn.ihs.com/www/prot/pdf/0519/Automotive-Global-Production-Summary-MH.pdf

PRP FORECAST OF THE GROUP FOR 2022, ACHIEVEMENT OF THE FORECAST FOR 2021

For the financial year 2021, the Management Board had assumed organic sales growth in the order of 10 percent and an adjusted EBITDA margin in the high single-digit percentage range. Relevant special charges were not planned for the financial year, therefore adjusted EBITDA corresponds to EBITDA. This was based on the assumption that Chinese business would be at the strong level of 2020. On the one hand, a market normalization in the second half of the year was assumed and, on the other, a continued high level of order intake. In Europe, on the other hand, the commercial vehicle market was expected to recover steadily over the course of the year. In addition, STS would continue to have flexibility to adjust production to OEM needs and market events.

With sales of EUR 242.0 million and growth of 3.0%, as well as an adjusted EBITDA margin of 8.2%, the results were partly within the communicated range. On the one hand, the targeted growth in sales was not achieved, mainly due to a weak fourth quarter in China. On the other hand, the low level of sales was compensated for by efficiency enhancement measures and the forecast target margin (in the higher single-digit percentage range) was therefore achieved for the Group in the financial year.

For the fiscal year 2022, the Management Board assumes a limited ability to forecast due to the ongoing Ukraine/Russia conflict and the renewed increase in COVID-19 infections in China. Should the geopolitical situation, especially in Eastern Europe, remain tense or even deteriorate further, this may cause a lasting disruption in production, supply chains and demand. If there is no dramatic intensification and expansion of the war, and no cessation of raw material deliveries, sales are expected to be slightly lower than in the previous year. If the situation worsens, the decline may be more pronounced. The development of sales will have an equal impact on adjusted EBITDA. No relevant special charges are planned for the fiscal year, so adjusted EBITDA is the same as EBITDA.

General risk notice

A forecast is subject to uncertainties that may have a significant impact on the forecast development of sales and earnings. Due to the current political situation in Eastern Europe in connection with the Ukraine crisis, the corresponding effects cannot be estimated at the present time.

SUPPLEMENTARY REPORT

On January 21, 2022, STS Group AG announced the following changes to the company's Management Board via ad hoc notification: The sole member of the Management Board, Mr. Andreas Becker, will terminate his office by mutual agreement at the end of January 31, 2022. Mr. Becker will remain associated with the Adler Pelzer Group. The Supervisory Board of STS Group AG and Mr. Becker have mutually agreed on this. The Supervisory Board would like to thank Mr. Becker for his successful work as a member of the Management Board following the completion of the acquisition of STS Group AG. Mr. Alberto Buniato, President NAFTA Adler Pelzer Group & Director Corporate Purchasing Adler Pelzer Group, was appointed by the Supervisory Board as sole member of the Management Board with effect from February 1, 2022.

The geopolitical tensions, especially in connection with the Ukraine/Russia conflict, are another significant risk factor for the further market development. STS Group's management is constantly monitoring the development of the conflict; at this stage, STS Group's revenues, operations and supply chain have not been affected by the conflict, with the exception of increasing inflationary pressure on raw material and energy prices in Europe. There are no immediate indications of customer production stoppages, significant supply chain disruptions, or immediate reductions in market production volumes. Nevertheless, STS Group management remains vigilant and prepared for any significant change that may occur. However, this could be dramatically exacerbated by a dramatic intensification and expansion of the war, as well as a cessation of commodity supplies. Due to the unpredictability of the development of the conflict, the Management Board assumes a limited forecasting ability for the remaining part of the fiscal year 2022.

Most recently, a dividend of EUR 5.9 million (CNY 41.8 million) was paid by the Chinese subsidiary to STS Group AG in March 2022.

TAKEOVER-RELEVANT DISCLOSURES

COMM. § 289 A AND § 315 A HGB

As a listed company whose voting shares are quoted on an organized market within the meaning of Section 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG), STS Group AG is required to disclose the information specified in Section 289a of the German Commercial Code (HGB) and Section 315a of the German Commercial Code (HGB) in its management report or consolidated management report. This information is intended to enable third parties interested in acquiring a listed company to form a picture of the company, its structure and potential takeover obstacles.

COMPOSITION OF THE SUBSCRIBED CAPITAL

The subscribed capital of STS Group AG totaled EUR 6,500,000.00 as of December 31, 2021 (December 31, 2020: EUR 6,500,000.00) and was divided into 6,500,000 no-par value bearer shares with a notional interest in the share capital of EUR 1.00 per share.

Pursuant to Section 5 (2) of the Articles of Association of STS Group AG, shareholders are not entitled to have their shares securitized unless this is legally permissible and securitization is required in accordance with the rules of a stock exchange on which the share is admitted to trading. STS Group AG is entitled to issue individual certificates or collective certificates for the shares. No entry in a share register pursuant to Section 67 (1) of the German Stock Corporation Act (AktG) is required for bearer shares.

All shares carry the same rights and obligations. The rights and obligations of shareholders are set out in detail in the provisions of the German Stock Corporation Act (AktG), in particular sections 12, 53a et seq., 118 et seq. and 186 AktG.

As of December 31, 2021, 50,000 shares were held in treasury.

RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

Pursuant to Section 21 (1) of the Articles of Association of STS Group AG, each share grants one vote at the Annual General Meeting and, pursuant to Section 24 (2) of the Articles of Association of STS Group AG, is decisive for the shareholders' share in the profits of STS Group AG. This does not apply to treasury shares held by STS Group AG, from which STS Group AG has no rights. Restrictions on the voting rights of shares may arise in particular from provisions of stock corporation law, such as Section 136 of the German Stock Corporation Act (AktG). Violations of notification obligations within the meaning of Sections 33 (1), 38 (1) and 39 (1) of the German Securities Trading Act (WpHG) may result in the rights attached to shares and also voting rights being at least temporarily suspended in accordance

with Section 44 of the German Securities Trading Act (WpHG). STS Group AG is not aware of any contractual restrictions on voting rights.

The shares of the Company are freely transferable in accordance with the legal regulations for the transfer of bearer shares and there are no restrictions on transferability.

Supplementary becomes In addition, reference is made to the information provided in the notes to the consolidated financial statements in section 4.11. Equity.

SHAREHOLDINGS EXCEEDING 10.0% OF THE VOTING RIGHTS

As of December 31, 2021, there were the following direct and indirect shareholdings in the capital of STS Group AG that exceeded the threshold of 10% of the voting rights:

The largest shareholder of STS Group AG, Adler Pelzer GmbH, with its registered office in Hagen (Germany), last reported holding 73.59% of the voting rights in STS Group AG on September 28, 2021.

No further voting rights notifications were made by Adler Pelzer GmbH, as no new relevant thresholds were exceeded or not reached.

Beyond this, STS Group AG has not been notified of any direct or indirect shareholdings in the Company's capital that reach or exceed 10% of the voting rights and is not otherwise aware of any such shareholdings.

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

No shares with special rights conferring powers of control have been issued.

VOTING RIGHTS CONTROL IN THE PARTICIPATION OF EMPLOYEES

To the extent that STS Group AG has issued or is issuing shares to employees under employee stock option programs, these shares are transferred directly to the employees. The beneficiary employees may exercise the control rights to which they are entitled from the employee shares directly in the same way as other shareholders in accordance with the statutory provisions and the provisions of the Articles of Association.

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD; AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of members of the Management Board are governed by Sections 84 and 85 of the German Stock Corporation Act (AktG). Pursuant to Section 7 (1) of the Articles of Association of STS Group AG, the Management Board consists of one or more persons. The exact number is determined by the Supervisory Board. Pursuant to Section 7 (2) of the Articles of Association of STS Group AG, the Supervisory Board may appoint a Chairman of the Management Board and a Deputy Chairman.

Pursuant to sections 119 (1) no. 5, 179 AktG, any amendment to the Articles of Association requires a resolution of the Annual General Meeting. Pursuant to Section 179 (1) sentence 2 AktG in conjunction with Section 12 (4) of the Articles of Association of STS Group AG, the authority to make amendments to the Articles of Association that only affect the wording has been delegated to the Supervisory Board. In addition, the Supervisory Board has been authorized by resolution of the Annual General Meeting on July 14, 2018 to amend Section 4 of the Articles of Association in accordance with the respective utilization of the Authorized Capital 2018/I and the Conditional Capital 2018/I and after expiry of the respective authorization period.

Resolutions of the Annual General Meeting require a simple majority of votes and, if a capital majority is required, a simple majority of the share capital represented when the resolution is adopted, unless a larger majority is prescribed by law (Section 21 (2) of the Articles of Association of STS Group AG). Accordingly, in deviation from Section 179 (2) sentence 1 AktG, resolutions of the Annual General Meeting amending the Articles of Association also require - in addition to a simple majority of votes - a majority of the share capital represented when the resolution is adopted, unless the law mandatorily requires a larger majority. In addition, according to Section 21 (2) of the Articles of Association of STS Group AG - in deviation from Section 103 (1) sentence 2 AktG - a majority of votes is sufficient for the dismissal of Supervisory Board members.

POWERS OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE SHARES

a) Authorized capital 2018/I

By resolution of the Annual General Meeting on May 3, 2018, the Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital in the period up to May 2, 2023 by up to EUR 2.5 million on one or more occasions by issuing up to 2,500,000 new no-par value bearer shares against cash and/or non-cash contributions ("Authorized Capital 2018/I").

Shareholders are generally to be granted subscription rights. However, the Board of Management is authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for one or more capital increases within the framework of Authorized Capital 2018/I,
(i) to exclude fractional amounts from the subscription right;
(ii) to the extent necessary to grant holders or creditors of bonds carrying conversion or option rights or conversion or option obligations issued or to be issued by the Company or a direct or indirect affiliated company subscription rights to new no-par value bearer shares of the Company to the extent to which they would be entitled as shareholders after exercising the option or conversion rights or after fulfillment of conversion or option obligations;
(iii) to issue shares against cash contributions if the issue price of the new shares is not significantly lower than the stock market price of the shares already listed within the

meaning of Sections 203 (1) and (2), 186 (3) sentence 4 of the German Stock Corporation Act (AktG) and the total pro rata amount of capital stock represented by the new shares issued with exclusion of subscription rights pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG) does not exceed 10% of the capital stock;
(iv) to issue shares against contributions in kind, in particular but without limitation for the purpose of acquiring (also indirectly) parts of companies, interests in companies or other assets or to service bonds issued against contributions in kind.

Further details can be found in Section 4 (5) of the Articles of Association of STS Group AG.

As a result of the share capital increase carried out in September of the previous year and the associated utilization of authorized capital 2018/I, authorized capital was reduced by EUR 0.5 million from EUR 2.5 million to EUR 2.0 million.

b) Conditional Capital 2018/I

By resolution of the Annual General Meeting on May 3, 2018, the share capital of the Company is conditionally increased by up to EUR 2,000,000.00 by issuing up to 2,000,000 new no-par value bearer shares with a pro rata amount of the share capital of the Company of EUR 1.00 per no-par value share ("Conditional Capital 2018/I"). Conditional Capital 2018/I serves to grant shares upon exercise of option or conversion rights or upon fulfillment of option or conversion obligations to the holders or creditors of convertible bonds, bonds with warrants, profit participation rights and/or participating bonds (or combinations of these instruments) issued on the basis of the authorization resolution of the Annual General Meeting of May 3, 2018. Further details can be found in the authorization resolution and in Section 4 (3) of the Articles of Association of STS Group AG.

c) Conditional Capital 2018/II

By resolution of the Annual General Meeting of May 3, 2018, the share capital of the Company is conditionally increased by up to EUR 500,000.00 by issuing up to 500,000 new no-par value bearer shares with a pro rata amount of the share capital of the Company of EUR 1.00 per no-par value share ("Conditional Capital 2018/II"). The Conditional Capital 2018/II will only be implemented to the extent that subscription rights have been issued under the Stock Option Program 2018 in accordance with the resolution of the Annual General Meeting of May 3, 2018, the holders of the subscription rights exercise their subscription rights and the Company does not grant treasury shares to fulfill the subscription rights.

The total volume of subscription rights is distributed among the eligible groups of persons as follows:

- Members of the Management Board shall receive a maximum total of up to 200,000 subscription rights
- Members of the management of affiliated companies receive a maximum total of up to 100,000 subscription rights
- Employees of the Company shall receive a maximum total of up to 150,000

subscription rights
- Employees of affiliated companies receive a maximum total of up to 50,000 subscription rights.

Further details can be found in the authorization resolution and in Section 4 (4) of the Articles of Association of STS Group AG.

d) Share buyback

The Management Board of STS Group AG is authorized to repurchase treasury shares and to sell repurchased shares in the cases regulated by law in Section 71 of the German Stock Corporation Act (AktG). By resolution of May 3, 2018, the Annual General Meeting authorized the Management Board, with the consent of the Supervisory Board, to acquire treasury shares of the Company up to a total of 10% of the Company's share capital existing at the time the resolution was adopted or - if lower - at the time the authorization is exercised, until the end of May 2, 2023. The shares acquired on the basis of this authorization, together with other treasury shares of the Company which the Company has acquired and still holds or which are attributable to it in accordance with sections 71a et seq. of the German Stock Corporation Act (AktG), may at no time exceed 10% of the respective capital stock of the Company. At the discretion of the Management Board, treasury shares may be purchased on the stock exchange or by means of a public purchase offer to all shareholders or by means of a public invitation to shareholders to submit offers for sale.

By resolution of the Annual General Meeting on May 3, 2018, the Management Board was authorized to use the treasury shares, in addition to a sale via the stock exchange or by means of an offer to all shareholders, for any permissible purpose, in particular also as follows:
(i) They may be retired and the capital stock of the Company reduced by the portion of the capital stock attributable to the retired shares.
(ii) They may be offered to and transferred to third parties in exchange for contributions in kind.
(iii) They may be sold to third parties against payment in cash if the price at which the shares in the Company are sold is not significantly lower than the stock market price of a share in the Company at the time of sale (Art. 186 par. 3 sentence 4 AktG). The pro rata amount of capital stock represented by the number of shares sold on the basis of this authorization may not exceed 10%.
(iv) They may be used to service purchase obligations or purchase rights to shares in the Company arising from and in connection with convertible bonds or bonds with warrants or profit participation rights with conversion or option rights issued by the Company or one of its Group companies.

Further details can be found in the authorizing resolution.

By resolution of the Annual General Meeting on May 3, 2018, the Management Board was also authorized, with the approval of the Supervisory Board, to acquire treasury shares up to

a total of 5% of the capital stock existing at the time of the resolution by using derivatives (put or call options or a combination of both). The term of the options must be selected in such a way that the shares are acquired by exercising the options no later than May 2, 2023. The shareholders - applying § 186 (3) sentence 4 AktG mutatis mutandis - are not entitled to conclude such option transactions with the Company. Further details can be found in the authorization resolution.

MATERIAL AGREEMENTS THAT ARE SUBJECT TO A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

STS Group AG has not entered into any material agreements that contain provisions in the event of a change of control.

COMPENSATION AGREEMENTS MADE WITH MEMBERS OF THE MANAGEMENT BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID WITH MEMBERS OF THE MANAGEMENT BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

No compensation agreements have been concluded with the Management Board in the event of a change of control.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289F HGB AND SECTION 315D HGB

In the course of the corporate governance declaration, STS Group AG reports on the working methods of the Management Board and Supervisory Board. The corporate governance statement pursuant to § 289F HGB and § 315D HGB:

https://www.sts.group/investor-relations/corporate-governance

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

In February 2022, the Management Board and Supervisory Board of STS Group AG issued the declaration required by Section 161 of the German Stock Corporation Act and is publicly available at:

https://www.sts.group/investor-relations/corporate-governance

DEPENDENCY REPORT

In the legal transactions listed in the report on relationships with affiliated companies for the reporting period from January 1 to December 31, 2021, our company, STS Group AG, received appropriate consideration for each legal transaction according to the circumstances known to us at the time the legal transactions were undertaken or omitted. No other measures were taken or omitted in the reporting period at the instigation of or in the interests of the controlling companies or a company affiliated with the controlling companies.

NON-FINANCIAL CONSOLIDATED STATEMENT

STS Group AG complies with the obligation to issue a non-financial statement (NFE) in accordance with Sections 315b, 289b of the German Commercial Code (HGB) by publishing a separate non-financial Group report on the STS Group AG website at https://www.sts.group/investor-relations/publications.

In addition to a description of the business model, the NFE also includes disclosures on the following aspects to the extent necessary for an understanding of the Group's business performance, results of operations, position and the effects of the business performance on these aspects:

- Environmental concerns
- Employee matters
- Respect for human rights
- Combating corruption and bribery
- Customer and supplier relations

STS GROUP AG

In addition to the reporting on the STS Group, the development of STS Group AG is explained below.

STS Group AG is the parent company of the STS Group and performs the corresponding management and central functions. Following the restructuring that took place in the 2020 financial year, a large number of tasks were transferred to the local units. The management and central functions performed by STS Group AG include Group-wide finance and accounting, provision of management and services in the areas of corporate acquisitions and disposals and strategic corporate development, as well as global corporate and marketing communications. As of December 31, 2021, 3 employees (2020: 4) were employed by STS Group AG for these tasks.

STS Group AG directly or indirectly holds shares in 8 companies. The economic environment of STS Group AG was essentially the same as that of the STS Group as described in the Group's fundamentals and in the economic report.

In contrast to the consolidated financial statements, STS Group AG does not prepare its annual financial statements in accordance with International Financial Reporting Standards ("IFRS"), but in accordance with the provisions of the German Commercial Code ("HGB"). The complete annual financial statements are published separately at https://www.sts.group/investor-relations/publications.

For STS Group AG, the revenues from management and service fees as well as the annual result, which is significantly influenced by the income from dividend payments of the subsidiaries, represent the key performance indicators.

EARNINGS SITUATION

The **economic situation of** STS Group AG is mainly characterized by the operating activities of its subsidiaries. STS Group AG participates in the operating results of the subsidiaries through their distributions. Thus, the economic situation of STS Group AG is determined indirectly via STS Group, which is explained in the economic report.

INCOME STATEMENT OF STS GROUP AG IN ACCORDANCE WITH HGB

in kEUR	2021	2020
Revenues	1,520	4,067
Other operating income	231	15,357
Personnel expenses	-736	-4,913
Amortization of intangible assets and depreciation of tangible assets	-47	-112
Other operating expenses	-2,327	-10,157
Income from equity investments	3,183	0
Other interest and similar income	1	304
Amortization from financial assets	0	-12,944
Interest and similar expenses	-290	-219
Taxes on income	-161	-45
Profit after taxes on income	**1,375**	**-8,662**
Other taxes	0	-1
Net profit / loss for the year	**1,375**	**-8,663**
Retained accumulated losses/profits carried forward	0	-9,278
Withdrawals from the capital reserve	0	17,942
Accumulated gains/losses carried forward	**1,375**	**0**

In fiscal year 2021, **revenue** decreased to EUR 1,520 thousand (2020: EUR 4,067 thousand) due to lower allocations for management and corporate services charged to the subsidiaries. This is a consequence of the comprehensive reorganization of STS Group AG in fiscal year 2020.

While **other operating income in the** previous year was characterized by the disclosure of hidden reserves in the course of the merger of subsidiaries, other operating income in fiscal year 2021 is back at the level of the previous periods (2021: EUR 231 thousand; 2020: EUR 15,357 thousand). This item includes the offsetting of other non-cash compensation for private vehicle use EUR 24 thousand (2020: EUR 0 thousand), as well as EUR 100 thousand (2020: EUR 159 thousand) in income from the reversal of provisions.

As part of the reorganization of STS Group AG, a significant streamlining of the corporate headquarters already took place in the 2020 financial year. The resulting cost effects took full effect in fiscal year 2021, resulting in a significant nominal and relative reduction in personnel

expenses. Personnel expenses amounted to EUR 736 thousand as of December 31, 2021, compared to EUR 4,913 thousand in the previous year.

Other operating expenses decreased significantly year-on-year by EUR 7,927 thousand to EUR 2,327 thousand in fiscal year 2021. The reduction in this item is in line with the reorganization of the STS Group and the realignment of operating activities. Furthermore, other operating expenses include legal and consulting fees of EUR 522 thousand (2020: EUR 1,482 thousand) in the course of the public takeover and, to a lesser extent, expenses to affiliated companies.

Income from investments amounted to EUR 3,183 thousand as of December 31, 2021 (2020: EUR 0 thousand). Dividend payments from subsidiaries are reported in this item.

Following the write-down of loans to affiliated companies in the course of the sale of the Acoustics division in the 2020 financial year, income from loans of financial assets decreased by EUR 303 thousand to EUR 1 thousand as of the balance sheet date.

Due to the borrowing in the fourth quarter of the 2020 financial year, interest expense increased by EUR 71 thousand to EUR 290 thousand.

Income taxes amounted to EUR 161 thousand as of December 31, 2021 (2020: EUR 45 thousand), mainly resulting from the remaining dividend payment of EUR 3,183 thousand from the foreign subsidiary in the previous year. In the previous year, taxes mainly related to taxes on income from management services.

After deduction of taxes, the net profit for the year was EUR 1,375 thousand (2020: net loss EUR 8,663 thousand), which also corresponds to the unappropriated profit in 2021. The accumulated loss incurred in the previous year was fully offset by a withdrawal from the capital reserve.

NET ASSETS AND FINANCIAL POSITION

BALANCE SHEET OF STS GROUP AG IN ACCORDANCE WITH HGB

	31. December	
in TEUR	2021	2020
Assets		
Fixed assets	**19,210**	**19,277**
Intangible assets	115	159
Tangible asssets	0	24
Financial assets	19,095	19,094
Current assets	**148**	**1,000**
Receivables and other assets	119	439
Cash and cash equivalents	29	561
Prepaid expenses	**88**	**148**
Total assets	**19,446**	**20,425**
Liabilities		
Share Capital	**14,022**	**12,648**
Provisions	**583**	**488**
Other provisions	583	488
Liabilities	**4,841**	**7,289**
Trade payables	314	345
Liabilities to affiliated companies	254	6,472
Other liabilities	4,273	472
Total equity and liabilities	**19,446**	**20,425**

Total assets decreased to EUR 19,446 thousand as of December 31, 2021 (2020: EUR 20,425 thousand). The reduction in total assets is mainly attributable to the reduction in current assets, with receivables and other assets also decreasing in particular due to the lower level of activity at Group headquarters following the restructuring carried out in 2020. In addition, an increase in equity due to the unappropriated profit generated in 2021 had the opposite effect to the reduced liabilities after repayment of a loan to former shareholders.

Due to depreciation, **intangible assets** (2021: EUR 115 thousand; 2020: EUR 159 thousand) and **property, plant and equipment** (2021: EUR 0 thousand; 2021: EUR 24 thousand) decreased. Financial assets amounted to EUR 19,095 thousand as of the balance sheet date (2020: EUR 19,094 thousand).

Under **receivables and other assets,** receivables from affiliated companies decreased to EUR 84 thousand as of the balance sheet date (2020: EUR 354 thousand). The reduction is due on the one hand to the change in shareholders and on the other hand to the separation from the Acoustics division.

Cash and cash equivalents decreased by EUR 532 thousand to EUR 29 thousand (2020: EUR 561 thousand). Cash and cash equivalents comprise bank balances and cash on hand. The reduction in cash and cash equivalents is due on the one hand to the repayment of old shareholder loans, but also to the reduced proceeds from cost allocations to subsidiaries. The latter is in line with the reduced size of the Group's head office.

As a result of the improved earnings situation, **equity** increased by EUR 1,374 thousand (unappropriated profit 2021) to EUR 14,022 thousand. With a simultaneous reduction in total assets, the equity ratio increased to 72.1%, compared with 61.9% in the previous year. No dividends were paid in the reporting year.

Provisions increased from EUR 488 thousand in the previous year to EUR 583 thousand as of December 31, 2021. The increase in this item is due to the recognition of provisions for the increased costs of the 2021 annual audit.

In the course of the change in shareholders, there was a shift between liabilities to affiliated companies and other liabilities. **Liabilities to affiliated companies** decreased by EUR 6,218 thousand to EUR 254 thousand as of the balance sheet date. EUR 6,452 thousand of this change is attributable to a partial repayment and reclassification of liabilities to affiliated companies in the course of the change in shareholders. These liabilities to the former majority shareholder are now reported as liabilities to third parties and are included in other liabilities. **Other liabilities** thus amounted to EUR 4,273 thousand as of December 31, 2021 (2020: EUR 472 thousand).

OPPORTUNITIES AND RISKS

The business development of STS Group AG is essentially subject to the same opportunities and risks as those of STS Group. STS Group AG participates directly or indirectly in the risks of its subsidiaries. In addition, contractual contingent liabilities (in particular financing) may result from the relationships with the subsidiaries, as well as write-downs on the shares in affiliated companies. Lastly, STS Group AG is subject to financing risk and the dependence of Group AG on further financing by the majority shareholder or via the subsidiaries (by means of management fees and dividends).

As the parent company, STS Group AG is integrated into the Group-wide risk management system of the STS Group. The description of the internal control system for STS Group AG required by Section 289 (4) of the German Commercial Code (HGB) is provided in the chapter "Risk and Opportunities Report".

OUTLOOK

The Company had assumed that revenues from management services would be significantly below the level of 2020 (2020: EUR 4,067 thousand) in fiscal year 2021 due to the restructuring of the corporate headquarters carried out in 2020 and the resulting lower expenses. In addition, a significant increase in earnings over the previous year 2020 (2020: EUR -8,663 thousand) was expected. With revenues from management services of EUR 1,520 thousand and earnings of EUR 1,375 thousand, the development was in line with management's expectations.

For the financial year 2022, management expects revenues from management services to be approximately 20% below the previous year. Due to the further reduced costs of the Group headquarters and the dividend payment from China also planned for 2022, the management expects earnings at least at the level of the previous year (2021: EUR 1,375 thousand). The effects of the Ukraine war, as well as the development of the COVID-19 pandemic in China as described for the Group, are currently not yet fully foreseeable. Accordingly, the effects on STS Group AG and the development in the current fiscal year cannot be foreseen at the present time.

General risk notice

A forecast is subject to uncertainties that may have a significant impact on the forecast development of sales and earnings.

Hallbergmoos, April 5, 2022

Alberto Buniato (CEO)