

## **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 Executive Board sees a clear competitive advantage. Production facilities and logistics are mainly designed for small and medium series, as is typical for light to heavy commercial vehicles, but also for special models and electromobility or weight-optimized plastic solutions, as is increasingly the case 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 (composite materials). It manufactures the semi-finished product, the composites themselves and can therefore respond flexibly to customer-specific requirements.

**OVERVIEW LOCATIONS**



The Group produces parts and systems for trucks, 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.

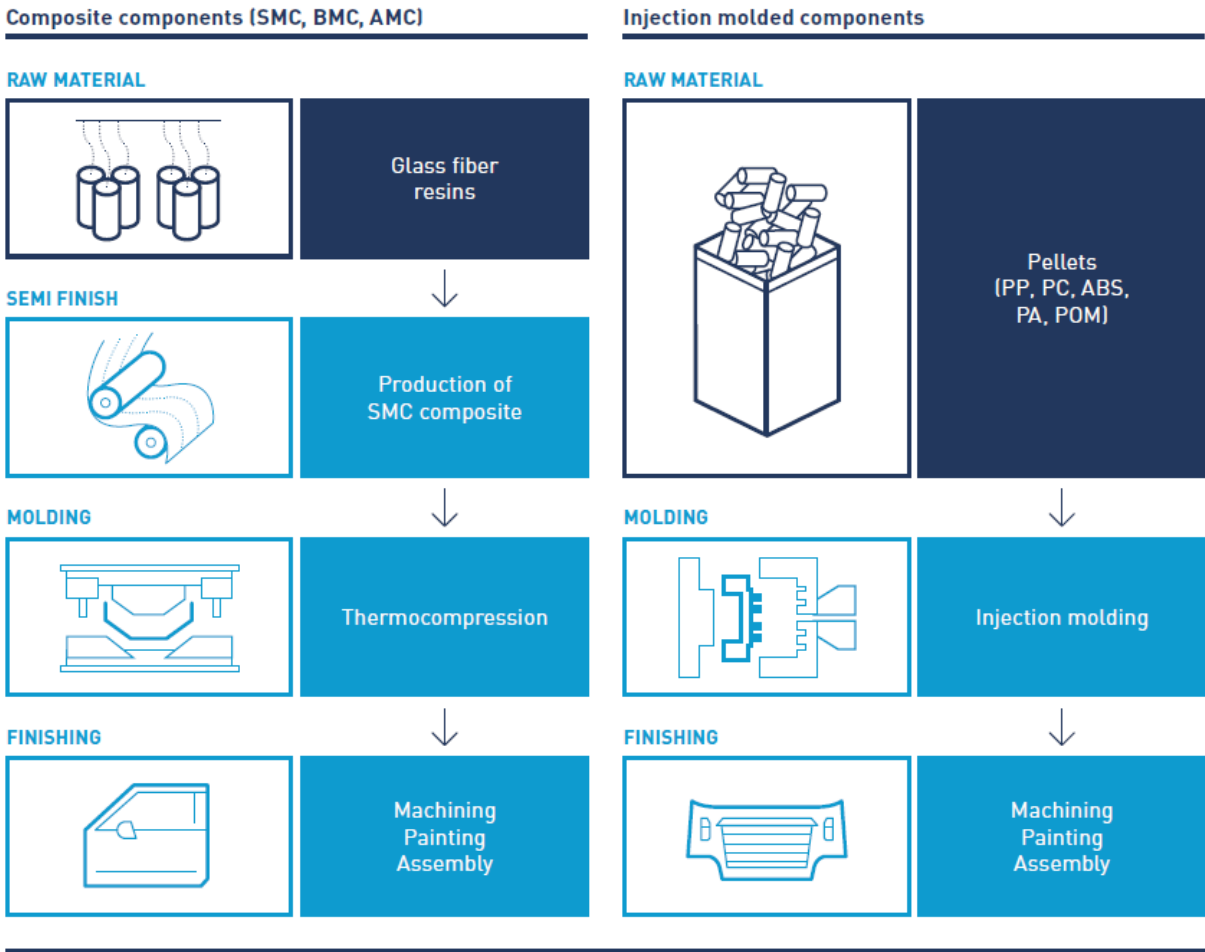
## BUSINESS ACTIVITY

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 parts and interior modules for trucks, other commercial vehicles and passenger cars. It includes hard trim products made from injection molding and composites, such as SMC (Sheet Molding Compound), and glass fiber reinforced thermoset semi-finished products. The semi-finished product plays an important role in automotive production thanks to its numerous positive properties, such as high rigidity and heat resistance. For example, it frequently replaces structural parts made of metal and makes an important contribution to covering battery systems in electric vehicles. The Plastics segment has production facilities in Europe and Mexico. Customers in North America are supplied from Mexico. Hard trim systems are used for 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 for 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 China in total in Shiyan. In addition, the Group is represented in Qingdao and Jiangyin. Winning a major order from a

leading international commercial vehicle manufacturer, STS entered the North American market and in 2023 will be planning to construction of a production site in the northeastern region of the USA in 2023. For this purpose, an existing plant located within optimal reach of the customer was leased, which will be adapted to the requirements of the start-up production.

During the 2020 financial year, STS decided to focus on its core technologies of injection molding and composite technologies. This was followed by the divestment of the Acoustics segment to Adler Pelzer Group in the third quarter of 2020. With the divestment, 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, the Adler Pelzer Group was able to lay essential foundations for expanding the positioning of the STS Group as one of the leading system suppliers in the automotive industry, even in the still challenging times ahead. Due to the existing presence of the Adler Pelzer Group in North America, on the one hand the profitability in Mexico could be significantly strengthened, on the other hand the new project for the US market could be advanced. As of December 31, 2022, the Adler Pelzer Group holds 74.42% of the shares in STS Group AG.

## 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 the reduction of CO<sub>2</sub> emissions. In addition, our products improve the look, feel and functionality of vehicles.

The growth strategy of the STS Group is based, on the one hand, on process optimization through increased automation of manufacturing processes and, on the other hand, on addressing technological trends such as autonomous driving or e-mobility. In addition, STS supports customers in the commercial vehicle sector in the development of CO<sub>2</sub>-more efficient and innovative trucks.

In order to expand its competitive position and achieve sustainable profitability, 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 Executive 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 revenue, earnings before interest, taxes, depreciation and amortization (EBITDA), and adjusted EBITDA (adjusted for special charges in connection with restructuring costs and non-operating one-time expenses). No special charges were incurred here in the 2022 financial year, so EBITDA was the same as adjusted EBITDA. In the previous year, special charges amounted to EUR 0.8 million and were related primarily to legal and consulting fees for a preventive corporate financial restructuring process that was completed in France at the beginning of the year.

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	2022	2021
<b>Adjusted EBITDA Group</b>	9,6	19,9
Management adjustments (netted)	0,0	0,8
<b>EBITDA Group</b>	9,6	19,1
Depreciation and amortization expenses	-16,2	-15,5
<b>Earnings before interest and income taxes (EBIT)</b>	-6,6	3,6
Interest and similar income	0,3	0,1
Interest and similar expenses	-2,8	-2,5
Finance result	-2,5	-2,5
<b>Earnings before income taxes</b>	-9,1	1,1

There are no significant non-financial performance indicators for the STS Group that are used for internal management or 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 continued to be on protecting employees from infection in connection with the global COVID-19 pandemic. To this end, numerous hygiene, distance and protection measures were continued at all sites. In the indirect functions, extensive use was also made of the introduction of home offices.

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 define appropriate measures for developing competencies.

As of December 31, 2022, a total of 1,422 people (2021: 1,516) 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. On the one hand, 2022 was characterized by an upturn in Europe after previous years marked by the COVID-19 pandemic, which led to restrictions and delays in customers' programs in previous years. On the other hand, the year was also marked by the Ukraine/Russia conflict and the strict zero-covid policy in China, which led to a continued uncertain situation. Therefore, the R&D budget in 2022 was kept as low as possible to save costs. STS Group's strategy was to use the available resources of the development centers to accelerate innovation programs.

Our three research and development centers in France and China continue to pool their expertise and exploit synergy effects. Finite element analyses 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. In addition, further synergies could arise in the future from cooperation with the development centers of the Adler Pelzer Group.

R&D activities successfully won 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
- Integration of the innovation and process team into the development organization of the Adler Pelzer Group and use of synergies
- Innovation strategy plan with a focus on a sustainable product cycle
- Conversion of conventional raw materials, for products already in production, through the use of sustainable plastics (recycled/recyclable/organic)
- Focus in development on sustainable and valuable-looking plastics for use in trucks
- Development of ecodesign guidelines and tools, including the use of LCA (Life Cycle Assessment) as a decision support tool for innovation

As an important key partner of a major OEM, the approach of incorporating sustainable plastics into production is the subject of a joint development project and has been certified/marked by CARA, the European cluster for mobility solutions.

Other innovative projects have emerged on e-trucks, safety, transport attractiveness and differentiation:

- Backlit prototypes for the interior trim and bodywork
- Composite module for hydrogen-powered commercial vehicles
- Joint development of a heat shield to protect occupants in the event of fire
- Development of an interior module to increase driver comfort on board long-distance trucks

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 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 49 people worldwide (compared with 57 in 2021).

In the reporting period, non-capitalized development costs were slightly above the previous year's level at EUR 1.4 million (2021: EUR 1.2 million). In the reporting period, of a total of EUR 2.3 million in development costs, EUR 1.1 million (December 31, 2021: EUR 2.0 million) was capitalized and no amortization was recognized.

# ECONOMIC REPORT

## MACROECONOMIC AND INDUSTRY-RELATED GENERAL CONDITIONS

### MACROECONOMIC DEVELOPMENT

#### RECOVERY OF THE GLOBAL ECONOMY HALTED

Following the pandemic-related slump in 2020, the global economy began to recover in 2021, particularly in the second half of the year. However, this stalled significantly in the first half of 2022, and the outlook for the global economy deteriorated further in the second half of the year. Adverse effects from the pandemic, in particular China's strict zero-covid policy, and the impact of Russia's attack on Ukraine led to a sharp rise in inflation and a renewed increase in supply bottlenecks, according to the Kiel Institute for the World Economy (IfW).<sup>1</sup> In view of sharply rising energy prices, inflation figures climbed to historic highs in many countries. As a result of the high inflationary pressure, central banks moved to adopt a more restrictive course and raise interest rates. Overall, the global economy weakened significantly in the course of the year under the impact of high energy prices and great uncertainty. According to the IfW, for example, the increase in global production in 2022 was just 3.2%, following growth of 6.1% in 2021. For 2023, the IfW predicts an increase of 2.2%.<sup>2</sup>

#### GROWTH IN CHINA LOSES MOMENTUM

In the People's Republic of China, gross domestic product rose by only 2.9% in 2022 according to the IfW winter forecast 2022.<sup>3</sup> Accordingly, Chinese growth in 2021 was 8.6%, whereas the IfW summer forecast initially indicated 8.1%.

The decline was due to the regional lockdowns imposed once again over the year as a whole as a result of the government's strict zero-covid policy. As a result, tensions in the global production networks increased. In November, however, the government retreated from its restrictive covid policy, giving rise to optimism among manufacturing companies that the situation in their supply chains would ease quickly. Restrictions on free travel and weak investment sentiment in the construction and real estate sectors also weighed on the Chinese economy over the year.<sup>4</sup> Consumer spending also remained subdued, with online and retail sales stagnating.<sup>5</sup> Retail sales grew by only half a percent in the first ten months, according to the National Bureau of Statistics. Before the pandemic, 8.0% was the norm.<sup>4</sup>

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<sup>1</sup> <https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2022/weltwirtschaft-im-sommer-2022-inflationsschub-bremst-die-expansion-0/>

<sup>2</sup>

<https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2022/weltwirtschaft-im-winter-2022-wenig-auftrieb-viel-gegenwind-17875/>

<sup>3</sup> [https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2022/KKB\\_97\\_2022-O4\\_Welt.pdf](https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2022/KKB_97_2022-O4_Welt.pdf)

<sup>4</sup> <https://www.gtai.de/de/trade/china/branchen/platzt-in-china-die-immobilienblase--722280>

<sup>5</sup> <https://www.gtai.de/de/trade/china/wirtschaftsumfeld/wachstumslokomotive-ade-886754#toc-anchor--2>

<sup>4</sup> <https://www.gtai.de/de/trade/china/wirtschaftsumfeld/die-fetten-jahre-sind-in-china-vorbei-251412>

## EUROPEAN REGION WITH A ROBUST ECONOMY

The recovery from the economic impairments of the Corona pandemic, which began in 2021, continued until mid-2022. According to the IfW, for example, the economy in the monetary community initially continued to expand despite the dislocations caused by the war in Ukraine.<sup>7</sup> In the industrial sector, there was nevertheless underutilization of production capacity due to a shortage of equipment and materials.<sup>8</sup> In the second half of the year, the economy weakened in the face of continuing energy price increases and the difficult global economic environment. High inflation reduced the purchasing power of businesses and households, resulting in a drag on real private consumption. Contrary to many expectations, however, the euro zone proved more robust than expected and did not fall into recession.

Overall, the IfW expects gross domestic product within the euro area to rise by 2.8% in 2022, following an increase of 5.0% in 2021. In 2023, economic output in the euro zone is expected to be virtually stagnant, and in 2024 it is expected to increase moderately by 1.6%. Consumer prices rose by an average of 8.1% in 2022, the highest rate since the monetary union came into being.<sup>9</sup> The unemployment rate averaged 6.6% in 2022 and even fell to 6.1% at the end of the year.<sup>5 11</sup>

## MORE VEHICLES PRODUCED IN MEXICO THAN IN THE PREVIOUS YEAR

According to the GTAI, Mexico's economy grew by 2.1% year-on-year in real terms in 2022. The main driver of the upturn was the manufacturing industry. According to GTAI, manufacturing proved to be a crisis-proof sector, benefiting in particular from strong demand from the USA. This is driving more and more companies to produce closer to the USA in order to minimize supply chain difficulties. Experts therefore expect a greater shift in production from Asia to Mexico.<sup>12</sup> Sharply rising costs for Energy pushed inflation rates up to 8.7% in the summer, which was also the highest level in around 20 years. At the end of the year, inflation fell slightly to 7.8% in December.<sup>6</sup> Mexico is the world's sixth-largest producer and fourth-largest exporter of passenger cars and has therefore been hit hard by the global chip shortage and supply chain bottlenecks. The supply of semiconductor chips has now stabilized again. However, the sector is threatened by declining demand from the U.S., Mexico's largest export market. In total, around 3.3 million vehicles were produced in Mexico in 2022, an increase of 9.2% on 2021.<sup>7</sup>

## INDUSTRY ECONOMIC DEVELOPMENT

<sup>7</sup> <https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2022/euroraum-im-herbst-2022-rezession-voraus-17605/>

<sup>8</sup> [https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2022/KKB\\_94\\_2022\\_Q3\\_Euroraum\\_DE.pdf](https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2022/KKB_94_2022_Q3_Euroraum_DE.pdf)

<sup>9</sup> <https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2022/euroraum-im-herbst-2022-rezession-voraus-17605/>

<sup>5</sup> <https://www.destatis.de/Europa/DE/Thema/Bevoelkerung-Arbeit-Soziales/Arbeitsmarkt/EUArbeitsmarktMonat.html>

<sup>11</sup> <https://www.ifw-kiel.de/de/themendossiers/konjunktur/>

<sup>12</sup> <https://www.gtai.de/de/trade/mexiko/wirtschaftsumfeld/aussichten-verschlechtern-sich-252914>

<sup>6</sup> <https://www.inflation.eu/en/inflation-rates/mexico/historic-inflation/cpi-inflation-mexico-2022.aspx>

<sup>7</sup> <https://tradingeconomics.com/mexico/car-production>

The global commercial vehicle market in 2022 was characterized by a difficult economic environment. Supply chain disruptions and rising energy prices put pressure on both producers and suppliers. While semiconductor availability improved slightly in 2022, having the right chip for the right vehicle in the right plant can prove difficult. Accordingly, this may impact production capability, according to industry analyst IHS Markit. The medium- to long-term dynamics of the structural shift from internal combustion to electric powertrains also posed challenges for the industry in 2022.<sup>8</sup> According to the German Association of the Automotive Industry (VDA), 336,000 heavy-duty vehicles were sold in Europe (+5.0%), 476,000 in North America (+3.0%) and 768,000 in China (-51.0%).<sup>9</sup> Approximately 365,000 units of all commercial vehicle classes were newly registered on the German vehicle market<sup>10</sup>, while 348,000 units were registered on the French market.<sup>11</sup>

## BUSINESS PERFORMANCE

The business development of the STS Group was very heterogeneous as a result of the global economic environment due to the war in Ukraine and the restrictive COVID-19 policy in China. The Plastics and Materials segments performed positively throughout the year. Both segments recorded a significant market recovery, particularly in Europe, due to strong truck sales. This was due to heavier trucks produced in 2022, which increased by 6.5% to around 256,000 units in Europe in the full year. Sales of medium-duty commercial vehicles also increased. Registration figures rose by 3.5% to around 300,000 units sold in the same period.<sup>12</sup> Both the Plastics and Materials segments benefited from rising customer orders. Price increases for materials were largely passed on, which was reflected in rising profitability in the Plastics segment in the third quarter in particular and made a positive contribution to the Group's overall earnings.

The good development in Mexico is also pleasing for the STS Group. In addition to strong demand from the USA, the site benefited from the structural measures initiated in 2021 and from synergy effects resulting from the strategic entry of the Adler Pelzer Group. Accordingly, the STS Group significantly increased its profitability in Mexico, which also had a positive impact on the Plastics segment overall. Overall, the expansion of the North American business is and remains highly relevant for the STS Group. The establishment of a production site in the northeastern United States plays a key role in this. The STS Group is counting on the support of its majority shareholder Adler Pelzer Group, which has been active in this region since 1990. In the second half of the year under review, the STS Group's strategy was adjusted, with the focus now being on the conversion of an existing plant rather than the construction of a new

<sup>8</sup> <https://ihsmarkit.com/research-analysis/september-2022-light-vehicle-production-forecast-update.html>

<sup>9</sup> [https://www.vda.de/de/presse/Pressemeldungen/2023/230202\\_PM\\_Internationale-schwere-Nutzfahrzeugm-rkte-2022-mit-uneinheitlicher-Entwicklung](https://www.vda.de/de/presse/Pressemeldungen/2023/230202_PM_Internationale-schwere-Nutzfahrzeugm-rkte-2022-mit-uneinheitlicher-Entwicklung)

<sup>10</sup> [https://www.kba.de/DE/Presse/Pressemitteilungen/Fahrzeugzulassungen/2023/pm01\\_2023\\_n\\_12\\_22\\_pm\\_komplett.html](https://www.kba.de/DE/Presse/Pressemitteilungen/Fahrzeugzulassungen/2023/pm01_2023_n_12_22_pm_komplett.html)

<sup>11</sup> <https://www.utilitaire-service.fr/actualites/342-comment-sont-porte-le-marche-du-vehicule-utilitaire-en-2022.html>

<sup>12</sup> [https://www.acea.auto/files/20230125\\_PRCV\\_2212\\_FINAL.pdf](https://www.acea.auto/files/20230125_PRCV_2212_FINAL.pdf)

one. On the one hand, this has a positive effect on the project schedule, but also on the investment costs.

By contrast, the China segment fell well short of expectations in 2022, as the Chinese commercial vehicle market was unable to maintain the high demand momentum seen in 2021. While the first half of the previous year started at a high level and benefited from the stricter controls on permitted transport volumes implemented in 2019 and the increased expansion of the commercial vehicle fleet of logistics companies, a downward trend was already observed in the second half of 2021, which continued in the first half of 2022. In the second half of 2022, the trend stabilized at a nevertheless low level. The decline in demand was due to the Chinese government's ongoing restrictive zero-covid policy and the associated local lockdowns. By contrast, significant sales growth in the Plastics and Materials segments, attributable to a strong recovery in the European truck market, was unable to fully offset the sharp decline in the China segment. To counteract this market-related decline in sales in China, several cost-cutting measures were implemented locally. These will take full effect in the first quarter of 2023 and fully absorb the associated costs in 2022. Despite the drastic decline in business in China last year, the long-term growth trend there is intact, irrespective of the political COVID measures. Therefore, cost structures were not fully adjusted to the politically influenced decline in sales. However, this resulted in significant margin losses in the China segment.

With regard to the composition of the Management Board, the Company announced changes at the beginning of the year. The sole member of the Executive Board, Mr. Andreas Becker, resigned from office by mutual agreement with effect from the end of January 31, 2022. 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 Executive Board with effect from February 1, 2022.

Despite the challenges in the China segment, in May 2022 STS Group and its main shareholder, Adler Pelzer Group, announced plans to further expand their presence in China. The companies signed a memorandum of understanding with the government of the city of Taixing, which is under the auspices of CHIC, an Italian-Chinese foundation. The future site in Taixing, which is home to innovative producers and manufacturers of new materials, will drive STS's own innovations and the latest technologies in composite materials for interior and exterior trim. This will include machining, fully automated painting and pre-assembly of sub-modules for easy installation in cars or trucks. The new site plans are designed not only to expand the local footprint but also to leverage the synergy potential of the entire Group. China is a clear growth driver for the automotive industry and an important core market for STS Group. The further expansion in China is the first milestone on the organic growth roadmap following the merger of STS Group with Adler Pelzer Group, which is expected to lay the foundation for accelerated sales and earnings growth in the coming years.

As expected, a slight decline in sales of minus 2.9% was recorded in the financial year 2022. At EUR 235.1 million, sales were thus down on the previous year (2021: EUR 242.0 million). The EBITDA margin decreased significantly from 7.9% to 4.1% due to the sharp decline in sales in China. This resulted in a decline in EBITDA from EUR 19.1 million to EUR 9.6 million, while adjusted EBITDA fell from EUR 19.9 million to EUR 9.6 million, meaning that the forecast for adjusted EBITDA was not achieved. In an extremely difficult global economic environment in 2022 - with a restrictive COVID-19 policy in China, the associated supply chain challenges and the global impact of the Ukraine war - STS Group held its ground overall. Nevertheless, the aforementioned reasons had a strong impact on the Group's net result, which for the year under review was EUR -9.9 million.

## 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 performance in fiscal 2022 - under challenging conditions such as supply chain bottlenecks, rising raw material and energy prices, the ongoing zero-covid policy in China and the associated demand freeze, as well as the war in Ukraine - was characterized by the strategic realignment of the company.

Sales and earnings of the STS Group segments for the reporting year 2022 compared to the previous year are as follows:

EUR million	2022	2021	Delta	Delta %
Revenue	235,1	242,0	-6,9	-2,9%
Segment Plastics	179,8	151,7	28,2	18,6%
Segment China	30,4	71,8	-41,4	-57,6%
Segment Materials	36,3	25,2	11,1	44,0%
Corporate/Consolidation	-11,5	-6,7	-4,8	-70,6%
EBITDA	9,6	19,1	-9,4	-49,5%
Segment Plastics	12,8	4,5	8,3	182,6%
Segment China	-0,9	16,9	-17,8	-105,2%
Segment Materials	1,2	-1,4	2,5	> -100%
Corporate/Consolidation	-3,5	-1,0	-2,5	> -100%
EBITDA (in % of revenue)	4,1%	7,9%		
<i>Adjustments EBITDA</i>	0,0	0,8	-0,8	-100,0%
Adjusted EBITDA	9,6	19,9	-10,2	-51,5%
<i>Adjustments Segment Plastics</i>	0,0	0,6	-0,6	-100,0%
Segment Plastics	12,8	5,2	7,7	149,0%
<i>Adjustments Segment China</i>	0,0	0,0	0,0	0,0%
Segment China	-0,9	16,9	-17,8	> -100%
<i>Adjustments Segment Materials</i>	0,0	0,2	-0,2	-100,0%
Segment Materials	1,2	-1,2	2,4	> -100%
<i>Adjustments Corporate/Consolidation</i>	0,0	0,0	0,0	0,0%
Corporate/Consolidation	-3,5	-1,0	-2,5	> -100%
Adjusted EBITDA (in % of revenue)	4,1%	8,2%		



Sales revenue decreased by -2.9% to EUR 235.1 million in the reporting period (2021: EUR 242.0 million). In fiscal 2022, the Plastics segment benefited from a revival in demand in the commercial vehicle sector. The essential core market in China had already anticipated this trend in previous years. In addition, the zero Covid strategy exacerbated declining demand, so sales in China moved in the opposite direction. However, the Materials segment recorded a significant increase in sales due to a rise in demand for commercial vehicles and SMC products.

The increase in inventory changes (inventory increase 2022: EUR 7.2 million; 2021: inventory decrease: EUR 4.1 million) is mainly due to the production of tools.

Other income amounted to EUR 3.3 million after EUR 5.7 million in the previous year. This includes the capitalization of development costs in the amount of EUR 1.1 million (2021: EUR 3.3 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 1.4 million (2021: EUR 1.2 million).

The cost of materials increased in both nominal and relative terms in the reporting period. Rising raw material prices, particularly in Europe, 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 112.1 million in the previous year to EUR 126.6 million as of December 31, 2022. In total, the cost of materials amounted to EUR 150.7 million (2021: EUR 135.4 million). This corresponds to a materials ratio of 64.1% after 56.0% in the previous year. This resulted on the one hand from higher raw material prices, which were partly passed on to customers, as well as from increased energy costs and a different regional mix of products.

Personnel expenses as of December 31, 2022 were significantly below the previous year's level and amounted to EUR 58.8 million (2021: EUR 61.4 million). This is mainly due to reduced personnel expenses in connection with the cost reduction measures initiated in all regions in the financial year 2022.

A further reduction in other expenses was also achieved in the fiscal year as part of the ongoing efficiency enhancement within the Group. In total, other expenses decreased by EUR 1.1 million to EUR 26.5 million. This was due in particular to lower selling expenses (2022: EUR 1.1 million; 2021: EUR 3.5 million) as a result of the reduction in sales in China, which were partially offset by increased legal and consulting costs (2022: EUR 4.2 million; 2021: EUR 2.9 million), which are attributable in particular to management fees from the Adler Pelzer Group.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to EUR 9.6 million in the reporting year 2022 compared to EUR 19.1 million in the previous year due to the decline in margins in China. There were no special effects in the financial year, so the adjusted EBITDA in the 2022 financial year was the same as EBITDA (2021: EUR 19.9 million).

Depreciation and amortization increased to EUR 16.2 million as of December 31, 2022 (2021: EUR 15.5 million). Depreciation of property, plant and equipment amounted to EUR 12.3 million (2021: EUR 11.4 million), thereof capitalized rights of use EUR 3.8 million (2021: EUR 4.0 million), while amortization of intangible assets was EUR 4.0 million (2021: EUR 4.1 million), thereof capitalized rights of use unchanged at EUR 0.3 million (2021: EUR 0.3 million).

As a result, earnings before interest and taxes (EBIT) amounted to EUR -6.6 million (2021: EUR 3.6 million).

For the fiscal year 2022, STS Group AG reports a consolidated result of EUR -9.9 million (2021: EUR 1.8 million).

Earnings per share according to IFRS basic and diluted amounted to -1.5 EUR (2021: +EUR 0.3).

## EARNINGS POSITION BY SEGMENT

### PLASTICS SEGMENT

After the previous year was marked by a recovery in commercial vehicle production, this trend continued in 2022. Nevertheless, the current fiscal year was characterized by material price increases on the supplier side, particularly in Europe, and short-term production downtimes at customers' facilities. Nonetheless, sales growth of 18.6% to EUR 179.8 million was achieved. Growth was thus higher than in 2021, when sales increased by 16.7% to EUR 151.7 million. With this significant increase in sales, the sales level of before the Corona pandemic (2019: EUR 169.0 million) was exceeded. Despite higher raw material prices, the sales increases led to disproportionately high earnings growth. Cost-cutting measures in this segment also made themselves felt here, as did the significant increase in earnings at the plant in Mexico and the passing on of material price increases to customers. Adjusted EBITDA amounted to EUR 12.8 million in the reporting year, compared with EUR 5.2 million in the previous year. There were no special operating effects in the Plastics segment in the reporting year.

## **SEGMENT CHINA**

China is an important core market, but faced strong challenges in 2022. While the sales level still stabilized at a solid level in fiscal 2021, sales declined significantly in 2022. This was mainly due to further market normalization following the significant market increase in 2020, as well as a strict zero-covid policy in China, resulting in regular production outages. Revenues amounted to EUR 30.4 million (2021: EUR 71.8 million). The decline in revenue also had a strong impact on the earnings side, although a large number of measures to reduce fixed costs were implemented. The latter will only show their full effect in the first quarter of 2023. Adjusted EBITDA amounted to EUR -0.9 million in the reporting year 2022 (2021: EUR 16.9 million). There were no special operating effects in the China segment.

## **SEGMENT MATERIALS**

The Materials segment recovered significantly in fiscal 2022 and benefited from stronger demand for heavy trucks. As a result, sales increased by EUR 11.1 million or 44% and amounted to EUR 36.3 million in fiscal 2022 (2021: EUR 25.2 million). The restructuring measures initiated in the past contributed to the improvement in sales. Adjusted EBITDA was EUR 1.2 million in the reporting year (2021: EUR -1.2 million). There were no special operating effects in the Materials segment in the reporting year.

## 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.

No dividend payment is planned for the financial year 2022. The Company intends to use 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 and credit lines. The floating rate loans are based on a 1-, 3- and 6-month EURIBOR interest rate plus a margin. Liabilities to banks increased to EUR 25.9 million (2021: EUR 20.9 million). Some loans are based on credit clauses for compliance with financial covenants and some loans are secured. Credit covenants were breached in three loans, the carrying amounts of the underlying loans are EUR 0.6 million. As the outstanding amount could be called due in the event of a breach of the covenants, this is recognized in full as a current liability. For the reporting year, the covenant breaches do not result in any indicators that would lead to a departure from the going concern premise.

As of December 31, 2022, the carrying amounts of the loans concerned amount to EUR 0.6 million, which would not lead to a liquidity shortfall even if the corresponding remaining debt were repaid immediately.

## CASH FLOW

EUR million	2022	2021 *
Net cash flow from operating activities	6,5	36,1
Net cash flow from investing activities	-8,7	-16,8
Net cash flow from financing activities	-0,2	-10,3
Effect of currency translation on cash and cash equivalents	-0,3	-0,7
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-2,7</b>	<b>8,3</b>

\* Please refer to section 6.1.3. of the notes of the consolidated financial statements.

In fiscal year 2022, the STS Group generated positive **net cash flow** from **operating activities** of EUR 6.5 million (2021: EUR 36.1 million). In addition to the declining earnings situation of the STS Group, the changes in net working capital also had a negative impact on the operating cash flow. The change in net working capital resulted in a cash outflow of EUR 20.6 million in the reporting period (2021: cash inflow of EUR 4.9 million). The main driver for the cash outflow was the build-up of inventories in connection with the increase in production in France, but also to counter supply chain problems. The cash inflow from other liabilities amounted to EUR 19.5 million (2021: cash inflow of EUR 16.0 million).

In fiscal year 2022, **cash flow from investing activities** amounted to minus EUR 8.7 million (2021: minus EUR 16.8 million). Investments were mainly made in property, plant and equipment of EUR 6.0 million (2021: EUR 10.0 million) and intangible assets of EUR 2.3 million (2021: EUR 3.5 million).

**Financing activities** resulted in a cash outflow of EUR 0.2 million in fiscal year 2022 (2021: cash outflow of EUR 10.3 million). The scheduled repayment of loan components of EUR 5.3 million was offset in particular by borrowings of EUR 11.7 million.

## LIQUID FUNDS

Cash and cash equivalents amounted to EUR 25.6 million as of December 31, 2022 (December 31, 2021: EUR 28.3 million) and mainly comprised bank balances. Of the cash and cash equivalents, EUR 0.6 million was restricted as of the reporting date (December 31, 2021: EUR 2.1 million). 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<sup>1</sup> increased by EUR 2.8 million to EUR 15.0 million as of December 31, 2022 (December 31, 2021: EUR 12.2 million). The slight decrease of EUR 2.7 million in cash and cash equivalents as of December 31, 2022 had a negative impact. The EUR 5.3 million increase in bank loans and the EUR 0.6 million rise in loans to affiliated companies were offset by the EUR 2.2 million reduction in liabilities from loans to third parties, such as the EUR 2.7 million decrease in lease liabilities and the EUR 0.7 million reduction in liabilities from factoring.

<sup>1</sup> 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 was stabilized. 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 (please refer to the explanations on financial risks in our risk report). 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, contractual adjustments were made with customers as part of this process. Existing loans were restructured and social security contributions refinanced. In addition, the local units were supported by the Group by temporarily waiving management fees. In addition, STS Group AG provided loans of EUR 3.1 million, as did the Adler Pelzer Group loans of EUR 0.5 million to the French companies. The Executive Board considers the equity capitalization to be sufficient.

## ASSETS

EUR million	31.12.2022	31.12.2021 *
Non-current assets	83,2	92,8
Current assets	128,4	102,2
<b>Total assets</b>	<b>211,6</b>	<b>194,9</b>
Total equity	49,5	58,3
Non-current liabilities	58,1	44,9
Current liabilities	104,0	91,7
<b>Total equity and liabilities</b>	<b>211,6</b>	<b>194,9</b>

\* Please refer to section 6.1.3. of the notes of the consolidated financial statements.

**Total assets increased** from EUR 194.9 million to EUR 211.6 million as of December 31, 2022.

**Non-current assets** amounted to EUR 83.2 million as of December 31, 2022. This corresponds to a decrease of EUR 9.6 million compared to the previous year. The decrease is mainly due to the reduction of property, plant and equipment by EUR 6.9 million to EUR 60.2 million (2021: EUR 67.1 million); intangible assets also decreased in the reporting period. They decreased by EUR 1.7 million to EUR 18.7 million (2021: EUR 20.4 million).

The increase in **current assets** is primarily due to increased inventories (2022: EUR 49.2 million; 2021: EUR 25.5 million ) as well as outstanding trade receivables and other receivables (2022: EUR 41.9 million; 2021: EUR 35.8 million). Opposing effects were recorded for cash and cash equivalents (2022: EUR 25.6 million; 2021: EUR 28.3 million), which were due in particular to the reduced sales volume in China . In total, current assets increased by EUR 26.2 million to EUR 128.4 million.

Due to the negative consolidated result, **equity** decreased from EUR 58.3 million to EUR 49.5 million as of the balance sheet date. With a simultaneous increase in total assets, this corresponds to an equity ratio of 23.4%, compared to 29.9% in the previous year.

**Non-current liabilities** increased from EUR 44.9 million to EUR 58.1 million, due on the one hand to higher bank loans and on the other hand to the increase in non-current contract liabilities in connection with the manufacture of tools for the customer project in the USA. On the other hand, lease liabilities decreased in the reporting period.

**Current liabilities** increased from EUR 91.7 million to EUR 104.0 million. Trade payables and other liabilities as well as liabilities to banks increased, while loans to third parties, such as income tax liabilities, decreased.

## **OVERALL STATEMENT OF THE MANAGEMENT BOARD ON THE ECONOMIC SITUATION**

Fiscal 2022 was dominated by the challenges of the war in Ukraine and its impact on material prices in Europe. In addition, China was significantly impacted by the strict zero-covid policy. At Group level, demand has not yet fully reached pre-Corona levels.

Although China remained an important core market in fiscal 2022, sales there declined significantly. Accordingly, the company's earnings situation declined significantly. Nevertheless, the market position there will continue to be expanded in the future with an active R&D policy, as China continues to have a long-term growth trend - both for the economy as a whole and for STS.

The sales and earnings prospects of the Plastics and Materials segments were positive. The restructuring measures implemented with a sense of proportion in the past paid off and both segments were able to contribute to the Group's overall earnings with improved margins as the market recovered.

Due to the business development in China, the EBITDA of the STS Group decreased significantly in both nominal and relative terms. The adjusted EBITDA margin in the reporting year 2022 was 4.1%, compared with 8.2% in the previous year.

The financial situation developed heterogeneously in the various areas; in France, the preventive corporate financial restructuring process was successfully completed. On the other hand, the zero-covid policy in China led to new borrowing.



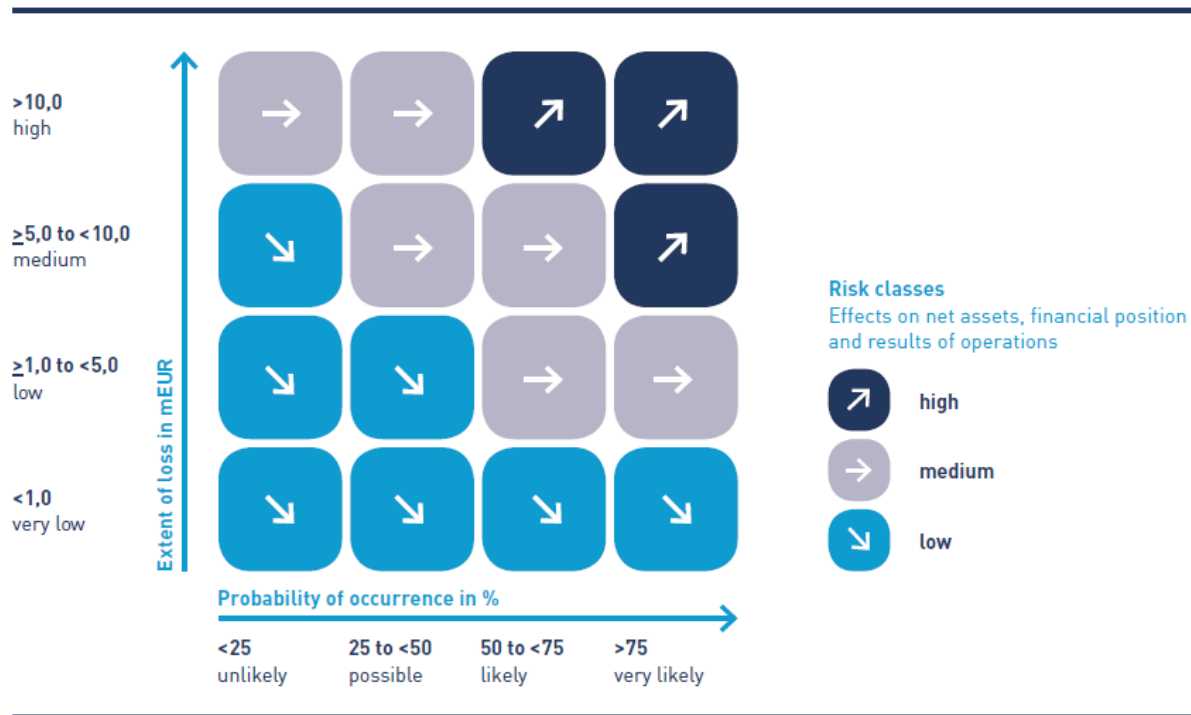
# OPPORTUNITIES AND RISKS REPORT

## 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 Executive Board has installed an early risk identification system to ensure that developments potentially jeopardizing the continued existence of the Company are identified, monitored and managed at an early stage without foregoing entrepreneurial opportunities. All critical business developments and liability risks are subjected to a critical review and regularly reported in the reviews of the subsidiaries and the Executive Board and Supervisory Board meetings. The Executive 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 previous year, particularly with regard to risk aggregation and risk-bearing capacity. At the end of the current fiscal year, risk management was further professionalized by the introduction of a risk management tool.

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. The 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<sup>1</sup>**



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 Executive Board. Within the scope of its respective area of responsibility, the Executive 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 half-yearly 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 connection were transferred to the local finance departments, and the consolidation process was also further automated. The Group headquarters is also supported in its activities by the Adler Pelzer Group in terms of content, and external experts are also regularly called in to provide support. In addition to defined controls, system-based and manual reconciliation processes, the separation of executive and controlling functions, and compliance with guidelines and work instructions are key components of the internal control system. 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 analyzes risks by degree and extent. These risks include credit, liquidity and market risks (currency and interest rate risks).

## RISK REPORT

### Macroeconomic risks

The global economy is characterized by extreme uncertainties. These are driven by the further course of the war in Ukraine and its economic impact. The associated bottlenecks in raw material supplies and high energy, material and commodity prices, which are expected to keep inflation rates at a high level, pose major challenges to economic development. Despite the efforts of many economies and companies to break free from dependence on fossil raw materials, the consequences of a lack of gas and crude oil supplies from Russia cannot be foreseen at present. Further geopolitical uncertainties exist due to China's threats of war against Taiwan. In the event of a military conflict, numerous industries would have to find alternative sources of supply. In addition, there is a risk of a further intensification of the existing trade conflicts between the USA and China and between Europe and China.<sup>13</sup> The above-mentioned risks could result in the global economy developing more weakly than expected. As a result of adverse economic and political developments in the main regional markets in which the STS Group operates or in which its customers use its products, a decline in demand could arise that would have a negative impact on business activities. The Executive Board estimates the extent of the damage as medium, the probability of occurrence as possible and thus its effect on the net assets, financial position and results of operations as medium.

### Risks to the industry

In the automotive sector, there may be further cost increases due to price rises for raw materials and components. This is likely to be the case in particular if supply chain challenges intensify again. In addition, energy and logistics costs may also rise significantly and have a negative impact on the cost side. The increasing protectionist tendencies and trade conflicts worldwide also pose a risk. There is a risk that automobiles, components and raw materials will be hit by additional or rising tariffs. This in turn could lead to a decline in demand for automotive products and have an overall negative impact on the sector. The Executive Board assesses the extent of the damage as medium, the probability of occurrence as possible and thus its impact on the net assets, financial position and results of operations as medium.

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<sup>13</sup> <https://www.imf.org/en/Blogs/Articles/2022/10/27/asia-and-the-world-face-growing-risks-from-economic-fragmentation>

## Other risks

### Long-term contracts

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. The Executive Board assesses this risk as low in terms of the extent of damage, the probability of occurrence as very likely, and the effect on the net assets, financial position and results of operations as medium.

### Dependence on major customers

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 with truck manufacturers to win new projects for itself in order to reduce its dependence on a limited number of major customers. The Executive Board estimates the extent of the damage as low, the probability of occurrence as unlikely and its effect on the net assets, financial position and results of operations as low.

### Environmental protection laws

In the STS Group risk inventory, no specific climate-related risks have been identified for fiscal year 2022. STS Group is aware that both physical and transitory risks can arise from climate change. Furthermore, it is planned for the future to integrate non-financial risks and especially climate-related risks into the Group's risk assessment system and to evaluate them accordingly.

As part of the classification of STS Group's business activities as materially contributing to the climate change adaptation goal, climate-related risks from climate change were identified and assessed for the production facility in France. The assessment was basically based on risk reports on the buildings of the insurance company's production facility, the risk exposure of the production facility and its history/experience.

As a result of the risk assessment, the following risks were identified:

Temperature fluctuations, heat stress with water shortages and flooding especially for the production site in St. Desirat, Tournon and Feline.

Flood risk reduction measures already implemented:

Structural solutions were created, such as barriers and water tanks. The barrier and retention system to protect against flooding are also used to generate electricity from the production facilities.

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 the international level may pose risks for production and also result in liability claims. The Executive Board assesses the extent of damage as low, the probability of occurrence as probable and their effect on the net assets, financial position and results of operations as medium.

### **Supply chain bottlenecks**

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 necessary and required for STS Group's operations, STS Group's business could be adversely affected. In addition, recurring short-term production stoppages at OEMs may also lead to an interruption in production; this may be due primarily to supply bottlenecks at OEMs, e.g. in connection with the semiconductor crisis, or to Covid-19 related temporary lockdowns. The Management Board assesses the extent of damage as very low to low, the probability of occurrence as probable to very probable, and its effect on the net assets, financial position and results of operations as medium.

### **Capacity utilization of the plants**

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. The Executive Board estimates the extent of the damage as low, the probability of occurrence as possible and its effect on the net assets, financial position and results of operations as low.

### **New technologies**

STS Group depends on its ability to adapt to changing technologies and new trends and to continue to develop new products. If STS Group fails to introduce new products for the automotive and truck industry in the future, it could lose its competitiveness and market share. The Executive Board estimates the extent of damage as very low, the probability of occurrence as possible, and its effect on the net assets, financial position and results of operations as low.

### **Product liability claims**

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. The Executive Board estimates the extent of damage as low, the probability of occurrence as unlikely and its effect on the net assets, financial position and results of operations as low.

### **Adjustment of the tax base**

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. The Executive Board estimates the extent of the loss as very low, the probability of occurrence as unlikely to possible, and its effect on the net assets, financial position and results of operations as low.

### **Impairment of the ability to deliver**

Business interruptions 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 operations and customer relationships. The Executive Board estimates the extent of the damage as low, the probability of occurrence as possible and its effect on the net assets, financial position and results of operations as low.

### **Unexpected price increases**

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. STS Group's management is constantly monitoring the development of the conflict between Ukraine and Russia and the resulting inflationary pressure on raw material and energy prices in Europe. The latter, as well as the development of energy market prices for electricity and natural gas in Europe, has risen to unexpected levels due to the imbalance between supply and demand and the market shocks caused by the conflict between Ukraine and Russia. Only the European production sites of the STS Group are affected by inflationary energy costs. Already in fiscal year 2022, the STS Group was able to pass on part of the energy costs as well as material price increases to the customer. In the future, the STS Group will continue to work with the leading European energy suppliers and hold discussions with all customers in order to achieve full compensation for the additional costs incurred. Against this background, the Executive Board assesses the existing price and procurement risks as low in terms of the extent of damage, the probability of occurrence as probable and their effect on the net assets, financial position and results of operations thus as medium.

### **Legal risks**

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 Executive Board estimates the extent of damage as very low, the probability of occurrence as unlikely, and their effect on the net assets, financial position and results of operations as low.

### **System and network malfunctions**

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 unanticipated disruption of its systems or networks, thereby impeding normal business operations and also lead to the loss of the customer's data and know-how, which could have a significant negative impact on its business and reputation. The Management Board estimates the extent of the damage as very low, the probability of occurrence as possible, and its effect on the net assets, financial position, and results of operations as low.



## Financial risks

Financial risks can always arise from business activities. STS Group's management monitors and manages the financial risks associated with the STS Group's business areas 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 rates 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 arising from Group financing. This also includes monitoring compliance with external financing structures and corresponding covenants. Even though there were partial covenant breaches in 2022, these have a minor impact on the liquidity of the STS Group and were only reported as current liabilities. STS Group also implements factoring transactions to optimize and manage the Company's liquidity position. In order to actively use this management tool, regular credit ratings are obtained for the STS Group's debtors and credit limits are set. 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 initiated in France in 2021 and completed at the beginning of 2022, which will ensure that the financial liabilities of the units there are covered. In particular, contractual adjustments were made with customers as part of this process. Existing loans were restructured and social security contributions 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). However, no management fees were charged to the French companies for the year under review and no dividends were paid from China for the year under review. In addition, short-term loans are also issued by the majority shareholder as required to counteract short-term liquidity bottlenecks. Furthermore, the majority shareholder also guarantees the fulfillment of a loan against via third parties.

As of the balance sheet date, the Board of Management, therefore, assesses the extent of the loss as medium, the probability of occurrence as unlikely, and its effect on the net assets, financial position and results of operations as medium.

To maintain the liquidity and solvency of the parent company, STS Group AG was granted a further loan of EUR 1.4 million by Adler Pelzer Holding GmbH in February 2023. In addition, Adler Pelzer Holding GmbH has been contractually called upon under existing guarantees to fulfill third-party liabilities in favor of STS Group AG. In addition, Adler Pelzer Holding GmbH issued a further guarantee in April 2023 to provide liquidity and deferred receivables from STS Group

AG until the liquidity situation permits fulfillment. Taking into account the measures described above after the balance sheet date, the Executive Board consequently assesses the remaining residual risk in terms of the extent of damage as low, the probability of occurrence as unlikely and its effect on the net assets, financial position and results of operations as low.

In the reporting year, there were no significant changes in the risk situation compared with the previous year in terms of the extent of damage and probability of occurrence, or with regard to their effect on the net assets, financial position and results of operations.

## OPPORTUNITY REPORT

### MACROECONOMIC OPPORTUNITIES

The IMF is currently forecasting slightly weaker global economic growth for 2023. However, the global economy could develop more sustainably and dynamically than assumed. Meanwhile, national inflation rates appear to have peaked and are expected to decline further in 2023.<sup>14</sup> Accordingly, there is scope for inflation rates to fall faster than expected. This would allow national central banks to tighten monetary policy less,<sup>15</sup> which in turn should have a positive impact on financial markets. Where there are already positive trends is in global supply chains. There, tensions in procurement for components and parts are gradually easing.<sup>16</sup> The Chinese government's departure from its zero-covid policy in the fall of 2022 could add to the effect, as mobility and Chinese economic activity will pick up again after the pandemic restrictions are lifted this year, according to the IMF.<sup>17</sup> One positive surprise, according to the IMF, could be increased demand for goods and services still resulting from pandemic times. According to the IMF, there is still excess private savings, which could have a positive impact on consumption and economic recovery.<sup>18</sup>

### INDUSTRY OPPORTUNITIES

#### Zero-emission commercial vehicles with political tailwind

According to the Federal Motor Transport Authority (KBA), the share of commercial vehicles with purely battery-electric drive or (plug-in) hybrid drive in Germany was just 5.7%.<sup>19</sup> However, zero-emission commercial vehicles are likely to continue to grow strongly in importance. By 2030, battery electric (BET) and fuel cell powered (FCT) trucks are expected to account for around 30% of the total truck market in the world's key regions (North America, EU and Greater China), according to a study by consultancy PwC. After that, PwC expects a real breakthrough. From 2035, as many as 70 % of the world's trucks could be battery-electric or fuel cell-powered.<sup>20</sup>

The management consultancy McKinsey comes to a similar conclusion. The commercial vehicle industry is in the starting blocks as far as the decarbonization of vehicles is concerned, it says. In its study "Preparing the world for zero-emission trucks," published in 2022, it predicts that battery-electric commercial vehicles will account for more than 85% of new registrations in Europe, the USA and China by 2040. According to McKinsey, battery-electric and fuel cell-

<sup>14</sup> <https://www2.deloitte.com/de/de/blog/economic-trend-briefings/2023/konjunkturausblick-2023.html>

<sup>15</sup> <https://www.imf.org/-/media/Files/Publications/WEO/2023/Update/January/English/text.ashx>, p. 6 under the table "Upside risks".

<sup>16</sup> <https://www.imf.org/en/Blogs/Articles/2023/01/30/global-economy-to-slow-further-amid-signs-of-resilience-and-china-re-opening> "On the upside: Easing supply-chain bottlenecks (...) could allow for a softer landing, requiring less monetary tightening"

<sup>17</sup> <https://www.imf.org/en/News/Articles/2023/02/02/cf-chinas-economy-is-rebounding-but-reforms-are-still-needed>, second paragraph

<sup>18</sup> <https://www.imf.org/-/media/Files/Publications/WEO/2023/Update/January/English/text.ashx> P. 6

<sup>19</sup> [https://www.kba.de/DE/Presse/Pressemitteilungen/Fahrzeugzulassungen/2023/pm01\\_2023\\_n\\_12\\_22\\_pm\\_komplett.html?fromStatistic=3889316&yearFilter=2022&monthFilter=12\\_Dezember](https://www.kba.de/DE/Presse/Pressemitteilungen/Fahrzeugzulassungen/2023/pm01_2023_n_12_22_pm_komplett.html?fromStatistic=3889316&yearFilter=2022&monthFilter=12_Dezember)

<sup>20</sup> <https://www.strategyand.pwc.com/de/en/industries/transport/the-dawn-of-electrified-trucking.html>

powered trucks will be more cost-effective than diesel-powered trucks in almost all segments as early as 2030. A crucial aspect is the total cost of ownership from the user's perspective. They are the most important parameter when selecting a commercial vehicle. For McKinsey, therefore, one thing is certain: decarbonization will reshape the value chain in the commercial vehicle industry.<sup>21</sup> This is also likely to open up new opportunities for suppliers.

The shift from combustion engines to zero-emission trucks is also being driven by increasingly stringent legal requirements. European regulations, for example, are forcing truck manufacturers to reduce fleet emissions by at least 30% by 2030. At the same time, as a result of the war in Ukraine, many governments are realigning their energy policies and reducing their dependence on fossil fuels.<sup>22</sup>

For the German Association of the Automotive Industry (VDA), battery electric commercial vehicles (BEV commercial vehicles) can make a major and rapid contribution to achieving the climate targets set. However, the transformation process will only succeed if the framework conditions as well as planning and investment security for manufacturers and users are right.<sup>23</sup> The technical progress in electromobility and the expected investments are likely to open up new opportunities and possibilities for value creation and profit generation not only for vehicle manufacturers but also for their suppliers. In addition to the use of electric drives, weight-reducing technologies in particular make an important contribution to reducing emissions from commercial vehicles. With its products and innovations for reducing emissions from commercial vehicles, the STS Group is therefore a potential beneficiary of developments in the industry.

## More 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.

## Helping to shape technology trends

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

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<sup>21</sup> <https://www.mckinsey.de/news/presse/2022-09-19-iaa-trucks>

<sup>22</sup> <https://www.strategyand.pwc.com/de/en/industries/transport/the-dawn-of-electrified-trucking.html>

<sup>23</sup> [https://www.vda.de/de/presse/Pressemeldungen/2022/221116\\_Branchenpapier\\_Dekarbonisierung-des--Stra-eng-terverkehrs](https://www.vda.de/de/presse/Pressemeldungen/2022/221116_Branchenpapier_Dekarbonisierung-des--Stra-eng-terverkehrs)

is increasingly influenced by a number of trends, notably emission reduction trends and the growing focus on e-mobility, driven primarily by emissions 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.

### **Unique selling proposition**

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.

### **Variable lot sizes**

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 exposed to economic downturns when such large customers reduce the number of car and truck parts they purchase.

### **Broad market positioning**

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 sites 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.

### **Large orders**

STS Group AG will also be able to tap into the US market in the future thanks to a major order won on December 19, 2019. 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.

### **Ability to act quickly**

The company has a lean corporate structure with direct reporting to the Executive Board. This enables the ability to act quickly in order to respond immediately to trends or challenges.

### **Longstanding customer relationships**

The company has a lean corporate structure with direct reporting to the Executive Board. The long-standing customer relationships of more than 20 years on average (Europe > 20 years, China > 10 years and USA >10 years) support a strong position in a competitive market environment based on a high order backlog. In addition, STS Group's experienced management team can monetize its long-standing OEM relationships by leveraging strong customer relationships into cross-selling opportunities.

### **Association with Adler Pelzer**

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.

## **OVERALL STATEMENT OF THE MANAGEMENT BOARD ON OPPORTUNITIES AND RISKS**

In the opinion of the Executive Board, the overall risk and opportunity situation of the STS Group did not change significantly in the past fiscal year.

From the Executive Board's perspective, it remains to be seen how long-lasting the COVID 19 pandemic and its consequences will be for the automotive industry and the overall economic situation. The ongoing war in Ukraine, further economic consequences resulting from it, and further possible sanctions also continue to pose risks to the economic development of the STS Group that cannot be assessed.

The analysis for the reporting year did not reveal any risks either at the balance sheet date or at the time of preparation of the annual financial statements which individually or in their entirety pose a threat to the continued existence of the Company or the Group as a going

concern. In the opinion of the Board of Management, there are no discernible risks that could jeopardize the continued existence of the Company or the Group in the foreseeable future.

Taking into account the main opportunities, the overall risk situation of the STS Group shows a risk and opportunity situation to which the risk-limiting measures and the Group strategy are geared accordingly.

# FORECAST REPORT

## MACROECONOMIC FORECAST ECONOMIC TROUGH REACHED IN 2023

Global economic growth will increasingly slow down. Uncertainties about the further course of the war in Ukraine and persistently high inflation rates are weighing heavily on the economies. According to the International Monetary Fund (IMF), global growth will slow from 3.4% in 2022 to 2.8% in 2023. However, the slowdown in global growth is expected to bottom out in the course of the year and the economic trend will reverse towards the end of 2023 and the beginning of 2024. With regard to inflation rates, the IMF expects a decline in the next few years. From a global inflation rate of 8.7% in 2022, inflation is expected to fall to 7.0% in 2023 and to 4.9% in 2024.<sup>24</sup>

## CHINESE GROWTH MOMENTUM DEPENDENT ON COVID-19

The Covid-19 pandemic is largely responsible for the growth outlook in China. Following the relaxations introduced by the Chinese government in November, and thus the departure from the restrictive zero Covid policy, the number of infections has risen dramatically. Western mRNA preparations are still not approved in China and there is insufficient immunity in the population. Under these conditions, it is extremely difficult to make economic forecasts. If the infection and death rates develop worse than expected, a stagnation of the Chinese economy is conceivable. If economic and social life normalizes more quickly than expected, economic growth could also reach 6.5%.<sup>25</sup> The Chinese government itself expects economic growth of 4.5% in 2023.<sup>26</sup> Overarching expectations are that growth in the People's Republic will slow in the coming years.<sup>27</sup>

## WEAK GROWTH EXPECTED IN THE EURO ZONE

The IMF expects economic growth in the euro zone to increase by only 0.8% for the year as a whole. Growth in Germany, Italy and France in particular will weaken. Although the economies within the monetary community are likely to benefit from easing supply chain bottlenecks, the effects of the war in Ukraine will continue to be clearly reflected in the euro zone in 2023. The IMF expects major challenges in the winter of 2023/2024, particularly for economies that remain dependent on Russian gas supplies, especially if the next winter is very cold and China's

<sup>24</sup> <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>

<sup>25</sup> <https://www.gtai.de/de/trade/china/wirtschaftsumfeld/china-steht-ein-harter-winter-bevor-933602>

<sup>26</sup> [http://de.china-embassy.gov.cn/det/zggy/202212/t20221220\\_10992792.htm](http://de.china-embassy.gov.cn/det/zggy/202212/t20221220_10992792.htm)

<sup>27</sup> <https://www.gtai.de/de/trade/china/wirtschaftsumfeld/die-fetten-jahre-sind-in-china-vorbei-251412>



energy demand increases, leading to price spikes. Added to this in the euro zone are the tighter financial conditions imposed by the European Central Bank.<sup>28</sup> Rising key interest rates could lead to a lack of investment or, in the case of highly indebted countries, to a renewed tightening of their budgetary situation.

## **NORTH AMERICA GROWS FASTER THAN THE EURO AREA**

The economic outlook for the USA in 2023 is characterized by slower growth, further tightening of monetary policy and declining inflation. This is the conclusion reached by the IMF in its outlook for the year as a whole. The US economy is expected to grow by only 1.6% in the current year (2022: 2.1%). If the US Federal Reserve raised its key interest rate to the range of 4.5% and 4.8% at the beginning of February, it can be assumed that the Fed will not exceed the five percent mark this year. According to the IMF, a slowdown in economic development will also affect Mexico. According to their January 2023 forecast report, growth is expected to be only 1.8 percent in 2023 (2022: 3.1%). Nevertheless, this represents a significant improvement on earlier estimates; previously, in its previous estimate in October 2022, the IMF assumed only 1.2% for the current year.<sup>29</sup> In terms of inflation, the IMF forecasts an annual average of 6.3% for 2023.<sup>30</sup>

## **HIGH ORDER BACKLOG DRIVES GERMAN ECONOMY**

The German economy faces numerous challenges in 2023. According to the IfW, the economic picture has brightened slightly, but it is still too early to sound the all-clear. In its winter forecast for 2022, the Kiel Institute for the World Economy (IfW) expects economic output to grow by 0.3% in 2023 as a whole. The challenges of the current year include rising wages and salaries, which are expected to increase by around 5% in 2023, the highest rate in the past 30 years. However, real incomes are not expected to rise again by 1.7% until 2024, when inflation rates will start to fall again appreciably. Despite the overall economic slowdown, the German labor market is expected to prove robust. According to the IfW, the unemployment rate is expected to rise only slightly, from 5.3% (2022) to 5.5% (2023) and 5.4% (2024). However, what is likely to continue to hamper growth in Germany as a business location are the energy supply risks, which remain enormously high.

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<sup>28</sup> <https://www.imf.org/-/media/Files/Publications/WEO/2023/Update/January/English/text.ashx>, P. 7.

<sup>29</sup> <https://www.imf.org/-/media/Files/Publications/WEO/2023/Update/January/English/text.ashx>

<sup>30</sup> <https://de.statista.com/statistik/daten/studie/200725/umfrage/inflationsrate-in-mexiko/>

As a result, industry is expecting a drop in order intake and a reduction in production at energy-intensive companies. Nevertheless, it is benefiting from an unusually high order backlog, partly as a result of the global supply bottlenecks, which will safeguard production for almost eight months. This will be worked off in 2023 when, in view of the weakening global economy, shipping delays and material bottlenecks gradually ease. Gross value added in the manufacturing sector is therefore expected to rise by around 3.0% in the current year despite difficult economic conditions at home and abroad. According to the IfW winter forecast, exports are now expected to grow by 1.9% in 2023, following 2.8% last year. In 2024, exports are expected to rise by 3.6%.<sup>31</sup>

## INDUSTRY ECONOMIC FORECAST

The industry outlook in the automotive sector remains challenging. The industry continues to be affected by high energy and logistics prices. However, there are signs of easing in the supply chains. This improving supply situation should lead to a further recovery in domestic car production in 2023. The German Association of the Automotive Industry (VDA) expects a slight increase in vehicle production of 2.0% to 2.7 million units for the German market in the current year. However, this still represents a quarter less than in the pre-crisis year of 2019. For Europe, the VDA expects sales to increase by 5.0% to 11.8 million passenger cars, and in the USA by 4.0% to 14.2 million. China, where the market was already at a high level in 2022, is expected to grow only slightly by 3.0% to 23.7 million cars in 2023.<sup>32</sup>

Demand for commercial vehicles remains intact. For Europe, the VDA expects new registrations of heavy commercial vehicles to grow by 4.0%, while in the USA the figure is likely to be 5.0%. According to the VDA, there will be a significant recovery in China. While there were double-digit percentage declines in new registrations there in the past two years, growth is expected to reach 10.0% this year. According to the VDA, the German market for heavy commercial vehicles will also grow in 2023. It is expected to grow by 4.0%, which is also in line with the European average.<sup>33</sup>

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<sup>31</sup> <https://www.ifw-kiel.de/de/publikationen/medieninformationen/2022/winterprognose-ifw-kiel-wirtschaft-im-naechsten-jahr-mit-kleinem-plus-und-grossen-risiken/>

<sup>32</sup> [https://www.vda.de/de/presse/Pressemeldungen/2023/230111\\_PM\\_VDA-Pr-sidentin-Hildegard-M-Iller\\_Standort-und-Wettbewerbspolitik-unterst-tzt-Klimapolitik](https://www.vda.de/de/presse/Pressemeldungen/2023/230111_PM_VDA-Pr-sidentin-Hildegard-M-Iller_Standort-und-Wettbewerbspolitik-unterst-tzt-Klimapolitik)

<sup>33</sup> [https://www.vda.de/de/presse/Pressemeldungen/2023/230111\\_PM\\_VDA-Pr-sidentin-Hildegard-M-Iller\\_Standort-und-Wettbewerbspolitik-unterst-tzt-Klimapolitik](https://www.vda.de/de/presse/Pressemeldungen/2023/230111_PM_VDA-Pr-sidentin-Hildegard-M-Iller_Standort-und-Wettbewerbspolitik-unterst-tzt-Klimapolitik)

## **GROUP FORECAST FOR 2023, ACHIEVEMENT OF THE FORECAST FOR 2022**

For fiscal year 2022, the Executive Board had assumed a limited ability to forecast due to the ongoing Ukraine/Russia conflict and a 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, a slight year-on-year decline in sales has been assumed. Should the situation worsen, the decline could be more pronounced. The development of sales would have the same effect on adjusted EBITDA. Relevant special charges were not planned for the fiscal year.

In the reporting year, sales development was within the forecast range, with sales of EUR 235.1 million and a decline in sales of 2.9%. As the decline in sales mainly related to the previously high-margin Chinese business, adjusted EBITDA declined significantly from EUR 19.9 million in the previous year to EUR 9.6 million in the reporting year. As expected, there were no special charges in the financial year.

For the 2023 financial year, the Executive Board anticipates slight year-on-year sales growth. As the Chinese commercial vehicles market is expected to pick up again, the Executive Board anticipates a significant increase in adjusted EBITDA in fiscal year 2023. Relevant extraordinary expenses are not planned for the financial year, therefore adjusted EBITDA corresponds to 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.

# 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

As of December 31, 2022, the subscribed capital of STS Group AG totaled EUR 6,500,000.00 (December 31, 2021: 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, 2022, 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 statutory regulations for the transfer of bearer shares and there are no restrictions on transferability.

Supplementary reference is made to Please refer to the disclosures in [section 4.11](#). Equity in the notes to the consolidated financial statements.

## **SHAREHOLDINGS EXCEEDING 10.0% OF THE VOTING RIGHTS**

As of December 31, 2022, the following direct and indirect shareholdings in the capital of STS Group AG existed that exceeded the threshold of 10% of the voting rights:

The largest shareholder of STS Group AG, Adler Pelzer GmbH, headquartered in Hagen (Germany), was last represented at the Annual General Meeting on May 24, 2022 with 74.42% of the voting rights in STS Group AG.

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, like 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 Executive 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 Executive 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 Executive Board and a Deputy Chairman.

Pursuant to Sections 119 (1) no. 5 and 179 of the German Stock Corporation Act (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, pursuant 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) APPROVED 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 under the 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 capital increase carried out in September 2020 and the associated utilization of authorized capital 2018/I, authorized capital is 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 Executive 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 are provided in the authorizing resolution and in Section 4 (4) of the Articles of Association of STS Group AG.

### **d) SHARE REPURCHASE**

The Executive 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 Executive 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 Executive 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 Executive 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 Executive 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 are not entitled - applying Art. 186 par. 3 sentence 4 AktG mutatis mutandis - to conclude such option transactions with the Company. Further details can be found in the authorization resolution.

For further details and information, please refer to section 4.11. Equity of the Notes.

## **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 Executive Board in the event of a change of control.

# CORPORATE GOVERNANCE

## DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH § 289F HGB AND § 315D HGB

In the course of the declaration on corporate governance, STS Group AG reports on the working methods of the Executive Board and Supervisory Board. The corporate governance statement pursuant to Section 289f HGB and Section 315d HGB is publicly available at:

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

## DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

In February 2023, the Executive Board and Supervisory Board of STS Group AG issued the declaration required by Section 161 of the German Stock Corporation Act. It 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, 2022, 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 DECLARATION

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. 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 strategic corporate development, and global corporate and marketing communications. As of December 31, 2022, one employee (2021: three) was employed by STS Group AG for these tasks.

STS Group AG directly or indirectly holds shares in eight 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	2022	2021
Revenues	197	1.520
Other operating income	126	231
Personnel expenses	-261	-736
Amortization of intangible assets and depreciation of tangible assets	-39	-47
Other operating expenses	-3.531	-2.327
Income from equity investments	6.262	3.183
	1	1
Other interest and similar income	40	0
Interest and similar expenses	-246	-290
Taxes on income	-314	-161
<b>Profit after taxes on income</b>	<b>2.235</b>	<b>1.375</b>
Other taxes	0	0
<b>Net profit for the year</b>	<b>2.235</b>	<b>1.375</b>
Retained accumulated losses/profits carried forward	0	0
<b>Accumulated gains/losses carried forward</b>	<b>2.235</b>	<b>1.375</b>

In fiscal year 2022, **revenue** decreased to EUR 197 thousand (2021: EUR 1,520 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 the 2020 financial year; in addition, no management services were allowed to be charged to the French entities for 2022 as a result of the corporate financial restructuring process in France.

**Other operating income** was below the level of the previous periods (2022: EUR 126 thousand; 2021: EUR 231 thousand). This item mainly includes income for the reversal of provisions in the amount of EUR 114 thousand.

As part of the reorganization of STS Group AG, a significant streamlining of the corporate headquarters already took place in fiscal year 2020, as well as in 2021. Personnel costs were also reduced further in the 2022 financial year. **Personnel expenses** amounted to EUR 261 thousand as of December 31, 2022, compared to EUR 736 thousand in the previous year.

**Other operating expenses** increased by EUR 1,204 thousand year-on-year to EUR 3,531 thousand in the financial year 2022. The increase in this item was due in particular to the oncharging of legal and consulting services by the majority shareholder.

**Income from investments** amounted to EUR 6,262 thousand as of December 31, 2022 (2021: EUR 3,183 thousand). This item includes dividend payments from subsidiaries.

**Income from loans held as financial assets** amounted to EUR 1 thousand as of December 31, 2022 (2021: EUR 1 thousand).

**Other interest and similar income** amounted to EUR 40 thousand (2021: EUR 0 thousand) as of the balance sheet date.

At EUR 246 thousand, **interest expense** was slightly below the previous year's level of EUR 290 thousand. This is mainly attributable to interest on loans from third parties.

**Income taxes** amounted to EUR 314 thousand as of December 31, 2022 (2021: EUR 161 thousand), which, as in the previous year, mainly resulted from the dividend payment from the foreign subsidiary in the amount of EUR 6,262 thousand.

After deduction of taxes, net income for the year amounted to EUR 2,235 thousand (2021: EUR 1,375 thousand), which also corresponds to the unappropriated profit in 2022.

## NET ASSETS AND FINANCIAL POSITION

BALANCE SHEET OF STS GROUP AG IN ACCORDANCE WITH HGB

in kEUR	31. December	
	2022	2021
<b>Assets</b>		
<b>Fixed assets</b>	<b>19.172</b>	<b>19.210</b>
Intangible assets	76	115
Tangible assets	0	0
Financial assets	19.096	19.095
<b>Current assets</b>	<b>3.890</b>	<b>148</b>
Receivables and other assets	3.432	119
Cash and cash equivalents	458	29
<b>Prepaid expenses</b>	<b>7</b>	<b>88</b>
<b>Total assets</b>	<b>23.068</b>	<b>19.446</b>
<b>Liabilities</b>		
<b>Share Capital</b>	<b>15.998</b>	<b>14.022</b>
<b>Provisions</b>	<b>643</b>	<b>583</b>
Other provisions	643	583
<b>Liabilities</b>	<b>6.428</b>	<b>4.841</b>
Trade payables	70	314
Liabilities to affiliated companies	3.054	254
Other liabilities	3.304	4.273
<b>Total equity and liabilities</b>	<b>23.068</b>	<b>19.446</b>

Total assets increased to EUR 23,068 thousand as of December 31, 2022 (2021: EUR 19,446 thousand). The increase in total assets is mainly attributable to the increase in receivables from affiliated companies due to the issue of loans to affiliated companies. In addition, an increase in equity due to the unappropriated profit generated in 2022, as well as the increase in liabilities to affiliated companies, contributed to the lengthening of the liabilities side.

**Intangible assets** decreased due to depreciation (2022: EUR 76 thousand; 2021: EUR 115 thousand). Financial assets amounted to EUR 19,096 thousand as of the balance sheet date (2021: EUR 19,095 thousand).

Under **receivables and other assets**, receivables from affiliated companies increased to EUR 3,432 thousand as of the balance sheet date (2021: EUR 119 thousand). The increase is due to the issuance of loans in the course of the corporate finance restructuring process in France.



**Cash and cash equivalents** increase by EUR 429 thousand to EUR 458 thousand (2021: EUR 29 thousand). Cash and cash equivalents comprise bank balances and cash on hand. The increase in cash and cash equivalents is attributable on the one hand to the dividend paid by a subsidiary, and on the other hand to the reduced proceeds from inter-company charges to subsidiaries and the payment of loans.

Due to the improved earnings situation, **shareholders' equity increased** by EUR 1,975 thousand to EUR 15,997 thousand. The unappropriated profit from the previous year, less the dividend payment of EUR 260 thousand, was transferred in full to retained earnings. With a simultaneous increase in total assets, the equity ratio decreased to 69.3%, compared with 72.1% in the previous year. Dividends amounting to EUR 260k were paid in the reporting year.

**Provisions** increased from EUR 583 thousand in the previous year to EUR 643 thousand as of December 31, 2022. The increase in this item is due to the recognition of provisions for increased expenses for Supervisory Board members.

**Liabilities to affiliated companies** increased by EUR 2,800 thousand to EUR 3,054 thousand as of the balance sheet date. This change is mainly due to the on-charging of legal and consulting services by the majority shareholder.

**Other liabilities** decreased to EUR 3,304 thousand as of December 31, 2022 (2021: EUR 4,273 thousand). The reduction is due to the partial repayment of the loan to the former majority shareholder.

## 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 generally 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. STS Group AG is lastly subject to financing risk and the dependence of STS Group AG on further financing by the majority shareholder or via the subsidiaries (by means of management fees and dividends). Please refer to the explanations on financial risks in the risk report.

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".

## FORECAST

The Company had assumed management revenues from management services of approximately 20% below the previous year (2021: EUR 1,520 thousand) for fiscal year 2022. However, due to the corporate financial restructuring process in France, these were significantly below expectations at EUR 185 thousand. For the net income, the management expected a result at least at the level of the previous year (2021: EUR 1,375 thousand) due to the further reduced costs of the Group headquarters and the dividend payment from China also planned for 2022; the management's expectations were exceeded with a result of EUR 2,235 thousand.

For the financial year 2023, management expects revenues from management services to remain at the level of 2022, as no management services can be charged to the French entities for the last time in 2023. In addition, due to the business development in China, no dividend payment from the Chinese subsidiary is planned for the financial year 2022 with collection in 2023. As a result, a significant reduction in the net profit for the year and thus a net loss for the year are expected.

### General risk notice

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

Hagen, April 17, 2023

Alberto Buniato (CEO)