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STS GROUP AG 84

BASIS OF THE GROUP

BUSINESS MODEL

17
Plants worldwide

4
Research and Development centers

>2,500
Employees

STS offers its customers a wide range of systems and solutions for the interior of vehicles, the exterior cladding and the engine compartment. STS components visually enhance the vehicle design, create a pleasant background noise in the interior and around the vehicle and ensure a significant weight reduction thanks to their lightweight construction. Due to its high vertical integration, STS is able to map the complete manufacturing process of every component from idea to finished product. As a one-stop shop provider with many years of expertise, STS has a clear competi-tive advantage in the industry. Production systems and logistics are mainly designed for small and medium series, as they are typical for light to heavy commercial vehicles, but also with special models and electro-mobility or weight-optimized plastic solutions increasingly present in the passenger car sector.

The STS production facilities are located close to the respective locations of the customer plants. This makes all aspects of collaboration easier, more efficient and more sustainable. With its headquarters in Germany, the Group operates a global network in all important markets. STS currently has 17 plants in seven countries on four continents.

STS combines the manufacturing technologies of injection molding as well as hot and compression molding of composites (composite materials and felt mats). STS has a high level of vertical integration. It manufactures the semi-finished products, composite materials and felt mats itself and can therefore react flexibly to customer-specific requirements.

OVERVIEW OF LOCATIONS

The Group produces parts and systems for commercial vehicles and cars. The customer base includes most well-known commercial vehicle and automobile manufacturers, including many market leaders. Also in the rapidly growing market for electric vehicles, numerous manufacturers trust the competence of the STS Group. For rapid product development and innovation, the Group has four research and development centers, two in France and one each in Italy and China.

BUSINESS ACTIVITY

The Group's business is divided into four segments:

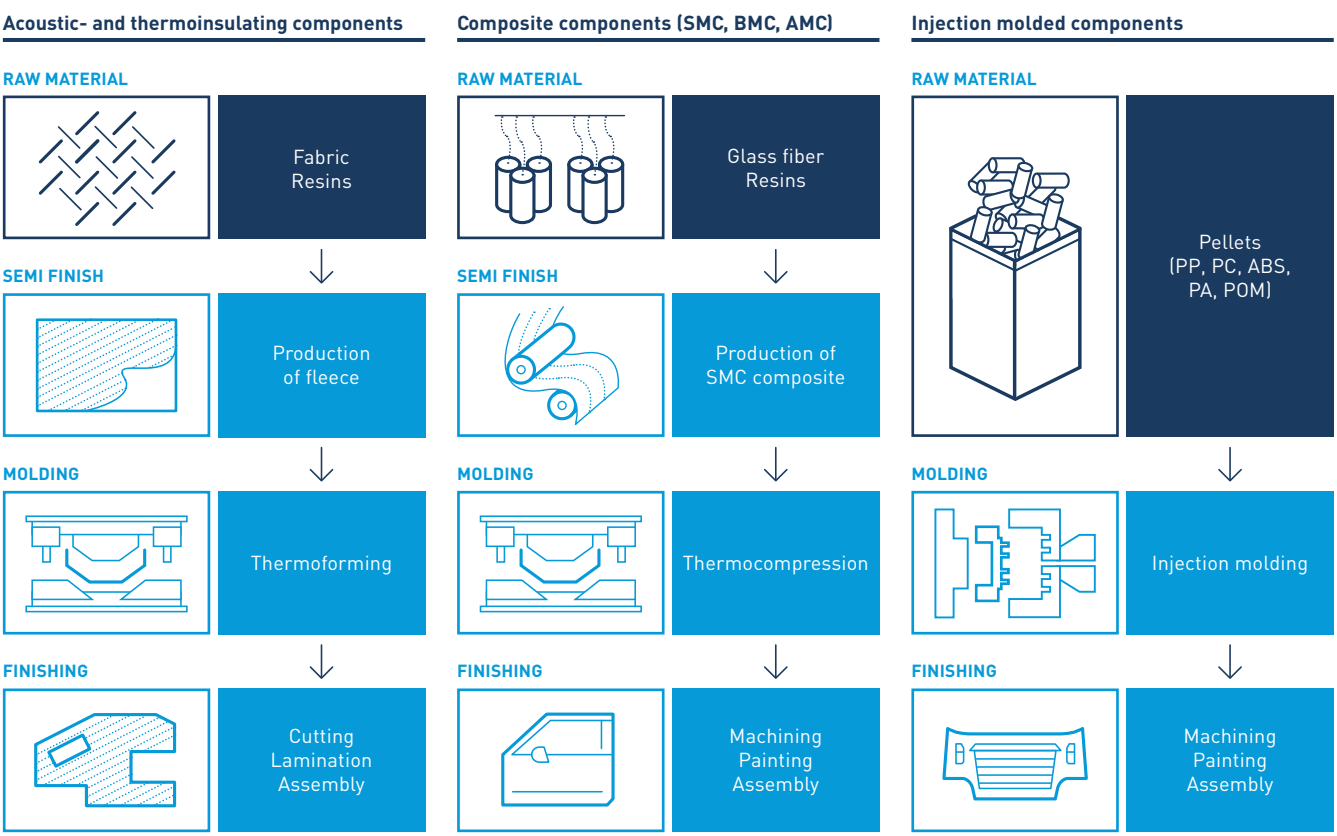
- **Acoustics:** The segment's activities include the development and production of integrated acoustic and thermal systems. The focus is on soft trim products; mainly for the European and South American market. The manufactured parts have different uses for the vehicles. They increase the comfort in the driver's cab with an appealing design and a high-quality feel. In and around the vehicle, the components provide a pleasant background noise with a low noise level. They also dampen vibrations. For example, with bulkhead cladding for indoor and outdoor use and cabin floor carpets as well as thermally insulating parts for the engine compartment. They are used in vehicles from light cars, luxury vehicles, vans to heavy commercial vehicles. The Acoustics segment has a high level of vertical integration: from semi-finished felt to a complete, ready-to-install system.

- **Plastics:** The segment manufactures a large number of exterior body parts and interior modules for trucks, commercial vehicles and cars. It includes hard trim products made of injection molding and composite materials such as SMC. The semi-finished product plays an important role in automobile production due to its numerous positive properties such as high rigidity and heat resistance. For example, it often replaces structural parts made of metal and plays an important part in 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 in commercial vehicles, for example for external parts (e. as front modules, roof modules and other aerodynamic cladding) or interior modules ("bunk box" under the driver's bed and shelf elements) and for cars, for example for structural parts (tailgate). The segment also has its own capacities for painting of plastics.

- **China:** Activities in the Chinese market are bundled in this segment. These include supplying customers with plastic parts for the exterior cladding of vehicles, mainly for the cab of commercial vehicles, but increasingly also for 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 cars such as the battery cover for electric vehicles and complex structural parts such as the tailgate for SUVs. Composite press processes and injection molding technology are used for these. The segment also has its own capacities for painting plastics.

- **Materials:** This segment includes the development and production of semi-finished products (Sheet Molding Compound – SMC), fiber molding compounds (Bulk Molding Compound – BMC) and highly developed fiber molding compounds (Advanced Molding Compound – AMC). The semi-finished products are used both within the Group for hard-trim applications and are also supplied to external third parties. As part of the development of these basic materials, it is already possible to influence essential parameters of the end product.

THE HIGH VERTICAL INTEGRATION ENSURES AN EFFICIENT PRODUCTION PROCESS



Historically, the Group recorded significant growth through acquisitions, particularly in the 2016 and 2017 financial years. It originated from the acquisition of the commercial vehicle business of the Swiss-based Autoneum Group, which was acquired in 2013 by the majority shareholder of STS Group AG, Mutares SE & Co. KGaA (formerly mutares AG), 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 supplier business of the Plastic Omnium Group in June 2017, STS significantly expanded its product portfolio with composite semi-finished products and components made of composite materials for exterior parts for truck cabins and light commercial vehicles, as well as structural parts for cars (tailgate). In addition, the presence in Eastern and Northern Europe was expanded by a production facility in Poland, which started in 2017. Thus, the production capacities were increased and the immediate proximity to essential customers was guaranteed. The Group also expanded its Acoustics business by acquiring the manufacturing facility of Autoneum Group in Brazil in September 2017. As a result, the global presence increased with the additional business in South America. In Wuxi, the group has new headquarters for the Chinese market since the fourth quarter of 2018, which also bundles the development activities locally. In April 2019, STS opened its third production facility in Shiyan, China. The group is also represented in Qingdao and Jiangyin. Through a major order from a leading international commercial vehicle manufacturer, STS enters the North American market and plans to build a production facility in the northeastern region of the USA.

GROUP STRATEGY AND MANAGEMENT

GOALS AND STRATEGY

STS Group AG is a leading supplier of components and systems for the commercial vehicle and automotive industries. The aim is to expand this position. The focus is on components made of composite materials and injection molding from the first idea to the finished product. The STS products are designed to make vehicles future-proof by making significant contributions to reducing weight and thus reducing CO_2 emissions. In addition, our products improve acoustics, optics, haptics and the functionality of vehicles. In order to expand its competitive position and to achieve sustainable profitability, the Group focuses on four strategic pillars: "Market leadership", "Technology leadership", "Customer proximity" and "Operational excellence".

4
Strategic pillars

1. Market leadership
2. Technology leadership
3. Customer proximity
4. Operational excellence

As part of the company's strategy of further growing in new geographic markets and expanding its business in China, the Group opened its third manufacturing facility in Shiyan, China, which started production in April 2019.

The company is also striving to expand its presence in North and South America. For this purpose, a production site in the US state of Virginia is being built. The establishment of the location is expected to be through leasing or subsidized loans. The growth strategy is accompanied by process optimizations, including increased automation of manufacturing processes and the addressing of technological trends such as autonomous driving or e-mobility.

MANAGEMENT SYSTEM

All business units and subsidiaries report monthly about their earnings, financial and asset position, which are included in the interim reports as well as the company's semi-annual and annual reports. In addition, the business units provide a monthly assessment of the current and expected business development, and the business unit leaders present monthly deviation analyzes on certain operational indicators (such a. productivity, absence rates, rejects) to the Executive Board.

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

- Regular Executive Board and Supervisory Board meetings, regular shareholder and general meetings, risk and opportunity management
- Liquidity planning
- Management Reporting

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

The Group's key financial performance indicators include revenues, earnings before interest, taxes, depreciation and amortization (EBITDA) and adjusted EBITDA. The EBITDA for the 2019 financial year is adjusted for special expenses, mainly for reorganization measures, in the amount of 3.0 mEUR. The special expenses accounted for 2.3 mEUR in severance costs, 0.4 mEUR in consultancy costs and 0.3 mEUR in reorganization measures. In the previous year, the adjustments relate to the costs of the IPO in the amount of 3.8 mEUR, TSA fees (Transition Services Agreements) amounting to 1.0 mEUR as well as legal and consulting costs and severance payments in the amount of 6.9 mEUR in that location.

Adjusted EBITDA measures and assesses operational performance – without special effects. The reconciliation of adjusted EBITDA to EBITDA and earnings before taxes is as follows:

in mEUR	2019	2018
Adjusted EBITDA Group	**17.6**	**23.7**
Management adjustments (netted)	–3.0	–11.8
EBITDA Group	**14.6**	**11.9**
Depreciation and amortization expenses	–21.1	–13.2
Earnings before interest and income taxes (EBIT)	**–6.5**	**–1.3**
Interest and similar income	0.1	0.1
Interest and similar expenses	–3.5	–2.1
Finance result	–3.4	–2.0
Earnings before income taxes	**–9.9**	**–3.3**

The application of IFRS 16 to leases, previously classified as operating leases in accordance with IAS 17, resulted in a reduction of other expenses by 5.7 mEUR and in an increase of depreciation by 4.7 mEUR and interest expenses by 1.4 mEUR.

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

EMPLOYEES

Motivated employees expect an attractive and fair working environment in which they can act independently, contribute their ideas and develop further. Decisive for a successful and appreciative cooperation is the joint creation of an STS culture and its anchoring in everyday life. In order to ensure this, a worldwide campaign was carried out in the reporting year, focusing on the corporate values "Integrity, Respect, Open-mindedness, Commitment". In company meetings, departmental meetings and other forums, the question of how these values shape everyday work and what relevance they have for individual employees when dealing with customers, suppliers and colleagues were discussed.

STS still attaches great importance to accident prevention and health promotion. This can be seen, among other things, in measures to prevent accidents such as employee training, safety audits, cross-location exchange on best practices and 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 screening and training on the subject of attentiveness. In addition, the external reviews of operational measures addressed in the previous year will be continued. The main individual companies are certified according to OHSAS 18001 (occupational health and safety).

Due to the diverse human resource requirements and laws, human resource management is taken care of and implemented according to local requirements at the country level. An employee survey carried out at several locations has shown that the possibility of in-company training and development is an essential element of employee satisfaction. To meet this requirement, we have intensified our efforts for personnel development and career prospects. Executives were asked to hold regular employee appraisals and to discuss the question of possible future perspectives within and outside the company. The results of these discussions form the basis for individual development plans and further training measures. The results of the employee appraisals are supported by regular performance reviews, which should help to harmonize the self-assessment and external assessment of the employees and to define appropriate measures for the development of skills.

As of December 31, 2019, a total of 2,455 people were employed across the Group (previous year: 2,564).

RESEARCH AND DEVELOPMENT

Innovative products are a cornerstone of the Group's strategy and are intended to contribute to the medium-term goals of profitable and sustainable growth.

High Performance Networking of all four development centers

The development of new products for the commercial vehicle and automotive industries is a longstanding competence of the Group. The integrated know-how about injection molding, composite materials and acoustics gives the Group the exceptional opportunity to combine structural, aesthetic, acoustic and thermal solutions.

The four research and development centers in France, Italy and China have successfully combined their skills to leverage synergies. For example, all finite-element analyzes are carried out by the Chinese development center in Wuxi.

The R&D activities led to great success in acquiring new business:

- Truck roof systems made of lightweight composite materials for the US market.
- Covers for battery systems of electric vehicles: Two orders in the Chinese market, one in the European market.
- Hybrid doors for cars made of thermoplastic and composite materials for a Chinese OEM.

The innovation process includes the monitoring of technological development, creativity management, selection of ideas, proof of concept and the creation of prototypes.

Ideas implemented in new developments:

- Prototype parts, in collaboration with a global tier 1 automobile manufacturer: a lightweight composite material solution for car roof systems. Top class A panels.
- Validation of a new thermoplastic composite technology for the bulkhead of light commercial vehicles. 50% weight reduction compared to the current technology.
- Modular concept for trucks that combines structural, aesthetic and acoustic functions.
- Joint development with truck OEM to solve the challenges of reducing CO_2 emissions by 2025 (–15% target of the EU).

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

At the end of the year, 84 employees (2018: 82 employees) were employed in the research and development centers of the STS Group worldwide.

Development costs in the reporting period were 1.7 mEUR, slightly below the previous year's level (2018: 1.8 mEUR/–1.9%). In the reporting period, development costs in the amount of 0.6 mEUR (December 31, 2018: 1.2 mEUR) were capitalized and a depreciation of 0.2 mEUR (2018: EUR 0) was recorded.

ECONOMIC REPORT

MACROECONOMIC ECONOMIC AND INDUSTRY SPECIFIC CONDITIONS

MACROECONOMIC DEVELOPMENT

Global economy with continued declining momentum

According to the Institute for World Economy (IfW) in Kiel, the dynamics of the global economy continued to decrease over the course of 2019. The continuing weakness in industry and world trade had a major impact. According to the IfW indicator for global economic activity, the economy continued to slow in the fourth quarter of 2019. As a result, global production rose by only 3.0% in 2019 after 3.7% in the previous year. The Ifo Institute Munich blames two factors for the weakness of the industrial sector. The trade conflict between the United States and China restricted the exchange of goods between the two countries, while regional declines in de-mand in the automotive sector burdened manufacturing companies.

Global production for the full year 2019 with decreasing momentum

China's economy continues to cool

In the People's Republic of China, the growth rate of gross domestic product in 2019 continued to weaken to 6.0% after 6.6% in the previous year. The successful transformation from an industry and export-oriented economy to a service economy with increasing domestic consumption was contrasted in 2019 by internationally increasing protectionism and a weak global economy. Meanwhile, the world's largest exporting nation continued to develop the infrastructure of the New Silk Road to better connect with neighboring countries. The increased inner-city infrastructure measures also led to a greater increase in gross fixed capital formation than in the previous year. According to Germany Trade & Invest (GTAI), the Society of the Federal Republic of Germany for foreign trade and location marketing, private consumption continued to grow above average. The dynamics shifted to second tier cities. There was also a catching-up movement in the rural regions. Chinese consumers were reluctant to spend as much for less necessary items, such as cars.

Burdens due to protectionism and weak global economy

The economic upswing in the Eurozone continues to weaken

The weak economic momentum in the Eurozone that has prevailed since the beginning of 2018 continued to weaken in 2019 due to a lack of external stimulus. After growth of 1.9% in 2018, the gross domestic product rose by only 1.2% in the past financial year. Overall, uncertainties from the trade dispute between the United States and China, the Brexit negotiations and the weakness in the automotive sector led to a decline in demand for export-oriented capital goods and intermediate goods. Countries with a focus on industrial production of capital goods and intermediate goods, such as Germany, experienced a significantly deteriorating economy after the boom in 2017. Declines were less pronounced in consumer goods-focused economies such as Spain and France. In addition, the lower demand from China made itself felt in Europe. In the automotive industry, a politically motivated implementation of mass electric mobility was significant. On one hand, this led automotive and automotive supplier industry to realign established value chains, but on the other hand, the weak development of the number of registrations showed the wait-and-see attitude of customers towards electric vehicles. The unemployment ratio continued to drop to 7.6% despite the ongoing subdued development in production. The inflation rate in the euro zone was 1.2%, slightly below the previous year's level of 1.8% due to lower energy prices.

Trade dispute and a weak automotive sector burden

North and South America fail to meet expectations

Economic reforms under pressure from global economy

As a result of drastic events, the Brazilian economy grew significantly less in 2019 at 0.9% than in the previous year at 1.3%. The path of reforms aimed at curbing public debt and increasing productivity in Brazil was particularly burdened by declining world trade, the economic crisis in Argentina and the mining disaster in Brumadinho. Growth impulses resulted from infrastructure concessions that replace government infrastructure investments. Corporate investments were sluggish due to a lack of utilization in the manufacturing industry. While domestic consumption recovered as a result of continued improvement in the labor market and favorable financing conditions, the Argentine crisis is weighing on the export economy. Imports were 1.7% higher compared to the same period last year. A decline of 3.2% was recorded for exports. In the first ten months of 2019, import of German goods to Brazil fell by 3.0%.

Mexican economy stagnates with minimal growth

In Mexico, economic growth stagnated at 0.2%, according to the GTAI. The new Mexican government fell out of favor with entrepreneurship already in the first year of the legislative period. As a result of the uncertain economic outlook and the slowly rising unemployment, private consumption deteriorated over the course of the year. The slow implementation of planned investments as well as the pending ratification of the new USMCA (United States-Mexico-Canada Agreement) unsettled investors and is slowing down Mexico as a production location for North America. Weak investment activity was also impacted by the slowdown in the US and other export markets. With an increase of 3.4%, Mexican exports fared better than imports with 1.9%. In particular, imports of capital goods came under pressure. In the first eight months of 2019, imports of German goods to Mexico fell by 6.3%. This was due to the decline of the previous year's exports of industrial products in the automotive sector by 1.7% in the first ten months of 2019.

INDUSTRY SPECIFIC DEVELOPMENT

The continuing weakness of the global commercial vehicle market in 2019 reflected the situation of the global economy as a whole. There was an overall decline in demand for commercial vehicles in the regions important for the STS Group in the 2019 reporting year. In Europe, production decreased by around 8.5% in 2019 compared to the previous year 2018, according to industry service IHS Markit. In the STS home market of Germany, the decline was 18.9%, in France 3.7% and in Italy 8.4%. Weak economic dynamics combined with trade conflicts and uncertainties in connection with UK's exit from the EU weighed on the entire automotive industry. Despite declines in the respective regions, there was a positive trend observable during the year. In the fourth quarter of 2019, production figures increased in almost all major European markets compared to the third quarter. One example is the German market, which, with more than 25,000 vehicles, produced around 7.5% more vehicles in the fourth quarter than in the third quarter.

Positive trend in fourth quarter in the German domestic market

The industry service IHS Markit also observes a similar development for the light commercial vehicle and passenger car markets. In Europe, production figures fell overall by 4.9% to 17.67 million vehicles at the end of 2019. The Italian passenger car market in particular recorded a sharp decline of 14.9% year over year. France's passenger car market shrank by around 5.3% on the production side. Production in Germany decreased by 8.4%. The US market showed a downward trend within the North American region. Production was 4.1% below the previous year. Mexico's market for light commercial vehicles and cars shrank by 3.4%. Brazil developed well. In terms of production, the South American country grew by 1.2% to 2.80 million vehicles at the end of 2019.

The automotive market in China remained challenging and shrank in the passenger car segment by almost 10% to 21.45 million vehicles in the whole year 2019. With 3.85 million vehicles, the number of trucks was roughly on the previous year's level (– 0.9%).

2019 with challenges for passenger car market

BUSINESS PERFORMANCE

The 2019 financial year was characterized by a generally challenging market environment. The development of STS Group was particularly burdened by a weak environment in the Chinese and European automotive sector. In particular, the commercial vehicle and passenger car markets in Italy and France, which are important for STS, were characterized by a downward trend during the period under review. This market weakness resulted in declining call-off orders from STS customers. However, a slow-down of this trend with the beginning of a bottom formation was observed in the European commercial vehicle market towards the end of the 2019 financial year. Major markets showed growth in the fourth quarter of 2019 after the production low in the third quarter. Overall, there were no loss of orders. The Chinese automotive market as a whole recovered significantly in the fourth quarter after a weak first half of the year, which led to noticeable revenue growth in the China segment not least due to increased market share.

Nevertheless, significant milestones in the STS strategy were achieved. To further expand the market position in China, a third production facility was successfully put into operation in April 2019. In addition, it was possible to acquire numerous new projects in a challenging market environment. In China in particular, several large orders were won in the course of the financial year. STS has further established itself in the ever-growing electric vehicle market. Finally, the year under review was successfully concluded with a large order in the US market.

In May 2019, the group announced a major order from a leading Chinese truck manufacturer. In the next six years, STS will produce the complete front and side cladding for a long-nose truck. This type of commercial vehicle is approved in China since 2016. It offers the end customer several advantages, such as lower total operating cost and lower emissions due to the more advantageous aerodynamic profile. This vehicle structure offers STS a significantly higher share of revenues per vehicle cabin.

In June 2019, STS Group concluded a license agreement with AMA Composites for the manufacturing of additional components for weight loss, which expands the STS Group's portfolio for innovative lightweight solutions. With the fiber-reinforced thermoplastic technology LWRT (Light Weight Reinforced Thermoplastic), weight reductions of 30 to 50% compared to aluminum or steel can be achieved. Therefore, LWRT components will make an important contribution to reducing emissions and developing electric mobility.

In July 2019, two further orders for the supply of battery covers for electric vehicles were won in the e-mobility area. This is a cover module of the battery system that is up to two meters long and, in addition to heat resistance, also ensures a significant weight reduction compared to conventional materials. Another strategically important order followed in October 2019. The Group of companies will produce innovative hybrid doors for a Chinese electric vehicle manufacturer and at the same time for new STS customers. The Group is introducing a new concept for the exterior cladding of car doors by combining injection molding technology with the fiber-reinforced sheet molding compound (SMC). An injection molded outer panel is attached to an SMC frame and attached to the door frame. The extensive replacement of metal with the composite material achieves a relevant weight reduction without having to compromise on safety. The lightweight construction therefore makes a significant contribution to sustainable mobility.

In December 2019, STS Group received an order from a leading international manufacturer of commercial vehicles to manufacture a complete truck roof system made of fiber-reinforced plastic SMC. With this order, the market position in the USA is significantly strengthened. In this connection, the company plans to set up its own production site in the US state of Virginia. As a result, STS Group is strategically well positioned to acquire further orders in the northeastern region of the USA. The US market is the third largest commercial vehicle market in the world and for the long nose trucks established there, almost twice as much revenue per vehicle can be generated per vehicle cabin.

EARNINGS, ASSETS AND FINANCIAL POSITION OF THE GROUP

EARNINGS SITUATION

The 2019 financial year was essentially characterized by a weak Western European commercial vehicle market in the second half of the year and a significant decline in automobile production in the Italian passenger car market, which is important for STS Group. The Chinese market for commercial vehicles declined in the whole year of 2019, but recovered significantly in the fourth quarter in the segment of logistics trucks that is particularly relevant for STS Group. Thus, slight growth was achieved in China for the full financial year 2019. The planned expiry of a large order in the Plastics division at the end of the first half of the previous year also contributed to the decline in revenues in the first half of the year.

In the 2019 reporting year, STS Group generated revenues of 362.8 mEUR (2018: 401.2 mEUR). The company recorded earnings before interest, taxes, depreciation and amortization (EBITDA) of 14.6 mEUR (2018: 11.9 mEUR). The first application of IFRS 16 had a positive effect on EBITDA in the reporting period, resulting in a reduction of leasing expenses by 5.7 mEUR.

Special expenses for reorganization measures of 3.0 mEUR were incurred in the 2019 financial year, mainly for severance costs, reorganization measures and consulting costs. In the previous-year period, these special expenses of 11.8 mEUR were mainly for the integration of the acquired companies and the costs of the IPO.

Adjusted EBITDA decreased by 25.7% to 17.6 mEUR in 2019, compared to 23.7 mEUR in the same period of the previous year. The decrease in adjusted EBITDA is due to the lower business volume. The efficiency gains achieved in production could only partially offset the volume-related negative earnings effects. Effects from the first-time application of IFRS 16 as of January 1, 2019 contributed positively by around 5.7 mEUR million to the result.

Revenues and earnings of the segments of STS Group for the 2019 reporting year are as follows compared to the previous year:

DEVELOPMENT OF SEGMENTS

in mEUR	2019	2018	Delta	Delta %
Revenue	**362.8**	**401.2**	**–38.4**	**–9.6%**
Segment Acoustics	112.1	124.4	–12.3	–9.9%
Segment Plastics	169.0	198.6	–29.6	–14.9%
Segment China	50.4	48.6	1.8	3.7%
Segment Materials	39.8	40.0	–0.2	–0.5%
Corporate/Consolidation	–8.5	–10.4	1.9	–
EBITDA	**14.6**	**11.9**	**2.7**	**22.7%**
Segment Acoustics	–0.4	–3.0	2.6	86.7%
Segment Plastics	11.4	11.4	0.0	0.0%
Segment China	8.7	6.5	2.2	33.8%
Segment Materials	2.2	1.7	0.5	29.4%
Corporate/Consolidation	–7.3	–4.7	–2.6	–
EBITDA (in % of revenue)	4.0%	3.0%		+1.0% points
Adjusted EBITDA	**17.6**	**23.7**	**–6.1**	**–25.7%**
Segment Acoustics	0.0	–1.2	1.2	100.0%
Segment Plastics	12.6	16.7	–4.1	–24.6%
Segment China	9.0	7.2	1.8	25.0%
Segment Materials	2.4	1.9	0.5	26.3%
Corporate/Consolidation	–6.4	–0.9	–5.5	–
Adjusted EBITDA (in % of revenue)	4.9%	5.9%		–1.0% points

STS Group recorded a 9.6% drop in revenues in the 2019 financial year. Group revenues decreased by 38.4 mEUR from 401.2 mEUR in 2018 to 362.8 mEUR in 2019. Compared to the previous year, sales revenues in the Acoustics, Plastics and Materials segments declined. Only the China segment generated a sales revenues growth of 3.7% in the year under review.

Other income rose by 19.3% to 5.3 mEUR and is thus just above the previous year's level of 4.5 mEUR. They have a positive effect resulting from an agreement with Plastic Omnium on service allowances.

The increase in inventories of finished goods and work in progress was 6.8 mEUR, up by 16.8% over the previous year's level of 5.8 mEUR. This increase is due to a higher inventory of work in progress for customer tools for new projects. On the other hand, inventory assets without customer tools decreased.

With lower revenue volume, there was also a 10.5% decrease in the cost of materials to 209.3 mEUR (2018: 233.8 mEUR), mainly due to lower expenses for raw materials and supplies.

At the end of the 2019 financial year, STS Group had 2,455 employees worldwide (2018: 2,564). Despite higher personnel costs per employee, the decrease in the number of employees led to a slight decrease in personnel expenses. Personnel expenses decreased by 0.5% to 103.4 mEUR in the reporting period (2018: 103.9 mEUR).

Other expenses decreased by 14.3 mEUR. to 47.6 mEUR (2018: 61.9 mEUR). The decrease results mainly from the lower legal and consulting costs (minus 4.7 mEUR) incurred in connection with the IPO in the previous year, from the first-time application of IFRS 16 and the resulting lower operating leasing expenses (minus 5.1 mEUR) as well as lower selling and administrative costs (minus 3.1 mEUR).

Before interest, taxes, depreciation and amortization, the operating result (EBITDA) amounted to 14.6 mEUR in the reporting period and was thus 22.7% above the level of the previous year (2018: 11.9 mEUR). Effects from the first-time application of IFRS 16 as of January 1, 2019, contributed positively to the EBITDA development in the amount of around 5.7 mEUR. In addition, 3.0 mEUR were incurred in the 2019 financial year for severance and consultancy costs as well as for reorganization measures.

Adjusted EBITDA decreased by around 25.7% from 23.7 mEUR (adjusted for special effects of the IPO, legal and consulting costs, severance costs and TSA costs) to 17.6 mEUR (adjusted for special effects for reorganization measures).

Depreciation and amortization rose by 59.5% to 21.1 mEUR in 2019 (2018: 13.2 mEUR) in 2019 financial year. The increase is primarily due to the scheduled depreciation of the rights of use recognized for the first time under IFRS 16 within property, plant and equipment and intangible assets. Depreciation of property, plant and equipment amounted to 15.5 mEUR (2018: 8.5 mEUR), of which 5.3 mEUR on capitalized usage rights (2018: 0 EUR), while depreciation on intangible assets was 4.1 mEUR (2018: 3.6 mEUR), of which 0.3 mEUR (2018: 0 EUR) relate to capitalized usage rights. In addition, there was unscheduled depreciation on intangible assets in the amount of 0.7 mEUR (2018: 0 EUR) for software that will no longer be used in the future. In fiscal year 2019, an impairment test for the cash-generating unit (CGU) Brazil resulted in an unscheduled depreciation of property, plant and equipment in the amount of 0.8 mEUR (2018: 1.1 mEUR).

As a result, the operating result before interest and taxes (EBIT) was minus 6.5 mEUR (2018: minus 1.3 mEUR).

The consolidated annual result deteriorated in the 2019 financial year to minus 12.1 mEUR (2018: minus 4.8 mEUR).

The undiluted and diluted earnings per share according to IFRS were minus 2.03 EUR (2018: minus 1.20 EUR).

EARNINGS BY SEGMENT

Acoustics Segment

In the Acoustics segment, revenues in the 2019 financial year were 112.1 mEUR. With a minus of 9.9%, revenues were significantly below the previous year's level (2018: 124.4 mEUR). The main reason for the decline in revenues in the reporting period were lower customer requests in the relevant passenger car market in Italy. The segment's EBITDA improved to minus 0.4 mEUR in

the reporting period (2018: EUR 3.0 mEUR). In the reporting period, the result was burdened with special expenses for reorganization measures in the amount of 0.4 mEUR (2018: minus 1.8 mEUR). Adjusted for special expenses, the Acoustics segment posted adjusted EBITDA of around 35 kEUR (2018: minus 1.2 mEUR). Despite lower business volume, adjusted EBITDA increased in the reporting period, which can be attributed to the measures taken to adjust material and personnel costs as well as the positive effects of the first-time application of IFRS 16 of around 1.7 mEUR. The Polish plant continued to contribute a clearly negative EBITDA, although the earnings situation improved significantly, particularly as a result of the measures introduced to increase cost efficiency.

Plastics Segment

The strongest decline in sales revenues was recorded in the Plastics segment. Revenues fell by 14.9% to 169.0 mEUR in the current financial year (2018: 198.6 mEUR). The decrease results in particular from lower customer call-off orders from all European commercial vehicle manufacturers in the second half of the year. The segment's EBITDA was at the previous year's level at 11.4 mEUR (2018: 11.4 mEUR). Earnings were impacted by special expenses of 1.2 mEUR (2018: 5.3 mEUR). Adjusted EBITDA amounted to 12.6 mEUR in the reporting period (2018: 16.7 mEUR). The efficiency gains achieved in the plants as well as positive effects from the first-time application of IFRS 16 in the amount of around 2.6 mEUR could only partially offset the negative effects on earnings due to declining revenues.

China Segment

The China segment was able to increase its revenues in the current financial year despite an overall significantly declining Chinese automotive market. The increase in revenues was achieved mainly in the fourth quarter and was also based on new starts. Tighter regulation regarding the loading of trucks also provided an additional boost to growth. Revenues rose by 1.8 mEUR from 48.6 mEUR to 50.4 mEUR. This corresponds to an increase in sales revenues of 3.7%. The segment's EBITDA increased year-on-year to 8.7 mEUR (2018: 6.5 mEUR). Earnings in the current financial year were burdened by special expenses of 0.3 mEUR (2018: minus 0.7 mEUR). Adjusted EBITDA improved to 9.0 mEUR in the reporting period (2018: 7.2 mEUR). A slight increase in revenue volume, lower operating costs and the positive effect from the first-time application of IFRS 16 of around 1.0 mEUR contributed to this. Start-up costs for the new plant in Shiyan, which opened in April, were fully off-set. The China segment thus achieved an adjusted EBITDA margin of 17.9% in 2018 (2018: 14.8%).

Materials Segment

The Materials segment generated revenues in the past financial year almost at the previous year's level. This amounted to 39.8 mEUR compared to 40.0 mEUR in the previous year. EBITDA for the 2019 financial year improved to 2.2 mEUR compared to the same period in the previous year, mainly due to lower operating costs (2018: 1.7 mEUR). Special items of around 0.2 mEUR each negatively impacted earnings in the reporting period and in the previous year. Adjusted EBITDA in the reporting period was above the level of the previous year with 2.4 mEUR (2018: 1.9 mEUR). The positive effect from the first-time application of IFRS 16 was around 0.2 mEUR in the Materials segment.

FINANCIAL POSITION

Principles and objectives of financial management and dividend policy

The Group's financing strategy is geared towards providing the necessary funds for the implementation of the corporate strategy as well as the requirements of the operational business. The aim is to secure the necessary funds for growth, limit the associated financial risk and optimize the cost of capital. Different financing instruments such as loans, factoring, leasing and short term loans are used.

No dividend payment is planned for the 2019 financial year. The Company intends to use a significant portion of its future potential profits after deducting the amounts to be deposited in the statutory reserve to finance its further growth in the coming financial years and to pay a dividend only if this is compatible with its business and investment plans .

The Group has fixed and floating rate loans. The variable interest loans are based on a 1-, 3- and 6-month EURIBOR plus a margin. Some loans are based on credit clauses for achieving key financial figures and some loans are secured. For information on financial liabilities, please refer to section 4.12 non-current and current financial liabilities in the notes to the consolidated financial statements.

Cash Flow

in mEUR	2019	2018
Net cash flows from operating activities	36.6	7.1
Net cash flows from investing activities	–15.0	–13.9
Net cash flows from financing activities	–35.6	22.1
Net increase/decrease in cash and cash equivalents	**–14.0**	**15.3**

In the 2019 financial year, STS Group generated a positive **net cash flow from operating activities** of 36.6 mEUR (2018: 7.1 mEUR). The increase resulted in particular from the development of net working capital. The change in net working capital resulted in a cash inflow of 22.9 mEUR in the reporting period (2018: cash inflow of 1.9 mEUR). The main driver for the increase in cash inflow was significantly lower customer receivables as a result of the sales of receivables as part of non-recourse factoring, amounting to 23.5 mEUR in the Plastics segment. Cash outflows due to an increase in the inventory of customer tools for new projects (less customer advance payments) in the amount of 2.4 mEUR, as well as the security retention of 2.5 mEUR due to the new factoring program, had the opposite effect. The first-time application of IFRS 16 also contributed to the improvement in net cash flow from operations, since payments for leases are no longer recognized in operating cash flow, but in cash flow from financing activities.

In the 2019 financial year, **cash flow from investing activities** amounted to minus 15.0 mEUR (2018: cash outflow of 13.9 mEUR). This includes a cash outflow of 17.3 mEUR (2018: 12.0 mEUR), which is mainly due to payments for investments in property, plant and equipment in the amount of 13.1 mEUR (2018: 7.8 mEUR), which was invested in new customer projects, in increasing capacity at the plants in China and Poland, and in efficiency measures. Investments in intangible assets amounted to 4.3 mEUR (2018: 4.2 mEUR). Investing activities mainly related to the Acoustics segment with 5.9 mEUR (2018: 3.8 mEUR), the Plastics segment with 6.0 mEUR (2018: 3.1 mEUR) and the China segment with 4.9 mEUR (2018: 3.8 mEUR). A cash inflow of 2 mEUR, resulting from a repayment of restricted funds deposited with a bank as security deposit in connection with the financing of a subsidiary, had the opposite effect.

Financing activities resulted in a cash outflow of 35.6 mEUR for the group in financial year 2019, while a cash inflow of 22.1 mEUR was recorded in financial year 2018. The previous year's figure mainly included proceeds from the IPO and a capital increase carried out against cash contribution. In the reporting period, financing from the sale of receivables decreased due to the shift from with-recourse to non-recourse factoring by 24.1 mEUR (2018: minus 1.4 mEUR). This development is largely due to the fact that the Plastics segment largely sold receivables with an off-balance sheet effect (non-recourse factoring) in the 2019 financial year. In addition, with the introduction of IFRS 16 from the 2019 financial year, significantly higher lease payments will be shown in the cash flow from financing activities. These amounted to 5.5 mEUR in the financial year (2018: minus 0.4 mEUR). Funds of 8.8 mEUR were used to repay liabilities to banks (2018: minus 13.5 mEUR). This contrasted with inflows of 5.8 mEUR (2018: 12.1 mEUR) from taking out loans.

Liquid assets

The amount of freely available liquid funds amounted to 17.2 mEUR as of December 31, 2019 (December 31, 2018: 31.2 mEUR) and mainly consisted of bank balances.

Net financial liabilities

The Group's net financial debt[1] increased as of December 31, 2019 by 8.0 mEUR to 39.1 mEUR (December 31, 2018: 31.1 mEUR). The increase resulted primarily from increased lease liabilities (December 31, 2019: 24.1 mEUR, December 31, 2018: 3.2 mEUR) due to the introduction of IFRS 16 in the 2019 financial year. The reduction in liabilities to factoring companies has the opposite effect. This is due to the fact that the Plastics segment has been selling receivables essentially through non-recourse factoring since the fourth quarter of 2019, which means that receivables and liabilities to factoring companies are derecognized from the balance sheet.

[1] Net financial debt = bank liabilities + liabilities from loans from third parties + leasing liabilities + liabilities from factoring – cash

FINANCIAL POSITION

in mEUR	December 31, 2019	December 31, 2018
Non-current assets	136.5	115.6
Current assets	120.0	158.2
Total assets	**256.5**	**273.8**
Total equity	68.6	82.4
Non-current liabilities	55.0	39.2
Current liabilities	132.9	152.2
Total equity and liabilities	**256.5**	**273.8**

Total assets decreased compared to December 31, 2018 from 273.8 mEUR to 256.5 mEUR. On the assets side, the decrease in liquid funds led to a reduction in total assets. In addition, the switch to sales of receivables (non-recourse) caused a decrease in trade receivables. This was countered by an increase in property, plant and equipment as a result of the changed leasing accounting (IFRS 16). Total liabilities decreased due to lower equity and significantly lower factoring liabilities. The increase in leasing liabilities due to new leasing accounting (IFRS 16) had an opposite effect. Current assets accounted for 46.8% of total assets, 11.0% below the previous year's level. The share of current debts in total assets fell by around 3.8% compared to the previous year to 51.8%.

Non-current assets rose by 20.9 mEUR to 136.5 mEUR (December 31, 2018: 115.6 mEUR). Property, plant and equipment increased compared to December 31, 2018 from 78.7 mEUR to 102.9 mEUR. As part of the introduction of lessee accounting in accordance with IFRS 16 as of January 1, 2019, usage rights of 22.6 mEUR are shown in property, plant and equipment.

Current assets decreased by 38.2 mEUR to 120.0 mEUR (December 31, 2018: 158.2 mEUR). This is mainly due to the decrease in trade receivables (minus 25.0 mEUR) in the Plastics segment and the lower cash and cash equivalents (minus 15.9 mEUR). The increase in inventories had an opposite effect (plus 2.4 mEUR). The increase in inventories is mainly due to a higher inventory of customer tools for new projects, which are usually paid for by the customer as part of milestone payments.

Equity decreased compared to December 31, 2018 by 13.8 mEUR to 68.6 mEUR (December 31, 2018: 82.4 mEUR). The consolidated earnings and the revaluation of pension obligations were the main factors reducing equity. The equity ratio decreased as of December 31, 2019 to 26.7% (December 31, 2018: 30.1%). In addition to the decline in equity, this is due in particular to the balance sheet extension as a result of the new leasing accounting in accordance with IFRS 16. The reduction in liabilities from factoring as a result of the non-recourse sale of receivables in the Plastics Segment had an opposite effect.

Non-current debt increased as of December 31, 2019 by 15.8 mEUR to 55.0 mEUR (December 31, 2018: 39.2 mEUR). The increase in non-current liabilities is essentially due to the recognition of leasing liabilities in the context of the first-time application of IFRS 16, which rose as of December 31, 2019 by 16.3 mEUR to 18.8 mEUR (December 31, 2018: 2.5 mEUR).

Current debts decreased as of December 31, 2019 by 19.3 mEUR to 132.9 mEUR (December 31, 2018: 152.2 mEUR). The decrease is mainly due to the reduced liabilities from factoring (minus 24.1 mEUR). This was countered by increased leasing obligations (plus 4.6 mEUR) from the first-time application of IFRS 16.

OVERALL STATEMENT BY THE EXECUTIVE BOARD ON THE ECONOMIC SITUATION

Due to the declining market development, the Group had to face significant revenue declines in the financial year, but was able to expand its position in the strategically important Chinese market slightly.

The Plastics and Acoustics segments developed below expectations, particularly due to the weak European commercial vehicle market. The market for cars, which was again weaker in 2019, led to further revenue declines, particularly in the Acoustics segment. The Materials segment developed in line with expectations. Only the China segment escaped the weak market conditions in the automotive sector and achieved slight revenue growth for the year as a whole.

The company responded to the weak revenue performance with a variety of efficiency measures. Nevertheless, the adjusted EBITDA, the adjusted EBITDA margin and the consolidated earnings in the 2019 financial year were significantly below the previous year's value. The Executive Board regards the Group's earnings in 2019 as unsatisfactory.

Despite the implementation of various measures to strengthen liquidity, such as optimizations in working capital, the company's liquidity decreased significantly in 2019. The Executive Board considers the net financial debt as of December 31, 2019 as generally appropriate. However, due to the outflow of funds in the 2019 financial year and the lack of sufficient long-term financing, the Executive Board regards the financial situation as tense overall. The Executive Board believes that equity is sufficient.

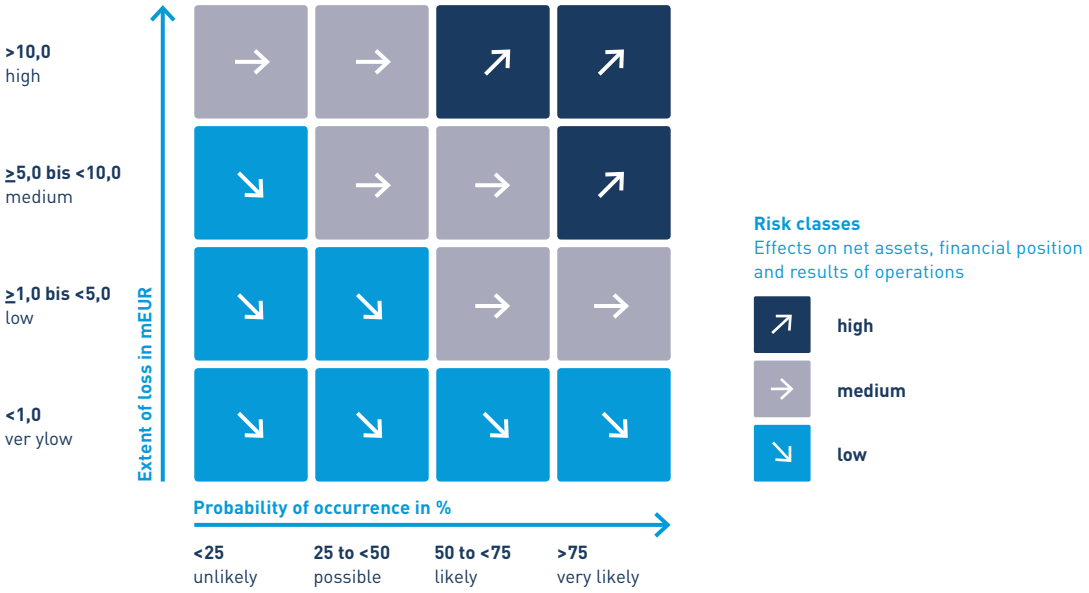
OPPORTUNITIES AND RISK REPORT

RISK MANAGEMENT SYSTEM

Risk management as a whole of all organizational regulations and measures for early risk detection and adequate handling of risks in our entrepreneurial activity plays an important role in our business model. The Executive Board has installed an early risk detection system so that developments can be recognized early which could endanger the continued existence of the company. All critical business developments and liability risks are subjected to a critical review and reported regularly in the reviews of the subsidiaries as well as in the Executive Board and Supervisory Board meetings. The Executive Board reviews the business development of the subsidiaries on a regular basis and is informed about the revenue, earnings and liquidity situation of all segments based on the implemented reporting system. STS Group has sufficient free financial capacities to be able to react flexibly and appropriately if necessary.

In the context of risk management, only risks are considered which, based on their impact on EBIT, have a threshold value of 0.1 mEUR. EUR net and 1 mEUR gross. The risks are to be assessed according to their monetary impact (extent of damage) and their probability of occurrence. When assessing the monetary impact, four categories are distinguished very low, low, medium and high. The extent of damage during one year is relevant 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 the extent of damage and the likelihood of occurrence defines the risk class, which is classified as low, medium and high in its effects on net assets, financial position and results of operations. The risks are classified into the respective risk classes based on the risk matrix.

RISK MATRIX[1]



1 Classification of net risk

In the risk assessment, a distinction is made between gross and net assessment. Measures already taken can reduce the gross risk in terms of both the monetary impact and the possible occurrence of the risk. Net risk then represents the amount of damage and the likelihood of occurrence, taking into account the damage-reducing measures that have already been initiated by the reporting date. The identified risks must be actively managed in order to achieve the risk reduction aimed at by the company. All risks for which no suitable countermeasures can be taken are to be classified as business risks. The management responsible for operations is responsible for managing risks that have a minor impact on STS Group. The current risks are regularly reported to the Executive Board. Within the scope of its respective area of responsibility, the Executive Board decides on the measures that may be necessary and ensures that they are continuously implemented.

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 that a timely, uniform and correct accounting entry of all business processes and transactions is guaranteed. To consolidate the subsidiaries included in the consolidated financial statements, the internal control system ensures that legal standards, accounting regulations and internal accounting instructions are complied with. Changes are continuously analyzed with regard to their relevance and effects on the consolidated financial statements and taken into account accordingly. STS Group provides a schedule for the subsidiaries for monthly, quarterly and annual preparation of the consolidated financial statements. Instructions for the quarterly and annual financial statements are sent to the subsidiaries and additional data/information are requested that are necessary for all relevant topics with regard to the content as well as the processes and deadlines for preparing the financial statements. For the consolidation of STS Group, a group-wide chart of accounts and uniform accounting guidelines are used. Appropriate consolidation software is used for the consolidation. In the context of group accounting, there is a close exchange between the operating units and the central office. If necessary, the central departments of Controlling, Treasury and Taxes as well as external experts are consulted. In addition to defined controls, system-technical and manual coordination processes, the separation between executing and controlling functions as well as compliance with guidelines and work instructions are essential components of the internal control system. Quality assurance with regard to the accounting data included in the Group is carried out centrally by the finance department using analyzes and plausibility checks.

The Group companies are responsible for compliance with applicable guidelines and accounting-related processes as well as for the orderly and timely completion of financial statements. The Group companies are supported in the accounting process by contact persons in the central office.

Financial risk management

The management of STS Group monitors and controls financial risks associated with business areas of STS Group 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, 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 few currency and interest rate exposures. There are also guidelines for managing currency, interest rate and default risks. In addition, basic rules for the execution of derivative and non-derivative financial transactions as well as for the investment of excess liquidity were laid down. STS Group does not contract and trade financial instruments, including derivative financial instruments, for speculative purposes.

MACROECONOMIC OPPORTUNITIES AND RISKS

WORLD ECONOMY WITH UNCERTAINTY THROUGH TRADE POLICY DISORDERS

Trade policy uncertainties as risks for global economy

According to the Kiel Institute for the World Economy (IfW), risks to the global economy and its determining framework continue to arise from disruptive factors of trade policy. A further deterioration in international trade and an additional burden on the investment climate could have an unfavorable impact on economic development. The economic downward risk increases with the duration of industrial weakness and the resulting effects on other economic sectors. According to the Ifo Institute in Munich, risks to global economic development continue to outweigh opportunities. In contrast, the US-China trade conflict represents both opportunities and risks. The risk of further escalation is just as great as the chances of a compromise. The conflict can also extend to other countries and regions. The Executive Board assesses the risk as medium in terms of the extent of damage and the likelihood of occurrence and in relation to its impact on the net assets, financial position and results of operations.

CHINA – RISK OF DECREASING GROWTH RATES

Mood in China worse than real situation

According to the Gesellschaft der Bundesrepublik Deutschland für Außenwirtschaft und Standortmarketing (Germany Trade & Invest, GTAI), the mood in the Chinese economy is worse than the real situation. The economic expansion is still relatively high. Nevertheless, the second largest economy in the world is preparing for further declining growth rates in gross domestic product (GDP). According to the GTAI, the risk of a downturn can only be compensated for to a limited extent by tax relief to strengthen private consumption and government infrastructure spending by the government in Beijing. Despite temporary easing, the U.S. administration's continuing demands against China regarding subsidy policies and intellectual property violations pose a risk of further escalation of mutual tariffs. The Executive Board assesses the risk as medium in terms of extent of damage and the likelihood of occurrence and in relation to its impact on net assets, financial position and results of operations.

EUROZONE WITH ECONOMIC AND POLITICAL RISKS

Uncertain economic development in Europe

Political and economic risks are weighing on economic momentum in the eurozone. The conditions for the United Kingdom's exit from the European Union are still pending. Persistent weakness in the intermediate and capital goods industries could affect the labor market and thus also affect other economic sectors such as the service sector. In addition, tensions between the United States and the European Union increased. The imposition of US tariffs on European motor vehicles is uncertain, while European planes were subject to tariffs in response to a decision by the World Trade Organization (WTO) in response to EU subsidies. The volume determined by the WTO has not yet been exhausted. There is a risk of measures and countermeasures escalating if the conflict fails to be resolved. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on the net assets, financial position and results of operations.

POLITICAL UNCERTAINTIES SLOWN DOWN NORTH AND SOUTH AMERICA

Brazil and Mexico dependent on foreign trade

According to the GTAI, the Brazilian government's reform course to reduce public debt and increase productivity can only sustainably impact the economic development in the medium to long term, so that short-term growth risks arise from the government's withdrawal. Opportunities for investment activities are opened by a greatly reduced country risk, which forms the basis for a future improvement in its credit rating. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on the net assets, financial position and results of operations.

In Mexico, there is a risk that the pending ratification of the new USMCA (United States-Mexico-Canada Agreement) will be delayed until after the US presidential election in November 2020. A further slowdown in the US economy could exacerbate the existing weakness in the Mexican economy. Lower inflation offers opportunities for consumption. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on the net assets, financial position and results of operations.

CHANGED ASSESSMENT OF RISKS AFTER THE END OF THE REPORTING PERIOD

Effects of Coronavirus Pandemic (COVID-19)

According to the World Economic Forum (WEF), epidemics such as the outbreak of coronavirus disease (COVID-19) are both an independent business risk and a factor for existing opportunities and risks. COVID-19 has developed – starting from mainland China – from a regional epidemic to a global pandemic.

The ifo-Institute expects in its current economic forecast ("ifo Economic Forecast Spring 2020", published on May 18, 2020) another significant slowdown in the global economy: the global economy is collapsing as a result of the coronavirus pandemic; global growth will slow to 0.1%. The ifo-Institute expressly points out that the downside risk in the forecast is considerable due to the currently unclear situation.

According to the current forecast of the ifo-Institute, China's economy is expected to grow at a forecast rate of only 3.7%. For the Eurozone, the ifo-Institute's current forecast assumes a 1.6% fall in real gross domestic product. For Germany, the ifo Institute expects economic output to contract by 1.5% in 2020.

STS Group acts as a global system supplier for the automotive industry with 17 locations in seven countries on four continents. Therefore, the development of the Group is particularly dependent on global economic growth.

The STS Group expects global automotive production to decline significantly in 2020, mainly due to the coronavirus and the associated production downtimes, as well as lower demand in China and Europe. IHS Markit sees in its "AutoIntelligence Strategic Report" of March 26, 2020 a 12% decline in global revenues of passenger cars. For China, IHS Markit expects revenues to decline by 9.3%, for Europe to decline by 13.6% and the US by 15.3%. For the global commercial vehicle market, the Executive Board also expects double-digit declines in sales and production in 2020.

The top priority here is to ensure the continuation of business activity through adequate measures. In this context, maintaining the Group's liquidity and minimizing the negative impact on earnings is of paramount importance.

For further descriptions regarding the effects on the STS Group, please refer to the risk report and the supplementary report.

SECTORAL OPPORTUNITIES AND RISKS

Commercial vehicles in transition to autonomous driving and CO_2-neutral mobility

According to the consulting firm Boston Consulting Group (BCG), the commercial vehicle market with the resulting opportunities and risks will change fundamentally. The emergence of new types of driving technologies, the progress in autonomous driving technology and the ubiquitous spread of connectivity are the main change factors.

BCG anticipates opportunities from the introduction of autonomous vehicles and associated technologies, in particular from early application for heavy commercial vehicles. Due to the less complex implementation for long-distance traffic on motorways compared to urban traffic and a possible overall cost advantage, 20% of heavy commercial vehicles could drive autonomously by 2030. In addition, it can be expected that the demographically expected shortage of drivers will favor the introduction of autonomous vehicles in coming years. These developments mean additional opportunities for STS Group. The company contributes to innovative interior concepts to make the workplace more attractive for professional drivers. This includes components to reduce noise emissions as well as efficient storage space solutions in the driver's cabin. STS is responding to the advancing digitalization in commercial vehicles with components made of composite materials. These offer the possibility of installing an increasing number of antennas, radar and lidar systems more easily. On the other hand, the composite material does not interfere with the signal strength of antennas and camera systems to be integrated.

The start of production of commercial vehicles with alternative drive technologies and the aging of internal combustion engines will gradually create opportunities for the automotive and automotive supply industry over the next ten years. According to the BCG, by 2030 more than 25% of heavy commercial vehicles could use alternative drive technology depending on the type of application and infrastructure. Liquefied natural gas (LNG) also needs petrol stations and a corresponding distribution network for quickly refilling and making long distance driving possible. As an emission-free technology, the cost-intensive fuel cell depends on the availability of inexpensive electrical energy. By 2025, battery-powered light commercial vehicles will have a better total cost of ownership compared to internal combustion engines. The large-scale long-distance use should remain limited by the ratio of power and weight of the batteries limiting the payload. However, according to BCG, from 2030 battery-powered mobility will be the most widespread technology worldwide with the USA, Europe and China as the largest markets.

Opportunities for electro-mobility in the commercial vehicle industry arise from the strategic cooperation between the Association of the Automotive Industry (VDA) and the Association of Electrical Engineering, Electronics and Information Technology (VDE) in the standardization of charging systems for heavy trucks. The development of a uniform interface for heavy commercial vehicles based on the Combined Charging System (CCS), which has proven itself in the passenger car sector, in further cooperation with North American industry and the national standardization institutes represents additional opportunities.

Against the background of the trade policy framework and the implementation of the NAFTA successor agreement USMCA (US-Mexico-Canada-Agreement), new opportunities as well as risks surface through an expansion of production in North America. Furthermore, the reputation of German products and engineering enables a further intensifying of cooperation in the USA, as the VDA states.

Innovations reduce risks

In VDA's view, however, risks for the commercial vehicle market continue to result from the ambitious EU target for heavy commercial vehicles to reduce CO_2-emissions of new vehicles by 30% by 2030 compared to 2019. Tougher EU climate targets of the so-called European Green Deal instead of long-term planning security and an accompanying industrial policy to ensure competitiveness in Europe create additional risk potential. STS counters the risks arising for the company from the ambitious CO_2 emission targets through intensive research and development activities. The company has four development centers. On the product side, STS contributes to reducing emissions of commercial vehicles and cars in the form of components to improve aerodynamics and to reduce weight. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on the net assets, financial position and results of operations.

Standardization creates opportunities for electric mobility in the commercial vehicle industry

According to the BCG, the change to CO_2-neutral mobility and autonomous driving is fraught with risks such as the unpredictability of technological progress, public opinion and customer preferences as well as the regulatory framework. Moreover, economic risks result from the development of competing technologies in connection with the need to continue having technological offers with stagnating sales. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on the net assets, financial position and results of operations.

According to market research company LMC Automotive, further possible risks for the global commercial vehicle market relate to the as yet unpredictable effects of Brexit after the end of the transition phase with a view to the uncertainty of pending negotiations about future trade regulations. Stricter CO_2-limits could also affect sales in the EU in 2020. A policy of isolation and protectionism in the target markets relevant to the commercial vehicle industry pose further risks. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on the asset, financial and earnings situation.

Automobiles as carriers of technology

The VDA is convinced that the future of the car is emission-free and largely electric. The efforts of the automotive industry create opportunities to rekindle great enthusiasm for cars with CO_2-neutral mobility. Climate protection efforts open up new opportunities to convince customers with future-oriented technologies and fascinating products.

CO_2-neutral mobility as opportunity for the technology driver automobile

For the VDA, the Consumer Electronics Show (CES) in Las Vegas is an example of opportunities through the development potential of the car. The car is occupying an ever larger space at the consumer electronics trade fair, so that electronics companies are now also presenting their own vehicles. At the same time, climate-neutral mobility is not just a risk for the automotive industry, but also an opportunity. The increasing involvement in the USA in connection with a strong presence at the CES underlines the opportunities of the German automotive and supplier industry with its technological competence and innovative strength. STS designs and produces components for use in the area of e-mobility. In this context, lightweight components made of composite materials are increasingly in demand. They replace conventional steel components and thus help to save weight. STS manufactures so-called hybrid doors from injection molding and the fiber-reinforced composite material Sheet Molding Compound (SMC). Tailgates made by STS from composite material also help reduce weight and improve body aerodynamics.

In the opinion of the management consultancy McKinsey, the global sales volume of electric vehicles will for the foreseeable future be sufficiently large to create considerable opportunities for value creation and profit realization for both manufacturers and their well-positioned suppliers.

Sales of electric vehicles rising

Risks for the global car market result from the uncertain trade situation. The sharp decline in corporate sentiment could have a negative impact on consumer confidence and, as a result, restrictions on buying a car, should unemployment rise and wage growth decrease. Stricter CO_2-limits could also affect sales in the EU in 2020. Other risks include escalation in trade disputes and possible U.S. tariffs on vehicles and parts from Japan and Europe. The Management Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on the net assets, financial position and results of operations.

OTHER RISK AREAS AND KEY OPPORTUNITIES AND INDIVIDUAL RISKS

RISKS

- STS Group has experienced lower demand and production downtimes due to the massive global coronavirus spread, as plant closures had to be carried out. Worldwide, we therefore expect production to decline and the supply chain to be affected. This leads to additional **financial and liquidity risks** for the company. STS Group continuously analyzes all risks relevant to its business in order to be able to take necessary measures at short notice if necessary. The Executive Board assesses the risk as high in terms of the extent of damage and the likelihood of occurrence and in terms of its impact on the net assets, financial position and results of operations.

  Due to the latest developments, particularly in Europe, in relation to the COVID-19 pandemic, the associated plant closings and a lack of revenue, the group will not be able to fully cover the liquidity needs of the coming months from existing liquid funds and fixed loan commitments. The Executive Board has therefore initiated additional financing measures to secure the Group's liquidity needs in the long term.

  Measures include the adjustment of capacities, which essentially include short-time work, and measures to reduce costs. In order to ensure liquidity, the following action plans have been drawn up in particular:
  - The completion of additional local funding, which is supported by extensive government measures to support the economy in France, Germany and Italy (in particular guarantee programs). Financing of the French subsidiaries of approx. 15,7 mEUR is particularly important here. These have been applied for and the Executive Board is very likely to be able to conclude this financing.
  - Liquidity support from customers and legally permissible deferrals of payments, e.g. of social security contributions, lease payments and various taxes.
  - In addition, the majority shareholder, Mutares SE & Co. KGaA made STS Group a temporary offer, to acquire a segment at a price in the low double-digit million EUR range (put option). If necessary, this put option can be exercised to secure additional liquidity for the STS Group. In view of the financing options presented above, the Executive Board assumes, that exercising this put option will probably not be necessary to ensure liquidity in the relevant 12-month period.

  The continued existence of the Group is dependent on the successful implementation of the aforementioned measures, as the Group may otherwise not be able to realize its assets and pay its debts in the ordinary course of business, which indicates the existence of a material uncertainty, possibly causing significant doubts in the ability of the company to continue operating and which poses a risk to the company's existence.

  The Executive Board is confident and assumes that the above-mentioned measures can be implemented with a high degree of probability and that the continuation of the company's activities can thus be ensured.

- STS Group concludes long-term (LTA) contracts with its customers. In the course of these activities, obligations or commitments are made that must be fulfilled over a longer period of time or that could not be kept due to unforeseen events. In retrospect, these activities could prove to be disadvantageous and have a negative impact on the financial position and results of operations. The Executive Board assesses the risk as medium in terms of the extent of damage and the likelihood of occurrence and in relation to its impact on net assets, financial position and results of operations.

- STS Group is dependent on a limited number of large customers and the relationships with them. A loss of these business relationships could have a significant negative impact on the business activities and net assets, financial position and results of operations of STS Group. Management is proactive in discussions, especially with truck manufacturers, in order to win new projects and thus reduce the dependency on a limited number of large customers. The Executive Board assesses the risk as medium in terms of the extent of damage and the likelihood of occurrence and in relation to its impact on net assets, financial position and results of operations.

- General interruptions in the automotive and truck supply chain could have a negative impact on the business of STS Group, even if STS Group itself is not subject to a supply bottleneck at its suppliers. Should the suppliers of STS Group no longer be able to supply raw materials or components required for the business activities of STS Group, this could negatively affect the business activities of STS Group. The Executive Board assesses the risk as medium in terms of the extent of damage and the likelihood of occurrence and in relation to its impact on net assets, financial position and results of operations.

- Environmental protection is a top priority for STS Group. STS Group's production and manufacturing sites are located in different countries and are subject to a wide range of environmental protection standards. New laws or changes in the legal framework at international level can pose risks to production and also result in liability claims. The Executive Board assesses the risk as medium in terms of the extent of damage and the likelihood of occurrence and in relation to its impact on net assets, financial position and results of operations.

- Through acquisitions in the past and in the future, STS Group could be involved in legal disputes, particularly with regard to the interpretation of purchase price components, which could have a significant negative impact on the financial and earnings situation. The Executive Board assesses the risk as medium in terms of the extent of damage and the likelihood of occurrence and in relation to its impact on net assets, financial position and results of operations.

- The production of STS Group is very plant-intensive and therefore associated with high fixed costs. A decrease of capacity utilization in the plants due to a decrease of customers orders would in consequence lead to rising costs and possibly to factory closings. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial position and results of operations.

- STS Group is subject to worldwide tax audits in which its reporting units operate. In current or future tax audits, tax laws or relevant facts could be interpreted or assessed differently by the tax authorities than by STS Group. As a result, the tax base could be adjusted and the tax liability increased. An additional payment due to the adjustment of the tax base can have an impact on the financial position. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial position and results of operations.

- STS Group depends on its ability to adapt to changing technologies and new trends and to continue to develop new products. If STS Group fails to present new products for the automotive and truck industry in the future, it could lose its competitiveness and market share. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial and earnings position.

- STS Group may become the subject of product liability claims and claims relating to specific services or defects of its products that could result in claims for damages or other claims. STS Group also manufactures its products according to customer specifications as well as performance and quality requirements. If products are not delivered on time or do not meet the agreed specification, STS Group may face substantial contractual penalties and rework costs. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its im-pact on net assets, financial position and results of operations.

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

- Malfunctions or prolonged production downtimes could impair the ability of the STS Group to deliver on time or to be able to deliver at all. An interruption of operation can be triggered by internal or external circumstances. Should STS Group not be able to meet its contractual delivery obligations, this could have a negative impact on business and customer relationships. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial position and results of operations.

- STS Group is highly dependent on qualified employees as well as specialists in all areas. The unexpected loss of employees or difficulties in finding suitable employees could have a negative impact on the company's net assets, financial position and results of operations. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial position and results of operations.

- Accidents cannot be completely ruled out during production or in other work areas. A safety-oriented corporate culture, the appropriate selection of employees and training programs for safe behavior on site minimize the risk of accidents for your employees. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial position and results of operations.

- Legal risks for STS Group arise from conducting business. These can result from violations of legal or other legal requirements. The occurrence of legal risks could have a high impact on earnings. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial position and results of operations.

- An unexpected price increase for raw materials, components and equipment that STS Group needs for the development and production of its products could lead to price increases that cannot be passed on to customers of STS Group's or otherwise offset by other cost-saving programs. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial position and results of operations.

- STS Group relies on complex IT systems and networks that can become vulnerable to damage, interruptions or cyber attacks through increased hacker activity or fraud. Although STS Group has taken steps to manage its risks related to system and network disruptions, security breaches, or similar events, this could result in a longer, unexpected breakdown of its systems or net-works, thereby hampering normal business operations and loss of data and know-how of the customer, which could have a significant negative impact on his business and reputation. The Executive Board assesses the risk as low with regard to the extent of damage and the likelihood of occurrence and with regard to its impact on net assets, financial position and results of operations.

Except for the risk of production and capacity utilization, all reported risks of STS Group remain unchanged from the previous year. The risk of production and capacity utilization has been reclassified from medium to low this year with regard to the extent of damage and the likelihood of occurrence, as well as with regard to its impact on net assets, financial and earnings position.

OPPORTUNITIES

- New opportunities are continually being actively sought to acquire new customers or retain customers and thus realize growth of sales. The further expansion of the product portfolio and the expansion in growing regions offer growth opportunities for the STS Group in the medium and long term.

- The return to a growth course of 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 the market. Furthermore, STS Group expects that the trend towards autonomous driving will require the product range to be adapted to meet the specific requirements of electronic and electrical devices. Demand in the main target markets of STS Group is increasingly influenced by a number of trends, in particular the trends for emission reduction and the increasing focus on e-mobility, which are primarily driven by the emission targets required in different regions of the world. STS Group takes these trends into account by making it possible with its materials to produce low-weight products that reduce the overall weight of vehicles and thus lead to lower emissions and at the same time lower product costs for structural parts compared to metal products.

- The technological know-how of STS Group enables the company to offer its customers sound insulation and thermal insulation for indoor and outdoor use from a single source. STS Group is one of the few global automotive suppliers that has the technological know-how to offer and combine all components of the structural, visual, acoustic and thermal components of their products in order to offer their customers a "one-stop shop"-approach for automotive and truck parts. STS Group regards STS Plastics as the only provider on the market that can offer both thermosetting and thermoplastic technologies and is therefore able to serve all markets for such products or even combine both technologies to form comprehensive system solutions.

- STS Group can scale its lot size according to the individual needs of its customers. STS Group has the advantage that it can use its technologies, such as composite materials, to produce small and large batch sizes for its customers. This enables STS Group to address a wide range of customers for all of its products, thereby differentiating itself from larger automotive and truck parts suppliers who only focus on supporting customers with large-volume orders and are therefore exposed to economic deterioration if such large customers reduce the number of car and truck parts they purchase. STS Group has a strong, globally integrated basis in its key markets, from which it can generate further international growth. STS Group operates 17 sites in seven countries on four continents with large sites in the most important regional markets of Europe, China as well as North and South America. These facilities are strategically located near or integrated into the sequencing facilities of their major OEM customers and enable STS Group to provide the services and products their customers need through the use of local personnel who are qualified to operate such facilities and is tailored to promptly and inexpensively cater to the needs of local customers. In addition, STS Group is able to grow organically with its key customers and to better respond to the changing needs of its international customers, as they know their situation through their proximity and understanding of their customers' business.

- The experienced management team of STS Group can monetize their long-term OEM relationships by using strong customer relationships in cross-selling opportunities.

The company has a lean corporate structure with direct reporting to the Executive Board. The long-term customer relationships of more than 20 years on average (Europe >20 years, China >10 years and America ~10 years) support a strong position in a highly competitive market environment based on a high order backlog. This also results in cross-selling potential between the Acoustics and Plastics segments through the use of technological synergies.

FORECAST

WORLD ECONOMY UNDER THE SPELL OF CORONA VIRUS

The ifo-Institute expects in its current economic forecast ("ifo Economic Forecast Spring 2020", published on May 18, 2020) a significant weakening of the global economy: accordingly, the global economy slumps as a result of the coronavirus pandemic; global growth will weaken to 0.1%. The ifo-Institute expressly points out that the downside risk in the forecast is considerable due to the currently unclear situation.

Significant slowdown of global economy

According to the current forecast of the ifo-Institute, China's economy is expected to grow at a forecast rate of only 3.7%. For the Eurozone, the ifo-Institute's current forecast assumes a 1.6% fall in real gross domestic product. For Germany, the ifo-Institute expects economic output to shrink by 1.5% in 2020.

In addition to the risk that the corona virus poses to the global economy, there are other important influencing factors that can further slow down economic expansion. Uncertainty regarding the trade conflict between the United States and China also weighs on global economic development. The OECD also believes that a similarly escalating situation culminating in import duties between the US and the EU is a possible scenario. Further uncertainties result from the UK's exit from the EU and the question of how trade relations will be in the future.

SECTORAL FORECAST

The market research company IHS Markit expects in its "AutoIntelligence Strategic Report" of March 26, 2020 a 12% decline in global car sales. IHS Markit expects revenues to decline by 9.3% in China, 13.6% in Europe and 15.3% in the USA. For the global commercial vehicle market, the Management Board also anticipates double-digit declines in sales and production in 2020.

Double-digit declines in global commercial vehicle market

FORECAST OF THE GROUP FOR 2020, ACHIEVEMENT OF THE PROJECTION FOR 2019

For the 2019 financial year, a stable revenue volume at around 400 mEUR and adjusted EBITDA at least at the previous year's level (2018: 23.7 mEUR were expected. On August 2, 2019, STS Group had to lower its annual forecast for business development in 2019, especially due to the challenging market environment in Europe and China. The Executive Board adjusted the forecast accordingly in August 2019:

- Decline of revenues by 4.5 – 9.5% (previously: revenues at the previous year's level of around 400 mEUR).
- Adjusted EBITDA margin between 4.6 and 5.3% (previously: adjusted EBITDA at the previous year's level of around 23.7 mEUR, which corresponds to an adjusted EBITDA margin of around 5.9%)

Due to the already challenging situation in the European commercial vehicle market in the financial year 2019 and the associated decline in customer requests, STS Group specified the forecast with the publication of the 9-month figures in such a way that revenues and earnings margin are expected to be in the lower range of the ranges mentioned. While revenues of 362.8 mEUR and a decline of around 9.6% were at the level expected, the EBITDA margin of 4.9% in the 2019 financial year was in the middle of the range corrected in August.

Plants in China have resumed production

Based on the latest developments in relation to the COVID-19 pandemic in Europe, North and South America, the Executive Board sees the market environment for STS Group in the financial year 2020 as extremely challenging. Since mid-March our plants in these regions are closed or production is significantly reduced. We currently do not expect that we can resume regular production before April 20, 2020. The effects of COVID-19 on these markets cannot be reliably estimated at this time. In contrast, our Chinese plants have resumed production and are currently well utilized.

Against this background, the Executive Board assumes that revenues in 2020 will be below the previous year. Extensive cost-cutting measures have already been initiated. Nevertheless, a reduced adjusted EBITDA margin is expected for STS Group.

Due to the high degree of uncertainty in connection with the development around the COVID 19 pandemic, the Executive Board is currently only able to make a comparative forecast.

It is currently not foreseeable how COVID-19 will affect further overall economic developments as well as the commercial vehicle and automotive sectors. As soon as it is possible to make sufficiently reliable statements, the Executive Board will specify its forecast and inform the capital market accordingly in accordance with legal requirements.

General Risk Warning

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

SUBSEQUENT EVENTS

As announced on December 19, 2019, STS Group AG plans to carry out preliminary work in the first half of 2020 for the construction of its own production site in the US state of Virginia. A company was founded for this purpose in February 2020. The reason for the construction of a plant in the north-eastern region of the USA is to strategically position STS Group in order to produce locally for the major order, received at the end of 2019 from a leading commercial vehicle manufacturer with a total volume of approx. 230 mEUR, and to acquire further orders in the USA. The US market is the third largest commercial vehicle market worldwide. The long-nose trucks established there represent a very large revenue potential per vehicle for STS products.

The Corona virus will have a significant negative impact on economic growth in all regions. In China, the largest automotive market, we therefore expect the automotive production, which was still very strong at the beginning of the year, to weaken. But especially in Europe we expect significant negative effects on the automotive markets. Lower demand and production downtimes due to plant closures are already visible consequences of the measures taken by the STS Group against the spread of the virus.

- The plants in China were closed for between two and six weeks in February and March 2020. For our plants in China, we assume that we will be able to largely make up for the incurred loss of production over the next few months.
- The plants in Europe and the Americas have been closed since mid-March 2020 and are not expected to reopen before the April 20, 2020 to resume regular production. These 4-week plant closings lead to a decline in revenues of approx. 25 million EUR and a reduction in adjusted EBITDA of around 5 – 6 million EUR.

With regard to liquidity risks, we refer to the chapter additional risk areas and significant opportunities and individual risks. From today's perspective, a possible impact on the valuation of intangible and tangible fixed assets cannot be excluded. Effects on inventories and receivables cannot be estimated at the present time. In particular, there is a risk of late payments. Prolonged plant closures by our customers could lead to further significant losses of revenues.

STS Group continuously analyzes all risks relevant to its business in order to be able to take any necessary measures at short notice.

In March 2020, the majority shareholder, Mutares SE & Co. KGaA, has made a temporary offer to STS Group, to purchase a segment at a price in the low double-digit million EUR area (put option). If necessary, this put option can be exercised to secure additional liquidity for the STS Group.

No further events occurred after the end of the 2019 financial year that are of material importance for STS Group.

TAKEOVER-RELATED DISCLOSURES

ACC. TO SECTION 289 A AND SECTION 315 A HGB

STS Group AG as a listed company whose voting shares are listed on an organized market within the meaning of section 2 (7) WpÜG, is obliged to disclose in the management and Group management report the information specified in sections 289a HGB and 315a HGB. This information is intended to enable third parties interested in taking over a listed company to get an idea of the company, its structure and potential obstacles to takeover.

COMPOSITION OF SUBSCRIBED CAPITAL

The subscribed capital of STS Group AG as of December 31, 2019 amounted to a total of 6,000,000.00 EUR (December 31, 2018: 6,000,000.00 EUR) and was divided into 6,000,000 no-par value bearer shares with a notional share of the share capital of 1.00 EUR per share. Shareholders are not entitled to securitization of their shares in accordance with section 5 (2) of the articles of association of STS Group AG, to the extent that this is legally permissible and securitization is not required in accordance with the rules of a stock exchange on which the shares are admitted for trading. STS Group AG is entitled to issue individual certificates or global certificates for the shares. An entry in a share register in accordance with section 67 (1) of the German Stock Corporation Act (AktG) is not required for bearer shares.

All shares are endowed with the same rights and obligations. The rights and obligations of the shareholders result from the regulations of the AktG, in particular from sections 12, 53a et seq., 118 et seq. and 186 AktG.

As of December 31, 2019 there were 50,000 shares in the company's own portfolio.

RESTRICTIONS CONCERNING VOTING RIGHTS OR THE TRANSFER OF SHARE OWNERSHIP

Each share grants, pursuant to SECTION 21 (1) of the statutes of STS Group AG one vote at the general meeting in accordance with section 24 (2) of the articles of association of STS Group AG and determines the share in the profit of STS Group AG for the shareholders. 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 can arise, in particular, from stock corporation law regulations, such as from § 136 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 rights on shares and voting rights not being available at least temporarily in accordance with section 44 of the WpHG. STS Group AG is not aware of any contractual restrictions on voting rights.

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

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

SHAREHOLDINGS THAT EXCEED 10.0% OF VOTING RIGHTS

As of December 31, 2019 there were the following direct and indirect holdings in the capital of STS Group AG, which exceeded the threshold of 10% of voting rights: The largest shareholder of STS Group AG, Mutares SE & Co. KGaA (formerly mutares AG) based in Munich (Germany). has most recently announced on July 24, 2019 to hold 65.1% of the voting rights of STS Group AG. Beyond that, STS Group AG has not been notified of any direct or indirect holdings in the capital of the company that reach or exceed 10% of the voting rights and has no knowledge thereof otherwise.

SHARES WITH SPECIAL RIGHTS THAT CONFER POWER OF CONTROL

No shares with special rights conferring power of control were issued.

CONTROL OF VOTING RIGHTS IN THE PARTICIPATION OF EMPLOYEES

Insofar as STS Group AG has issued or is issuing shares to employees as part of employee stock option plans, these will be transferred to the employees directly. The beneficiary employees can exercise the control rights to which they are entitled from the employee shares, like other shareholders, directly in accordance with the statutory provisions and the provisions of the articles of association.

APPOINTMENT AND REMOVAL OF MEMBERS OF THE EXECUTIVE BOARD; MODIFICATIONS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of members of the Executive Board are governed by sections 84 and 85 AktG. According 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. The Supervisory Board may, under section 7 (2) of the articles of association of STS Group AG appoint a chairman of the Executive Board and a deputy chairman.

A change of the articles of association requires according to section 119 (1) No. 5, 179 AktG a resolution of the general meeting. The authority to amend the articles of association, which only affect the wording, is in accordance with section 179 (1) sentence 2 AktG in conjunction with section 12 (4) of the articles of association of STS Group AG transferred to the supervisory board. In addition, the Supervisory Board was authorized by resolution of the general meeting of May 3, 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 the respective authorization period has expired.

Resolutions of the general meeting require a simple majority of votes and, if a majority of the capital is required, a simple majority of the share capital represented in the resolution, unless the law requires a larger majority (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 that change the articles of association, in addition to the simple majority of the majority of the share capital represented in the resolution, unless the law requires a larger majority. In addition, according to section 21 (2) of the articles of association of STS Group AG – in deviation from section 103 (1) sentence 2 AktG – a majority vote suffices for the dismissal of members of the Supervisory Board.

AUTHORITY OF THE EXECUTIVE BOARD TO ISSUE OR TO BUY BACK SHARES

a) Authorized Capital 2018/I

The annual meeting held on May 3, May 2018, the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital until May 2, 2023 by up to 2,500,000.00 EUR once or several times by issuing up to 2,500,000 new bearer shares against cash and/or contributions in kind ("Authorized Capital 2018/I"). Shareholders must be granted subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for one or more capital increases within the scope of the Authorized Capital 2018/I,

(i) to exclude fractional amounts from subscription rights;
(ii) to the extent necessary to grant a subscription right to new bearer shares in the company to Creditors of bonds with conversion or option rights or Conversion or option obligations and which have been or will be issued by the company or a direct or indirect holding company, to the extent that they exercise the option or Conversion rights or after fulfillment of conversion or option obligations as a shareholder;
(iii) for the issue of shares against cash contributions if the issue price of the new shares is not significantly lower than the stock exchange price of the shares already listed in the sense of sections 203 (1) and (2), 186 (3) sentence 4 AktG and which is based on the exclusion of subscription rights pursuant to section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), the proportionate amount of share capital does not exceed a total of 10% of the share capital;
(iv) to issue shares against contributions in kind, in particular – but not limited to – for the purpose of (also indirectly) acquiring parts of a company, participations in companies or other assets or for servicing bonds issued against contributions in kind.

Further details can be found in the authorization resolution and in section 4 (5) of the articles of association of STS Group AG.

b) Conditional capital 2018/I

By resolution of the Annual General Meeting on May 3, 2018, the company's share capital is increased by up to EUR 2,000,000.00 by issuing up to 2,000,000 new no-par value bearer shares with a proportionate amount of the company's share capital of 1.00 EUR per share conditionally increased ("Conditional Capital 2018/I"). The Conditional Capital 2018/I serves to grant shares when exercising options or conversion rights or upon fulfillment of option or conversion obligations to the owners or creditors of convertible bonds, option bonds, profit participation rights and/or profit bonds (or combinations of these instruments) issued on the basis of the authorization resolution of the 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 on May 3, 2018, the company's share capital is increased conditionally by up to EUR 500,000.00 by issuing up to 500,000 new bearer shares with a pro rata amount of the share capital of the Company of 1.00 EUR each no-par share ("Conditional Capital 2018/II"). The Conditional Capital 2018/II will only be implemented to the extent that, in accordance with the 2018 stock option program in accordance with the resolution of the Annual General Meeting on May 3, May 2018, subscription rights were issued, the holders of the subscription rights exercise their exercise right and the company does not grant any treasury shares to fulfill the subscription rights. The total volume of subscription rights is distributed among the entitled groups of people as follows:

- Members of the Executive Board receive a maximum of up to 200,000 subscription rights;
- Members of the management of affiliated companies receive a maximum of up to 100,000 subscription rights;
- Company employees receive a maximum of up to 150,000 subscription rights; and
- Employees of affiliated companies receive a maximum of up to 50,000 subscription rights.

Further details can be found in the authorization resolution and in section 4 (4) of the articles of association of STS Group AG.

d) Share buyback

The Executive Board of STS Group AG is authorized to buy back own shares and sell repurchased shares in the cases regulated by law in Section 71 of the German Stock Corporation Act (AktG). By resolution on 3 May, 2018, the Annual General Meeting authorized the Executive Board, with the approval of the Supervisory Board, to acquire the Company's own shares until the end of May 2, 2023 up to a total of 10% of the share capital at the time of the decision or, if this value is lower, of the Company's share capital at the time of exercise of the authorization. The shares acquired pursuant to this authorization together with other treasury shares of the company which the Company has acquired and still owns or which it has acquired in accordance with Sections 71a et seq. AktG, may at no time exceed 10% of the respective share capital of the company. The acquisition of treasury shares is made at the discretion of the Executive Board via the stock exchange or by means of a public purchase offer to all shareholders or by means of a public invitation to share-holders to submit sales offers.

The Executive Board was also authorized by resolution of the Annual General Meeting of May 3, 2018 to sell the treasury shares via the stock exchange or through an offer to all shareholders, or to use them for any permissible purpose, in particular including the following:

(i) they may be confiscated and the company's share capital may be reduced by the portion of the share capital attributable to the confiscated shares.
(ii) They may be offered to third parties in exchange for benefits in kind and transferred to them.
(iii) They may be sold to third parties for cash if the price at which the company's shares are sold is not significantly lower the market price of the shares of the Company at the time of the sale (Section 186 (3) sentence 4 AktG). The pro rata amount of the share capital sold on the basis of this authorization may not exceed 10%.
(iv) they may, in order to exercise acquisition obligations or acquisition rights in shares of the Company from and in connection with convertible bonds or warrants issued by the Company or one of its Group companies or profit-sharing rights with convertible or option rights.

The details are outlined in the authorization resolution.
The Executive Board was also authorized by resolution of the Annual General Meeting of May 3, 2018 to acquire treasury shares up to a total of 5% of the share capital existing at the time of resolution through the use of derivatives (put or call options or a combination of both) with the consent of the Supervisory Board. The term of the options must be chosen in such a way that the acquisition of shares by the exercise of the options must be made by May 2, 2023. Shareholders are – following the appropriate application of Section 186 (3) Sentence 4 AktG – not entitled to enter into such option transactions with the company. The details are outlined in the authorization resolution.

ESSENTIAL AGREEMENTS, WHICH ARE SUBJECT TO THE CONDITION OF A CONTROL CHANGE DUE TO A TAKEOVER OFFER

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

INDEMNITY AGREEMENTS FOR THE EVENT OF A TAKEOVER OFFER WITH THE MEMBERS OF THE EXECUTIVE BOARD OR EMPLOYEES

In the event of a change of control, Mr. Becker has agreed on a one-off special right of termination, to terminate the employment contract with a notice period of three months at the end of the month and to resign from his post at the date of termination. When exercising the special right of termination, Mr Becker is entitled to the payment of a severance payment which is limited to 100% of the severance pay cap. Further details are given in the Compensation Report. A change of control occurs when a third party or several jointly operating third parties acquire more than 51% of the shares in the company and Mr Becker's position as a member of the Executive Board is more than insignificantly affected as a result of this change.

COMPENSATION REPORT

Compensation report of STS Group AG, Hallbergmoos, for the financial year of January 1 to December 31, 2019 (Compensation Report in accordance with DCGK and HGB)

COMPENSATION STRUCTURE FOR THE MEMBERS OF THE EXECUTIVE BOARD

The compensation of the members of the Executive Board is such that it is competitive in the market for highly qualified executives and encourages successful and sustainable work in a corporate structure with a strong focus on performance and results. At the request of the company, the members of the Executive Board also assume board functions in affiliated companies or resign from them. If a member of the Executive Board receives compensation for board functions in third-party companies, these are shown separately below.

The compensation of the Executive Board is presented in accordance with two different rules: on the one hand, in accordance with the recommendations of the German Corporate Governance Code (DCGK) as amended on February 7, 2017 and on the other hand according to the HGB taking into account the applicable accounting principles (DRS 17).

MAIN FEATURES OF THE COMPENSATION SYSTEM

The current compensation system contains fixed and variable components. It is composed of
1. Fixed compensation
2. Fringe benefits
3. One-year variable compensation
4. Multi-year variable compensation
5. D&O insurance

FIXED COMPENSATION

The fixed compensation is a cash remuneration related to the current financial year, which is based on the area of responsibility of the respective member of the Executives Board and is paid in twelve equal monthly installments at the end of the month.

For the Executive Board member, Mr. Oschust, there is no agreement on a fixed compensation with STS Group AG. Mr. Oschust is in permanent employment with Mutares SE & Co. KGaA. Mr. Oschust receives his fixed remuneration directly from Mutares SE & Co. KGaA. Mutares SE & Co. KGaA has entered into a supplementary agreement with STS Group AG on the management service provided, in which, among other things, the reimbursement of the compensation by STS Group AG has been agreed.

FRINGE BENEFITS

The taxable fringe benefits of the members of the Executive Board consist in particular of providing accommodation at the company's registered office, company cars and subsidies to insurance.

ONE-YEAR VARIABLE COMPENSATION

The short-term variable compensation usually consists of the annual bonus. Its amount is individually limited for each member of the Executive Board and the actual amount is determined by the Supervisory Board before the respective annual financial statements are determined. In doing so, the Supervisory Board shall take into account the extent to which the company achieved the company's objectives in the financial year in question, which it sets at the latest at the beginning of each financial year at its reasonable discretion. The bonus is due for payment the following month after it has been determined.

With regard to Mr. Oschust's variable compensation, the same approach applies as to his fixed remuneration. Mr. Oschust receives his variable compensation from Mutares SE & Co. KGaA, which will be refunded by STS Group AG through the settlement of management service fees.

MULTI-YEAR VARIABLE COMPENSATION

The multi-year variable compensation consists of the following components:

STS LONG TERM INCENTIVE BONUS ("LTI")

STS Group AG ("STS") grants Mr. Andreas Becker a compensation component on the basis of a multi-year variable component on the basis of a performance bonus plan.

Mr. Becker receives a variable compensation ("performance bonus") after the end of each financial year. The amount of the performance bonus depends on STS achieving certain objectives, which depend on the share price development and the fulfillment of the strategic medium-term planning and are explained in detail below. The following elements are relevant for the assessment of the performance bonus:

Achievement of the objective 1 ("Out-perfomance component"):

- In order to determine the objective for success 1, the share price performance of the share of STS ("STS share") is compared with the development of the DAX sub-sector Auto Parts & Equipment or a corresponding succeeding sector. The performance period runs from January 1 to December 31 of each financial year.
- If the performance relative to the index is less than 90%, the success objective 1 is not achieved. If the performance in relation to the index is 90%, the success objective 1 of 80% is achieved. If the performance is 105% relative to the index, the success objective 1 of 100% is reached. If the performance relative to the index is 150% or higher, the achievement rate of the achievement objective 1 is limited to 200%.
- If the performance in relation to the index is between the points shown of at least 90% and 110% on the one hand and 110% and 150% on the other, the achievement of the objective is determined by linear interpolation between these points as a continuation of the above-mentioned schemes. For both the STS shares and the index, the calculation of this performance is the volume-weighted average of the closing prices in XETRA trading (or a succeeding system that takes the place of the XETRA system) on the last 30 trading days before the start and end of the performance period.

Achievement of the objective 2 ("EPS component"):

- "Adjusted Earnings Per Share" are used to determine the success objective 2. The performance period is one year from January 1 to December 31 of each financial year. On the basis of strategic medium-term planning, the Supervisory Board sets the target value for three financial years in advance. In the event of a change in the medium-term planning used for the target value determination, the targets for the future financial years shall be adjusted accordingly in advance. The target value for the current financial year at the time of the change in the medium-term planning remains unchanged.
- If the achievement of the objective is less than 80%, the achievement of goal 2 has not been reached. If the achievement is 80%, the success objective 2 of 80% has been achieved. If the achievement is 100%, the success objective 2 of 100% has been achieved. If the performance is in relation to the index between the shown points of at least 80% and a maximum of 150%, the achievement of the objective between these points is determined by linear interpolation between these points as a continuation the above scheme. If the objective is reached by 150% or higher, the target achievement is limited to 200%.

Payment of the LTI

- The net amount of the LTI determined after the achievement of the objective has been determined is generally paid out in shares of STS Group AG, the sale of which is restricted for four years. The conversion of the net amount of the LTI into shares is based on the 30-day average of the closing prices of STS Group AG share in Xetra trading on Deutsche Börse.
- In order to ensure compliance with the holding obligation, a lockdown is placed in the securities account of the entitled person.

STS STOCK OPTIONS PROGRAM 2018

The Stock Options Program 2018 (Conditional Capital 2018/II of STS Group AG) is part of the variable compensation of the Executive Board, which is geared towards a sustainable positive corporate development, with a transparent and comprehensible system. The compensation component is aimed at increasing the stock market price of the company's stock. The performance target for the exercise of subscription rights granted is achieved if the closing price of the Company's shares, within a period of twelve months following the grant of the respective subscription rights, exceeds for 60 trading days the stock exchange price of the STS Group share on the day of the allocation of the respective subscription rights by a predetermined percentage.

The persons holding the options must be in an active non-terminable employment or employment relationship with STS Group AG or an affiliated company at the time of exercise of the subscription rights. The waiting period for the first exercise of the option is four years from the date of each allocation of the options. At the end of the waiting period, all options for which the success objective has been achieved can be exercised within the following three years.

Members of the Executive Board of STS Group AG can receive a maximum of up to 200,000 subscription rights in five tranches over the term of the 2018 stock option program.

From the 2018 STS stock option plan, Dr. Ulrich Hauck was granted 5,625 options in the reporting period. With the resignation of Mr. Vrublovsky as of April 30, 2019 the personal exercise requirements of the stock option plan no longer apply and the option rights expired.

The maximum contract term for each option is as of December 31, 2019 another five and a half years.

MUTARES STOCK OPTION PLAN 2016

The Mutares Stock Option Plan 2016 is aimed at employees and members of the management of Mutares SE & Co KGaA and its affiliates.

The stock options can be exercised for the first time after a waiting period of four years from the respective issue date. A special exercise requirement is that the average volume-weighted share price of the Mutares share during the 20 trading days before the start of the respective exercise period exceeds the exercise price by a fixed percentage. A stock option has a term of six years after the respective issue date, after which stock options which have not been exercised expire without compensation. A limit is set in advance for the total volume of stock options for members of the management of companies of Mutares Group over the term of the option plan.

No options were granted to members of the Executive Board of STS Group AG in the 2019, 2018 and 2017 financial years from this stock option plan. The expense for the options granted in 2016 was reduced by 15,000 options when Mr. Vrublovsky left. At the end of the reporting period, 45,000 options were still outstanding.

At the grant date, each option had a fair value of of 3.02 EUR with an exercise price of 8.83 EUR. At the end of the reporting period, the maximum contract term for the individual options was 2 years and 10 months.

PARTICIPATION BONUS MUTARES

The members of the Executive Board are also entitled to a "participation bonus" for which the former sole shareholder Mutares SE & Co. KGaA alone is bearing the cost. As part of the agreement, Mr. Oschust receives 1.2%, Dr. Hauck 2% and Mr. Becker 2.4% resp. 2.8% (from future investments from April 1, 2019) of the net proceeds Mutares SE & Co. KGaA will receive from its investment in STS Group. The net proceeds are calculated as the difference between the investment proceeds and the costs from the investments. Investment income means, in particular, dividend payments and transaction proceeds. Any payments to the members of the Executive Board are made quarterly.

No participation bonus was paid to the members of the Executive Board in the reporting period.

D&O INSURANCE

The members of the Executive Board are covered by the company through a financial loss liability insurance (D&O insurance) with a standard amount of cover. The agreed deductible corresponds to the minimum deductible for members of the Executive Board in accordance with § 93 (2) sentence 3 AktG as amended.

PENSION

The contracts of the members of the company's Executives Board do not include a pension commitment.

EXECUTIVE BOARD AGREEMENTS

Contracts with members of the Executive Board are prepared by the Supervisory Board of STS Group AG, negotiated with the respective Executive Board member and concluded with the approval of the entire Supervisory Board. The contract with Mr. Becker was renegotiated and took effect on July 1, 2019 for a term of four years to June 30, 2023. The contract of Dr. Ulrich Hauck became effective on April 1, 2019 for a term of three years and three months until June 30, 2022. Mr. Vrublovsky's contract ended on March 31, 2019. The appointment of Mr. Oschust as a member of the Executive Board of STS Group AG was extended until June 30, 2021.

There is no employment contract between the member of the Executive Board, Mr. Oschust, and STS Group AG. Mr. Oschust is in permanent employment with Mutares SE & Co. KGaA.

In connection with Mr. Becker's service contract, the information in the section Agreements in the event of a change of control must also be observed.

REVIEW RESP. ADJUSTMENT OF COMPENSATION

The Supervisory Board reviews the compensation system for the Executive Board in regular intervals and, if necessary, draws up proposals for further development or adjustment. The Supervisory Board carefully examines these recommendations, uses them as the basis for its resolutions and makes decisions as a whole.

The compensation for members of the Executive Board takes into account i. a. the duties and performance of the respective board member and the entire Executive Board, the achievement of corporate goals, the size and internationality of the company, its economic and financial position, its future prospects, the economic environment, the size and structure of comparable companies and the compensation structure that applies otherwise within STS Group. The Supervisory Board also monitors how the compensation of the Executive Board develops in comparison with other companies and in comparison with the compensation structure that otherwise applies to the STS Group.

LIMITATION OF SEVERANCE PAYMENTS

In the event of termination of Mr. Becker's or Dr. Hauck's employment contracts without important reason a fixed severance payment in return for a post-contractual ban on competition has been agreed. The agreed payment does not exceed the value of two years' fixed compensation (severance payment cap). In the case of Mr. Becker, this corresponds to a maximum actual value of 800 kEUR and in the case of Dr. Hauck to 560 kEUR. The severance payment regulation does not apply if the service contract is terminated at the request of the respective board member or for an important reason for which he is responsible. A limitation of the severance payment depending on the remaining term of their service contracts has been included in the employment contracts in accordance with the recommendations of the German Corporate Governance Code.

There is no employment contract between the member of the Executive Board, Mr. Oschust, and STS Group AG.

AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL

In the event of a change of control, Mr. Becker has a one-off special right to terminate his employment contract with a notice period of three months to the end of the month and to resign from his office on the termination date. The special right of termination exists only within six months after becoming aware of a change of control by Mr. Becker. When exercising the special right of termination, Mr. Becker is entitled to a severance payment. The severance payment consists of the sum of the compensation that is no longer paid and incurred due to the premature termination of the employment contract (fixed salary and variable compensation based on assumed 100% target achievement). It is limited to the value of two years' compensation (fixed and variable components) and may not exceed the total compensation (fixed salary, variable compensation, share-based compensation and fringe benefits) for the remaining term of the employment contract. The severance payment claim arises at the time the material transfer of the shares, when all the necessary approvals have been obtained. It becomes due upon termination of the employment contract. A change of control occurs when a third party or several jointly operating third parties acquire more than 51% of the shares in the company and Mr Becker's position as a member of the Executive Board is more than insignificantly affected as a result of this change. The position as a member of the Executive Board is affected more than insignificantly if there are significant changes in the company's strategy or significant changes in the area of responsibility of the Executive Board member.

LOANS TO EXECUTIVE BOARD MEMBERS

No loans or advances were granted to members of the Executive Board of STS Group AG in the 2019 financial year or in the previous year. Contingent liabilities in their favor were also not entered into.

RESIGNATION OF A MANAGEMENT BOARD MEMBER IN THE REPORTING YEAR

With effect from March 31, 2019, the member of the Executive Board, Mr. Stephan Vrublovsky, left the Board. The existing employment contract with the company ended on April 30, 2019. After this point in time, the company had no compensation or pension obligations to the former member of the Executive Board.

EXECUTIVE BOARD COMPENSATION ACCORDING TO THE GERMAN CORPORATE GOVERNANCE CODE

The following tables correspond to the recommendations of the German Corporate Governance Code ("GCGC") in the version of February 7, 2017 and indicate the individualized compensation of the individual Executive Board members. The table "Benefits granted" does not show the compensation actually paid, but the target values (the compensation values for 100% target achievement) of the compensation components that were granted in the 2019 financial year. The value of the performance- and share-based compensation component for Executive Board member Andreas Becker corresponds to the fair value at the time of the grant. The minimum and maximum values are also given for the target values. The compensation actually paid in the 2019 financial year is shown in the table "Inflows".

BENEFITS GRANTED ACCORDING TO GCGC

The following table shows the benefits to be reported under the GCGC that were granted to members of the Executive Board for the 2019 financial year.

BENEFITS GRANTED

in kEUR	Andreas Becker, CEO				Stephan Vrublovsky, CFO until March 31, 2019			
	2019	2019 (min)	2019 (max)	2018	2019	2019 (min)	2019 (max)	2018
Fixed compensation	362	362	362	325	60	60	60	240
Fringe benefits	22	22	22	22	2	2	2	13
Total	**384**	**384**	**384**	**347**	**62**	**62**	**62**	**253**
Annual variable compensation	288	0	413	325	0	0	0	200
Multi-annual variable compensation	169	0	306	557	4	0	0	283
Share based LTI	153	0	306	–	–	–	–	–
Share based payment (mutares AOP 2016)	8	0	[1]	8	2	0	[1]	8
Share Option Plan 2018	8	0	[1]	4	2	0	[1]	3
IPO Participation Bonus (cost bearer = Mutares)	0	0	0	546	0	0	0	273
Total	**457**	**0**	**719**	**882**	**4**	**0**	**0**	**483**
Pension commitment	0	0	0	0	0	0	0	0
Total compensation	**841**	**384**	**1,103**	**1,229**	**66**	**62**	**62**	**736**

in kEUR	Dr. Ulrich Hauck, CFO since April 1, 2019				Patrick Oschust, COO				Total	
	2019	2019 (min)	2019 (max)	2018	2019	2019 (min)	2019 (max)	2018	2019	2018
Fixed compensation	210	210	210	–	266	266	266	163	898	728
Fringe benefits	13	13	13	–	25	25	25	25	62	60
Total	**223**	**223**	**223**	**–**	**291**	**291**	**291**	**188**	**960**	**787**
Annual variable compensation	180	0	360	–	113	0	140	189	581	714
Multi-annual variable compensation	4	0	0	–	21	0	0	291	198	1,131
Share based LTI	–	–	–	–	–	–	–	–	153	–
Share based payment (mutares AOP 2016)	–	–	–	–	15	0	[1]	15	25	30
Share Option Plan 2018	4	0	[1]	–	6	0	[1]	3	20	10
IPO Participation Bonus (cost bearer = Mutares)	–	–	–	–	0	0	0	273	0	1,091
Total	**184**	**0**	**360**	**–**	**134**	**0**	**140**	**480**	**779**	**1,846**
Pension commitment	0	0	0	–	0	0	0	0	0	0
Total compensation	**407**	**223**	**583**	**–**	**425**	**291**	**431**	**668**	**1,739**	**2,633**

1 The maximum amounts of the share option plans cannot be determined due to the structure of the plans.

The table shows, among others the short-term and multi-year variable compensation granted. The minimum and maximum achievable amounts are also given. In the absence of a corresponding agreement, the pension expense is included in the total compensation with a value of 0 EUR.

INFLOW ACCORDING TO GCGC

The following table shows the inflow for the fixed annual salary, fringe benefits, short-term variable remuneration and multi-year variable remuneration in resp. for the 2019 financial year.

INFLOW

	Andreas Becker CEO		Stephan Vrublovsky CFO until March 31, 2019		Dr. Ulrich Hauck CFO since April 1, 2019		Patrick Oschust COO		Total	
in kEUR	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Fixed compensation	362	325	60	240	210	–	266	163	898	728
Fringe benefits	22	22	2	12	13	–	25	25	62	60
Total	**384**	**347**	**62**	**253**	**223**	**–**	**291**	**188**	**960**	**787**
Annual variable compensation	285	253	0	156	0	–	113	98	398	507
Multi-annual variable compensation	0	546	0	273	0	–	0	273	0	1,091
Share based LTI	0	–	–	–	–	–	–	–	0	–
Share based payment (mutares AOP 2016)	0	0	0	0	–	–	0	0	0	0
Share Option Plan 2018	0	0	0	0	0	–	0	0	0	0
IPO Participation Bonus (cost bearer = Mutares)	0	546	0	273	–	–	0	273	0	1,091
Total	**285**	**799**	**0**	**429**	**0**	**–**	**113**	**371**	**398**	**1,598**
Pension commitment	0	0	0	0	0	–	0	0	0	0
Total compensation	**669**	**1,146**	**62**	**681**	**223**	**–**	**404**	**559**	**1,358**	**2,386**

EXECUTIVE BOARD COMPENSATION IN ACCORDANCE WITH THE HGB

The total compensation of the Executives Board in accordance with section 314 (1) No. 6a sentences 1 to 4 HGB are shown in the following overview. The information on the stock option plan reflects the fair value at the time of grant.

HGB

	Andreas Becker CEO		Stephan Vrublovsky CFO until March 31, 2019		Dr. Ulrich Hauck CFO since April 1, 2019		Patrick Oschust COO		Total	
in kEUR	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Short-term compensation										
Fixed compensation	384	347	62	253	223	–	291	188	960	787
Variable performance-related compensation	69	253	0	156	60	–	140	98	269	507
Total	**453**	**600**	**62**	**409**	**283**	**–**	**431**	**286**	**1,229**	**1,295**
Long-term compensation										
Long-term performance-related compensation	169	12	4	10	4	–	21	18	198	40
Total	**169**	**12**	**4**	**10**	**4**	**–**	**21**	**18**	**198**	**40**
Total compensation	**622**	**612**	**66**	**419**	**287**	**–**	**452**	**304**	**1,427**	**1,334**

COMPENSATION STRUCTURE FOR THE SUPERVISORY BOARD MEMBERS

Section 15 of the articles of association of STS Group AG regulates the compensation of the Supervisory Board. The Annual General Meeting decides on the amount of the remuneration. This was the case most recently on the May 3, 2018.

The compensation system for the Supervisory Board, which has been in use since June 2018, provides for a fixed compensation of 50 kEUR for each full financial year of membership. The chairman of the supervisory board receives double the fixed compensation of a regular member, the deputy chairman is entitled to one and a half times that amount. Members who only belong to the Supervisory Board for part of a financial year or who hold the office of chairman or deputy chairman receive a corresponding pro rata remuneration.

The Supervisory Board did not form any committees in the year under review. In view of the size of the Supervisory Board of three members, the company does not consider this to be necessary. The members of the Supervisory Board are included in a financial loss liability insurance for board members that is maintained in the interest of the company (D&O insurance). There is a deviation from the deductible recommended in the DCGK. The company's D&O insurance does not provide for such a deductible in connection with the members of the Supervisory Board. The company believes that a deductible is not suitable for positively influencing the motivation and responsibility of the members of the Supervisory Board. In addition, the deductible would not be appropriate due to the non-existent variable compensation for members of the Supervisory Board and the resulting lack of participation in a positive company development.

COMPENSATION OF THE SUPERVISORY BOARD

In the 2019 financial year, the actual fixed compensation of the Supervisory Board totaled 225 kEUR (2018: 131 kEUR). In the previous year and in the reporting year until the compensation system came into force, the Supervisory Board was not remunerated separately by the company.

By resolution of the Annual General Meeting held on May 17, 2019, Messrs. Laik, Schleede and Maierhofer were appointed full members of the company's Supervisory Board for another term.

The total compensation of the Supervisory Board is distributed among the individual members as follows:

EMOLUMENTS OF THE SUPERVISORY BOARD

	Robin Laik Chairman of the Supervisory Board		Dr. Krisitian Schleede Deputy Chairman of the Supervisory Board		Bernd Maierhofer Member of the Supervisory Board		Total	
in kEUR	2019	2018	2019	2018	2019	2018	2019	2018
Compensation	100	58	75	44	50	29	225	131
Other benefits						5		5
Total	**100**	**58**	**75**	**44**	**50**	**34**	**225**	**136**
Pension commitment								
Total compensation	**100**	**58**	**75**	**44**	**50**	**34**	**225**	**136**

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

In accordance with Section 3.10 DCGK, STS Group AG reports on the operating principle of the Executive Board and the Supervisory Board as part of a corporate governance report. The corporate governance report is publicly available at:

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

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

The declaration on corporate governance pursuant to Section 289 f HGB and Section 315 d is publicly available at:

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

DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 AKTG

In December 2019, the Executive Board and Supervisory Board of STS Group AG issued the declaration required by Section 161 of the German Stock Corporation Act and made publicly available on the company's website at:

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

DEPENDENCY REPORT

Our company, STS Group AG, has received a reasonable consideration in each transaction listed in the report on relationships with affiliated companies for the reporting period from January 1, to December 31, 2019 in accordance with the circumstances known to us at the time in which the transactions were carried out or not. Other measures were not taken or omitted during the period under review at the instigation or in the interest of a dominant company or a company associated with a dominant company.

NON-FINANCIAL DECLARATION

STS Group AG fulfills ITS obligation to make a non-financial declaration (NFE) pursuant to Sections 315b, 289b of the German Commercial Code (HGB) by publishing a separate non-financial group report on the website of STS Group AG under:

https://www.sts.group/investor-relations/publications.

In addition to a description of the business model, the NFE also includes information on the following aspects in so far as they are relevant for the understanding of the course of business, the results of the business, the position of the Group and the impact of the the course of business on these aspects:

- Environmental issues
- Employee matters
- Respect of human rights
- Combating corruption and bribery
- Customer and vendor relations

STS GROUP AG

In addition to the reporting on the STS Group, we will explain the development of STS Group AG below. STS Group AG is the parent company of the STS Group and performs the corresponding management and central functions. STS Group AG assumes significant general responsibilities such as group-wide finance and accounting, the provision of management and services in the areas of acquisitions and sales of companies, human resources management, process improvements and strategic development as well as worldwide corporate and marketing communication. STS Group AG holds shares in 14 companies, directly or indirectly. As of December 31, 2019, 34 employees (2018: 14) were employed by STS Group AG. The economic conditions of STS Group AG were essentially in line with those 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 the International Financial Reporting Standards (IFRS), but in accordance with the provisions of the German Commercial Code ("HGB"). The full financial statements are published separately under:

https://www.sts.group/investor-relations/publications.

For STS Group AG, revenues from management and service fees as well as income from dividend payments of subsidiaries are the main performance indicators.

EARNINGS SITUATION

The **economic situation** of STS Group AG is mainly influenced by the operational activities of its subsidiaries. STS Group AG participates in the operating results of its subsidiaries through their distributions of dividends. Thus, the economic situation of STS Group AG is basically the same as that of the STS Group, which is explained in the economic report.

INCOME STATEMENT OF STS GROUP AG IN ACCORDANCE WITH HGB

in kEUR	2019	2018
Revenues	5,969	9,643
Other operating income	1,770	439
Personnel expenses	– 4,681	– 2,807
Amortization of intangible assets and depreciation of tangible assets	–1,034	–118
Other operating expense	–10,289	–12,409
Income from equity investments	3,193	2,742
Other interest and similar income	465	389
Other interest and similar expense	– 253	–1,579
Taxes on income	–141	– 51
Profit after taxes on income	**– 5,001**	**– 3,751**
Other taxes	-1	– 2
Net loss for the year	**– 5,002**	**– 3,752**
Retained accumulated losses/profits carried forward	– 4,276	– 523
Accumulated losses carried forward	**– 9,278**	**– 4,276**

In the 2019 financial year, **sales revenues** fell by 3,674 kEUR to 5,969 kEUR (2018: 9,643 kEUR) due to lower levies of management and business services that were charged to the subsidiaries.

Other operating income increased by 1,331 kEUR to 1,770 kEUR (2018: 439 kEUR) and mainly includes the passing on of expenses to the subsidiaries, reimbursement of costs by Mutares SE & Co. KGaA, the clearing of other non-cash receipts for private motor vehicle use and income from currency translation.

Due to the further increase of personnel at the company's headquarters in Hallbergmoos, **personnel expenses** rose by 1,874 kEUR to 4,681 kEUR in the past financial year 2019 (2018: 2,807 kEUR) and reflects the further professionalization of the organizational structure and its alignment with the Group's internationalization strategy. The number of employees increased from 14 to 34 employees in the 2019 financial year.

Other operating expenses decreased by 2,120 kEUR to 10,289 kEUR (2018: 12,409 kEUR). The decrease is mainly due to lower legal and advisory costs and costs for financial statements and audit, which were mainly due to the IPO in June 2018 in the same period of the previous year. Due to the increase in personnel and the associated development of the central functions, expenses for IT rose by 501 kEUR and travel and vehicle costs increased by 182 kEUR. The compensation of the Supervisory Board rose from 131 kEUR to 225 kEUR, as the Supervisory Board was compensated for the entire financial year during the reporting period.

The **investment result** in the year under review amounts to 3,193 kEUR (2018: 2,742 kEUR) and results from a dividend payment by a subsidiary.

Other interest and similar income increased by 76 kEUR to 465 kEUR (2018: 389 kEUR) and mainly includes interest income from affiliated companies.

Interest and similar expenses decreased by 1,326 kEUR to 253 kEUR (2018: 1,579 kEUR). The decrease is mainly due to the decrease in interest expenses to affiliated companies and the commission paid in the previous year to the syndicated bank that accompanied the IPO.

The increase in **taxes on income and earnings** by 90 kEUR to 141 kEUR (2018: 51 kEUR) is mainly due to foreign withholding tax, which was incurred in the context of the dividend payment of a foreign subsidiary. The corporate tax refund for previous years and the dissolution of the business tax provision had the opposite effect.

After deduction of taxes, the **net loss** for the year was 5,642 kEUR compared to 3,752 kEUR in the previous year.

ASSETS AND FINANCIAL POSITION

BALANCE SHEET OF STS GROUP AG IN ACCORDANCE WITH HGB

	December 31,	
in kEUR	2019	2018
ASSETS		
Fixed assets		
Intangible assets	214	944
Tangible assets	219	236
Financial assets	24,951	15,190
Current assets		
Receivables and other assets	6,729	9,391
Cash and cash equivalents	1,576	10,922
Prepaid expenses	**155**	**116**
Total assets	**33,843**	**36,799**
EQUITY AND LIABILITIES		
Share Equity	**19,811**	**25,260**
Provisions		
Provision for taxation	0	17
Other provisions	2,259	2,532
Liabilities		
Trade payables	641	1,653
Liabilities to affiliated companies	10,902	7,208
Other liabilities	230	129
Total equity and liabilities	**33,843**	**36,799**

At 33,843 kEUR, **total assets** are 2,956 kEUR below the previous year's level (December 31, 2018: 36,799 kEUR).

In the course of 2019, **fixed assets** increased by 10,508 kEUR to 25,384 kEUR (December 31, 2018: 16,369 kEUR). This was due to the increase in financial assets of 9,761 kEUR. In the financial year 2019, capital increases were executed as part of "debt to equity swaps" at STS Acoustics SpA in the amount of 7.9 mEUR and at two French holding companies (STS MCR Holding SAS and STS Plastics Holding SAS), which led to an increase of the book value of the participation. In contrast, the reduction of intangible assets by 730 kEUR to 214 kEUR was mainly due to an unscheduled write-down of the consolidation software, which will no longer be used and will be replaced by another software in the future.

The decrease in **receivables from related companies and other assets** by 2,662 kEUR to 6,729 kEUR (December 31, 2018: 9,391 kEUR) is mainly due to the waiver of receivables from related companies as well as declining value added tax recoveries. Receivables from affiliated companies decreased by 1,685 kEUR to 6,198 kEUR from 7,883 kEUR, while other assets decreased by 977 kEUR to 531 kEUR from 1,508 kEUR.

Cash and cash equivalents decreased by 9,346 kEUR to 1,576 kEUR (December 31, 2018: 10,922 kEUR). Cash and cash equivalents are deposits with credit institutions and cash on hand. The security deposit of 2,000 kEUR as of December 31, 2018 at a bank as part of the financing of a subsidiary was dissolved in the year under review.

In the year under review, **equity** fell by 5,449 kEUR to 19,811 kEUR (December 31, 2018: 25,260 kEUR). The equity ratio stood at 58.5% at the balance sheet date (December 31, 2018: 68.6%). As of December 31, 2019, 5,000 treasury shares are in the portfolio of STS Group AG. The net loss of 9,278 kEUR (December 31, 2018: 4,276 kEUR) will be carried forward, as proposed by the management.

Provisions decreased compared to December31, 2018 by 290 kEUR to 2,259 kEUR (December 31, 2018: 2,549 kEUR). This is mainly due to the decrease in provisions for financial statement and audit costs. Higher provisions for Supervisory Board compensation had the opposite effect, as in the year under review the Supervisory Board was compensated for the entire financial year as well as higher personnel provisions due to severance payments.

Liabilities increased by 4,807 kEUR to 11,773 kEUR (December 31, 2018: 8,990 kEUR). The increase is due to higher loan liabilities to related companies and adjusted transfer pricing within the Group.

OPPORTUNITIES AND RISKS

The business development of STS Group AG is essentially subject to the same opportunities and risks as STS Group Group. In principle, STS Group AG participates directly or indirectly in the risks of its subsidiaries in accordance with its participation rate. Relations with the subsidiaries may also cause charges and depreciation of shares in affiliated companies due to contractual liabilities (in particular financing).

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

OUTLOOK

The expectations for STS Group AG are reflected in the Group's forecast due to its interdependence with its subsidiaries. The results of the subsidiaries have an indirect impact on the results of STS Group AG through income from shareholding. The company expected EBITDA to increase significantly in 2019. Earnings growth was mainly due to the fact that earnings in 2018 were significantly impacted by special effects in the context of the IPO. In addition, STS Group AG expected slightly higher dividend payments from its subsidiaries in 2019. Due to the challenging market environment in Europe, no higher dividend payments were made by the subsidiaries.

Due to recent developments in relation to the COVID-19 pandemic, the Management Board regards the market environment for STS Group in Europe, North and South America, in fiscal year 2020 as extremely challenging.

Management expects revenues from management services to be below the level of 2019 due to the currently difficult market environment and a result on par with the previous year due to efficiency measures and the associated cost reductions.

Depending on further developments in connection with the outbreak of the corona virus, there may be changes in the outlook outlined by STS Group AG for the 2020 financial year.

General Risk Warning

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

Hallbergmoos, April 6, 2020

Andreas Becker (CEO) **Dr. Ulrich Hauck (CFO)** **Patrick Oschust (COO)**