2 — COMBINED MANAGEMENT REPORT

BACKGROUND INFORMATION ON THE GROUP

BUSINESS MODEL

12
Plants worldwide

3
Research and Development Centers

>1,600
Employees

STS offers its customers a wide range of systems and solutions for vehicle interiors and for exterior paneling. STS components enhance the appearance of vehicles, contribute to vehicles' aerodynamics and achieve a significant weight reduction through their lightweight construction. Thanks to its high vertical integration, STS is able to map the entire production process of each component from the idea to the finished product. The Executive Board attributes a clear competitive advantage to the Company as a one-stop-shop provider drawing on long-standing expertise. The production facilities and logistics are mainly designed for small and medium-sized series, as they are typical for light to heavy commercial vehicles but also increasingly appear in the car sector with special models and electric mobility or also as weight-optimized plastics solutions.

STS production sites are located close to the respective locations of customers' plants, which makes all aspects of collaboration easier, more efficient and more sustainable. Headquartered in Germany, the Group operates a global network in all key markets. With the sale of the Acoustics segment at the end of October 2020, three plants in Italy as well as one plant in Poland and one in Brazil were sold. Consequently, STS now has twelve plants in four countries on three continents.

STS combines the production technologies injection moulding, hot moulding and compression moulding of composites (sheet moulding compounds). STS is characterized by high vertical integration. It produces semi-finished material and sheet moulding compounds itself and can therefore respond flexibly to customers' bespoke requirements.

OVERVIEW LOCATIONS

The Group produces components, parts and systems for commercial vehicles and cars. The customer base includes renowned commercial vehicle manufacturers and car makers in particular, including many market leaders. In the high-growth market of electric vehicles, numerous manufacturers place their trust in the competence of the STS Group. The Group has three research and development centers, two in France and one in China, enabling rapid product development and innovation.

BUSINESS ACTIVITIES

Following the disposal of the Acoustics segment, the Group's business activities will be divided into three segments in future:

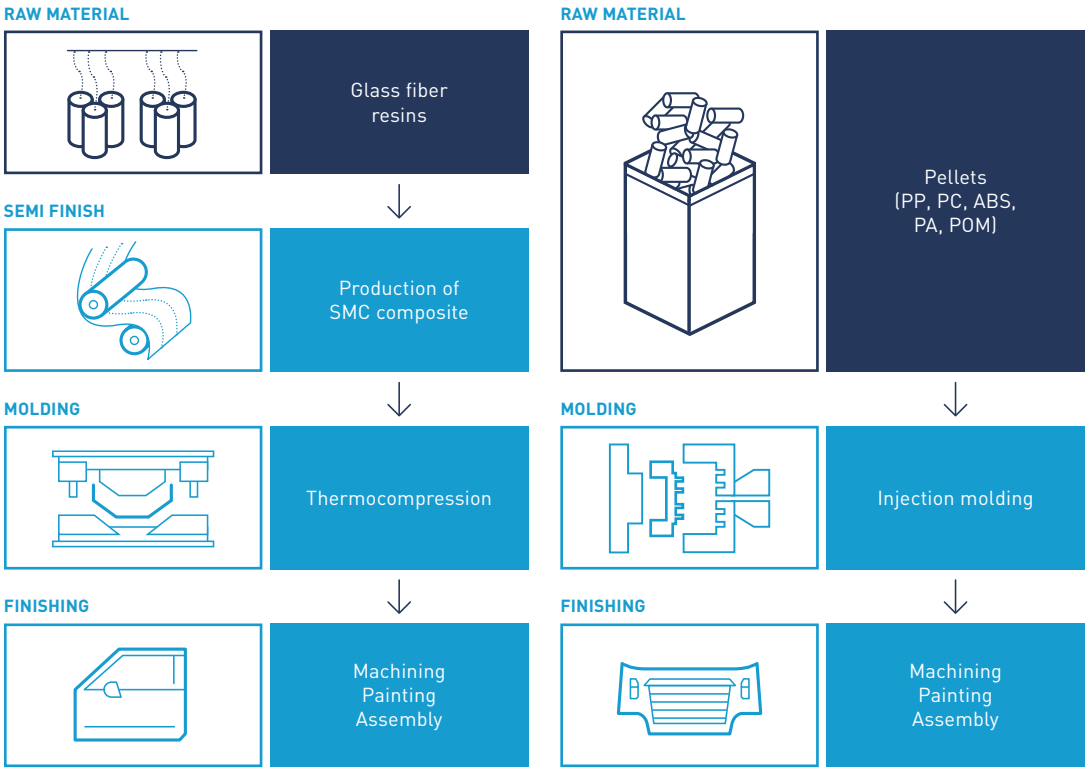
- **Plastics:** The segment manufactures a wide range of body parts and interior modules for trucks, commercial vehicles and cars. It includes hard trim products made of injection moulding and composite material, such as SMC. The semi-finished product plays an important role in automobile manufacturing 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 maintains 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.g. front modules, roof modules and other aerodynamic cladding) or interior modules ("bunk box" under the driver's bed and shelf elements) and in cars, for example for structural components (tailgate). The segment also has its own capacity for painting plastics.

- **China:** Activities in the Chinese market are combined in this segment. These include supplying customers with plastic parts for the exterior paneling of vehicles, mainly for the cabins of commercial vehicles but increasingly also for cars. The product range offers solutions and components for commercial vehicles, such as bumpers, front paneling, deflectors, roofs, fenders and step plates as well as parts for cars such as battery covers for electric vehicles through to complex structural components such as tailgates for SUVs. Composite press processes and injection moulding technology are used for these components. The segment also has its own capacities for painting plastics.

- **Materials:** This segment comprises the production of semi-finished products (Sheet Moulding Compound – SMC), bulk moulding compounds (BMC) and advanced moulding compounds (AMC). The semi-finished products are used within the Group for hard trim applications as well as supplied to external third parties. Influencing key parameters of the end product is already possible at the development stage of these basic materials.

Historically, the Group has seen significant growth through acquisitions, especially in the 2016 and 2017 financial years. The company originated from the acquisition of the commercial vehicle business of the Swiss-based Autoneum Group bought in 2013 by Mutares SE & Co. KGaA (formerly mutares AG), STS Group AG's majority shareholder, as part of a carve-out. The Group acquired the truck business of French automotive supplier Mecaplast France SAS (now Novares France) in December 2016, thereby entering the hard trim business. Upon 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 components for cars (tailgates). The Group's presence was extended in Eastern and Northern Europe via a production facility in Poland which took up operations in 2017. The Group further expanded the acoustics business by acquiring the Autoneum Group's production site in Brazil in September 2017. The Group has had new headquarters for the Chinese

THE HIGH VERTICAL INTEGRATION ENSURES AN EFFICIENT PRODUCTION PROCESS



market in Wuxi since the fourth quarter of 2018, which also combines the development activities on location. In April 2019, STS opened its third production facility in Shiyan, China. The Group is also represented in Qingdao and Jiangyin. A major order placed by a leading international commercial vehicle manufacturer has enabled STS to enter the North American market. The Company plans to build a production facility in the North Eastern region of the US.

Over the course of the 2020 financial year, STS took the decision to focus on the core technologies of injection moulding and composite technologies. This decision was followed by the sale of the Acoustic segment to the Adler Pelzer Group in the third quarter of 2020. This marked the start of a strategic realignment with the aim of expanding the forward-looking lightweight solutions for commercial and electric vehicles.

CORPORATE STRATEGY AND MANAGEMENT

OBJECTIVES AND STRATEGY

STS Group AG is a leading global supplier of components and systems to the commercial vehicle and automotive industry. The aim is to strengthen this position. The Company focuses on components made of composite materials and injection moulding, from the first concept through to the finished product. STS products are designed to future proof vehicles by making significant contributions to reducing weight, thereby lowering CO_2 emissions. In addition, the Group's products improve optics, haptics and the functionality of vehicles. In order to reinforce its competitive position and to achieve sustainable profitability, the Group focuses on four strategic pillars: "market leadership", "technology leadership", "customer proximity" and "operational excellence".

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Strategic pillars

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

In the 2020 financial year, the Company decided to concentrate on the more sustainable plastics solutions in Europe, China and America and to dispose of the Acoustics segment. Furthermore, STS has accelerated the expansion of the site in the east of the US. Developing the location is likely to be financed by leasing and subsidised loans. The growth strategy is underpinned by process optimisations, including the increased automation of production processes and by addressing technological trends such as autonomous driving and electric mobility. Moreover, providing support for customers in the commercial vehicle segment in developing the innovative, more CO_2 efficient trucks of the future plays a key role.

While simplifying the Group structure and as part of the cost-cutting measures introduced, the Company decided in the 2020 financial year to restructure the Group headquarters in Germany and to transfer a large number of tasks to the local units. In this context, the size of the Executive Board was also adjusted and reduced accordingly from three members to a single member.

MANAGEMENT AND CONTROL SYSTEM

All segments and subsidiaries submit monthly reports on their results of operations, financial position and net assets which are incorporated into the Company's half-yearly and annual reports. In addition, the segments provide a monthly assessment of the current and expected business development, and the managers of the various segments present monthly gap analyses with regard to certain key operating figures (e.g. productivity, absentee rates, rejects) to the Executive Board.

In addition, the following components largely ensure compliance with the internal management and control system:

- Regular Executive Board and Supervisory Board meetings
- Regular shareholder meetings at subsidiaries
- 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 amortisation (EBITDA) and adjusted EBITDA. EBITDA for the 2020 financial year has been adjusted for special expenses of 3.0 mEUR. Special expenses consist of the following: 2.7 mEUR for restructuring costs and severance payments, of which 1.7 mEUR for restructuring headquarters in Hallbergmoos, as well as 0.3 mEUR for expenses in connection with selling the Acoustics segment. In the previous year, the adjustments pertained to severance payments amounting to 2.3 mEUR, consultancy costs of 0.4 mEUR and reorganisation measures of 0.3 mEUR. Adjusted EBITDA measures and evaluates operating performance – net of extraordinary items. The reconciliation of adjusted EBITDA with EBITDA and earnings before taxes (before result from discontinued operations) is as follows:

in mEUR	2020	2019
Adjusted EBITDA Group	**17.7**	**17.9**
Management adjustments (netted)	– 3.0	– 2.6
EBITDA Group	**14.7**	**15.3**
Depreciation and amortization expenses	– 16.1	– 15.9
Earnings before interest and income taxes (EBIT)	**– 1.4**	**– 0.5**
Interest and similar income	0.0	0.0
Interest and similar expenses	– 2.2	– 1.6
Finance result	– 2.2	– 1.5
Earnings before income taxes	**– 3.6**	**– 2.1**

For the STS Group, there are no significant non-financial performance indicators used for internal management or which are relevant for 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 anchoring this culture in everyday interaction.

STS continues to attach great importance to accident prevention and health promotion. This is evidenced, among other things, by accident prevention measures 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 awareness. 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).

In the financial year ended, the protection of our employees against infections from the global COVID-19 pandemic took centre stage. To this end, numerous measures covering hygiene, social distancing and protection were introduced in all locations. The option of home office work was introduced and used to the greatest extent possible in indirect functions.

Owing to the numerous different staffing requirements and legislation, the responsibility for personnel work has been assigned at federal state level and is implemented in accordance with local directives. With a view to fostering development and career prospects, managers regularly hold employee appraisals to discuss possible future prospects within and outside the Company with the employees. The outcome of these appraisals form the basis for individual development plans and further training measures derived from these plans. The results of employee appraisals are supported by regular performance reviews aimed at harmonising the self-assessment and observer assessment of the employees and to define appropriate measures for the development of skills.

As of December 31, 2020, a total of 1,601 persons were employed throughout the Group (2019: 2,455). The decline in personnel is due to the disposal of the Acoustics segment.

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. In 2020, the COVID-19 restrictions resulted in constraints and delays in respect of customer programmes. The R&D budget was retained unchanged, however. The STS Group's strategy consisted of deploying the available resources of engineering centres with a view to accelerating innovation programmes.

The innovation team was strengthened further by hiring two engineers originally from prestigious tier 1 automotive industry suppliers.

The three research and development centres in France and China continued to pool their capabilities and leverage synergies. Finite-element analysis and rheology are meanwhile conducted internally by the Wuxi-based Chinese development centre, which facilitates the expansion of simulation capacities.

The R&D activities resulted in major success in acquiring for our new product lines:

- Trunk lid from light composite materials for a European OEM
- Covers for battery systems of electric vehicles: two orders in the Chinese market, one in the North American market

The innovation process is fully covered by STS, including monitoring, technological development, patents management, creativity sessions, the selection of ideas, proof of concept and TRL monitoring, as well as generating new concepts developed in joint collaboration with the customers:

- Modular concept for trucks combining structural, aesthetic, passive and active aerodynamic functions.
- Joint development with truck OEM in the pursuit of solutions to challenges entailed by reducing CO_2 emissions by 2025.

- Co-development project with a leading engineering firm engaged in shipbuilding aimed at using high-performance composite parts in shipbuilding (diversification project with great revenue potential).
- Long-distance haulage trucks: Interior module for driver comfort on board when parking.
- "Green" composites: development of SMC compounds with bio-based and recycled materials.

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

At the end of the year, 60 employees (2019: 84 employees) were employed in the STS Group's research and development centres worldwide. The decline is due in particular to the divestiture of the development centre in Italy in connection with the sale of the Acoustics segment.

Development costs of 0.8 mEUR incurred in the period under review were lower year on year (2019:1.7 mEUR; – 55.2%). In the reporting period, development costs of 0.7 mEUR were capitalised (December 31, 2019: 0.6 mEUR) and no write-downs (2019: 0.2 mEUR) were made.

ECONOMIC REPORT

MACROECONOMIC AND SECTOR CONDITIONS

MACROECONOMIC DEVELOPMENT

Global economy charting ongoing recovery

According to the Kiel Institute for the World Economy (IfW), global economic momentum has recovered further from the outbreak of the coronavirus pandemic in the spring of 2020. Following a surge in production in the summer, the recovery held steady in the six winter months as well, although infections rose sharply and more stringent measures to contain the virus were reintroduced. Industrial production and global trade almost reached the pre-crisis level again and appeared to be virtually unaffected by the second wave of the pandemic. In the fourth quarter of 2020, economic activity picked up momentum not only in comparison with the period from July to September, but also in terms of reaching a level that was higher than before the onset of the pandemic. All in all, global production contracted by 3.3% in 2020, following growth of 3.0% in the previous year.

World production in full year 2020 shrinks due to COVID-19 pandemic

V-shaped recovery in China

In the People's Republic of China, economic activity has already largely recovered following the outbreak of the coronavirus pandemic in 2020. Industrial production achieved growth rates of 7% in the fourth quarter of 2020, which exceeds the pre-crisis level. According to the IfW, the growth rate of the gross domestic product (GDP) slowed overall from 6.1% in 2019 to 2% in 2020. Production dropped particularly sharply in industry and the construction sector, while the damper on activity in the retail, hospitality and transport industries was very pronounced. According to Germany Trade & Invest (GTAI) this success is attributable to the Chinese government's measures to combat the pandemic, combined with its economic policy. These measures included reducing social security contributions paid by companies and promoting infrastructure investment. Consequently, the positive development is largely based on public sector spending and easier access of state-owned enterprises to funds.

China achieves growth in corona year

Worsening of the pandemic halts recovery

Following the strong upturn in the summer of 2020, macroeconomic production in the euro area slowed slightly again in the final quarter of 2020. In response to a sharp increase in corona infections in the autumn, new lockdown measures were imposed again to brake the spread of the coronavirus. After the slumps caused by the pandemic in the first six months, the second corona wave incurred much less of an impact – industry in particular was virtually unaffected. Euro area gross domestic product contracted by an overall 6.8% in 2020. The effects of the Corona pandemic were also reflected in the unemployment rate, which rose from 7.5% to 7.9%. The inflation rate in the euro zone came in at 0.3%, which is significantly below the level of 1.2% posted in the previous year.

Second pandemic wave dampens global economic recovery

Gradual recovery in North America

According to the GTAI, economic output in Mexico shrank by 17.3% due to the pandemic in 2020, with the country's economy gradually recovering again from a hard lock down in spring. Following a slump of 17% in the gross domestic product (GDP) in the second quarter, the economy grew by 12% again over the period from July to September 2020. At the end of the year, the restrictions imposed on public life in response to another increase in corona infection rates burdened the economic recovery. The most important measure to boost the economy consisted of infrastructure projects in an environment where capital expenditure declined by 20%. Meanwhile, large companies and SMEs in Mexico had

Automotive industry in Mexico weakened by pandemic

to cope without tax reliefs, aid in the form of loans or short-time allowances. The automotive industry was particularly hard hit, sustaining a plunge of 64% over the period from April to June 2020 due to production downtime.

SECTOR DEVELOPMENT

Commercial vehicle market with growth in the fourth quarter of 2020

The global commercial vehicles market reported unprecedented production declines in 2020 due to the lockdown measures geared to combatting the coronavirus pandemic. The ensuing burdens in the context of the plunge in the sector's activities placed huge pressure on manufacturers and suppliers. According to industry service company IHS Markit, output contracted by around 25.7% in Europe in the year 2020. In STS's home market of Germany a slump of 26.6% was reported, in France 31.7% and in Italy 20.9%. While the markets generally bottomed out in April, an easing of the containment measures permitted production to be resumed as early as May. Over the course of the second half year, the global commercial vehicles market largely recovered from the production downturns caused by the pandemic. As a result, production figures in the fourth quarter of 2020 showed renewed growth in almost all key European markets compared with the declines in the first nine months. The German market is a prime example here producing more than 27,000 vehicles from October to December, which is around 62.5% more vehicles than in the third quarter of 2020.

IHS Markit observed a similar development in the market for light commercial vehicles and cars. Production figures in Europe dropped by an overall 23.0% in 2020. The French market for passenger vehicles in particular reported a steep decline of 39.4%. Production in Germany fell by 23.6% compared with Italy where the downturn was relatively moderate at 8.6%. In North America, the market for light commercial vehicles and passenger cars also entered a downtrend. As a result, production of 18.5% in the US dropped below the year-earlier level, with the Mexican market contracting by 20.3%.

Chinese truck market grows by 21.7%

The automotive market in China dropped by 5.9% in the passenger car segment compared with the commercial vehicles segment which suffered a decline of 18.7%. By contrast, the number of trucks produced increased by 21.7% compared with the previous year's figure, and the subsegment of tractors in China which is important for the STS Group recorded particularly strong growth of 47.8%.

BUSINESS DEVELOPMENT

At the outset of the year, the STS Group succeeded in winning an electric mobility order for the European market for the first time, which will enable it to reinforce its position in the future in the strategic relevant market of electric vehicles on another continent alongside China. The aforementioned modules consist of high-performance SMC components which must meet the most stringent requirements. They guarantee heat resistance, while ensuring significant weight reduction compared with conventional materials. The Company perceives considerable growth potential in Europe to be derived from this new product group, in addition to the Chinese market.

In the first half of 2020, however, the spreading of the coronavirus pandemic and the ensuing containment measures severely impacted global economic development, and thus to a huge extent the automotive and commercial vehicles sector – and therefore ultimately the STS Group's performance. As early as February, STS production sites in China were closed. By contrast, STS plants in Europe and in Central and South America were only affected by plant closures in connection with the pandemic as

from March. In Central and South America, the initial response to plant closures consisted of using up holiday entitlements. In Europe, however, capacities were adjusted at short notice to the situation through the use of short-time work.

First half of 2020 influenced by pandemic

The plants in China were able to start full production again as early as the end of March, and by April the Chinese plants were producing at the high level prior to their closure. Following 2019 in which China introduced more stringent controls on the transport volume permitted, this measure led to logistics companies already ramping up their commercial vehicle fleets by the end of the year, and in particular in 2020. Moreover, the commercial vehicle market also benefited from the new local emission standards, which prompted the greater deployment of vehicles through new tug masters designed to meet the standards. This aspect boosted the surge in demand for heavy commercial vehicles in China, with the result that production downtime due to plant closures was clearly more than compensated.

High demand in China after plant closures

The plants in Germany, Italy, Poland, France and Brazil were temporarily closed from mid-March generally until the end of April 2020. This situation resulted in a substantial downtrend in revenues in the Acoustics, Plastics and Materials segments. Europe also showed signs of a growing recovery in the automotive and commercial vehicles market, albeit at a considerably lower level, after the plant closures. The production volumes prior to plant closures were only regained at the end of the second quarter. The end of the financial year brought signs of another significant recovery.

In order to ensure the Company's liquidity, the STS Group introduced a range of various liquidity and cost-cutting measures in the period under review.

As part of an extensive cost-cutting measure, the Company submitted an application on May 15, 2020 concerning the revocation of the listing of the Company's shares on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard). Switching the stock exchange segment was instrumental in reducing the additional expense associated with listing on Prime Standard with regard to reporting and disclosure requirements. This measure enabled the Company to cut back on the cost of its listing and to deploy the available resources more efficiently and in a more targeted manner. The revocation leaves the listing of STS Group AG's shares for trading on the Regulated Market of the Frankfurt Stock Exchange (General Standard) unchanged.

In view of the loss of revenue caused by the COVID-19 pandemic, the STS Group undertook further extensive structural changes to administrative functions in May. In the context of these changes, operational functions of STS Group AG's headquarters in Germany were decentralised and reassigned to lower-level operating units or outsourced. Only strategic tasks remained with STS Group AG. As a consequence of this development, the Executive Board took the decision to terminate the majority of employment contracts for operational reasons. The resulting negative non-recurrent effects were fully considered in the result of the financial year elapsed.

After Patrick Oschust, COO, and Dr. Ulrich Hauck, CFO, had laid down their office on May 31, 2020 and on June 20, 2020 respectively, Andreas Becker withdrew as the Company's Chief Executive Officer effective June 30, 2020. Mr. Mathieu Purrey was subsequently appointed for a term of three years as the sole member of the Company's Executive Board as of July 3, 2020. Moreover, Supervisory Board members Robin Laik and Dr. Kristian Schleede laid down their Supervisory Board mandates at STS Group AG effective June 20, 2020. Dr. Wolf Cornelius and Dr. Wolfgang Lichtenwalder were subsequently appointed by court decision. At the Annual General Meeting of July 14, 2020, they were both elected as members of the Supervisory Board.

Furthermore, August 2020 saw the sale of the Acoustics segment to the Adler Pelzer Group brought to completion, which took effect at the end of October 2020. The STS Group is now focusing its core business on the Plastics and Materials segment in Europe and in future also on the expansion of business in North America. STS is therefore concentrating even more strongly on the attractive injection moulding and SMC technologies with the aim of developing capabilities in the area of forward-looking lightweight solutions for commercial vehicles and electric cars. The STS Group's strategy of reaping benefit from the current mega trends in the automotive industry is therefore being pursued in a targeted manner and has been reinforced by the disposal of the Acoustics segment.

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

RESULTS OF OPERATIONS

The 2020 financial year was largely determined by the spreading of the coronavirus pandemic across the world and the ensuing shutdowns of the economy on a global scale and, in particular, the associated plant closures. The pandemic impacted the market environment of the STS Group in Europe in particular, as well as in Central and South America. Conversely, the Chinese market saw huge demand in the commercial vehicles market. As a result, the STS Group was able to achieve exceptional growth in China over the course of 2020. Furthermore, the sale of the Acoustics segment also affected the Company's financials.

In order to provide a basis for comparison, the year-earlier figures on the results of operations shown in the following have been adjusted in order to exclude the Acoustics segment sold in 2020. In the reporting year 2020, the STS Group generated revenues of 235.0 mEUR (2019: 250.7 mEUR). The Company posted earnings before interest, taxes, depreciation and amortisation (EBITDA) of 14.7 mEUR (2019: 15.3 mEUR). Despite the sharp decline in revenue, the Company succeeded in introducing various cost-cutting measures. The considerable growth in the high-margin China segment had a particularly positive impact.

Special expenses totalling 3.0 mEUR were incurred in the financial year 2020. Of this amount, 2.7 mEUR was accounted for restructuring and severance costs; thereof 1.7 mEUR for restructuring headquarters in Hallbergmoos and the associated compulsory redundancies. Further 0.3 mEUR were attributable to the sale of the Acoustics segment. In the previous year's period, special expenses amounted to 2.6 mEUR for reorganisation measures, severance payments and consultancy costs.

Adjusted EBITDA came in at 17.7 mEUR in the 2020 reporting year, virtually unchanged from the previous year's level (2019: 17.9 mEUR). The strong growth achieved by the high-margin China segment virtually compensated for the declines in the result due to the lower level of revenues. The restructuring of headquarters also had a positive effect on adjusted EBITDA.

Revenues and earnings of the STS Group's segments in the 2020 reporting year were recorded as follows compared with the previous year:

DEVELOPMENT OF SEGMENTS

in mEUR	2020	2019 [1]	Delta	Delta%
Revenue	**235.0**	**250.7**	**– 15.6**	**– 6.2**
Segment Plastics	129.9	169.0	– 39.1	– 23.1
Segment China	85.0	50.4	34.6	68.5
Segment Materials	26.7	39.8	– 13.1	– 33.0
Corporate/Consolidation	– 6.6	– 8.6	2.0	23.3
EBITDA	**14.7**	**15.3**	**– 0.6**	**– 3.9**
Segment Plastics	1.6	11.4	– 9.8	– 86.3
Segment China	17.4	8.7	8.7	100.5
Segment Materials	1.4	2.2	– 0.8	– 38.4
Corporate/Consolidation	– 5.6	– 7.0	1.4	20.3
EBITDA (in % of revenue)	6.3%	6.1%		
Adjustments EBITDA	*3.0*	*2.6*	*0.4*	*15.4*
Adjusted EBITDA	**17.7**	**17.9**	**– 0.2**	**– 1.1**
Adjustments Segment Plastics	*0.7*	*1.2*	*– 0.5*	*– 40.7*
Segment Plastics	2.3	12.6	– 10.3	– 81.8
Adjustments Segment China	*0.0*	*0.4*	*– 0.4*	*– 97.3*
Segment China	17.4	9.0	8.4	92.3
Adjustments Segment Materials	*0.2*	*0.2*	*0.1*	*32.9*
Segment Materials	1.6	2.4	– 0.8	– 33.2
Adjustments Company/Consolidation	*2.0*	*0.8*	*1.2*	*143.1*
Corporate/Consolidation	– 3.6	– 6.2	2.6	42.0
Adjusted EBITDA (in % of revenue)	7.5%	7.1%		

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

The STS Group reported a decline in revenues of 6.2% in the 2020 financial year. Consolidated revenues dropped by 15.6 mEUR to 235.0 mEUR in 2020, down from 250.7 mEUR in 2019. Compared with the previous year, the Plastics and Materials segments sustained revenue declines totalling 52.2 mEUR. Only the China segment achieved significant revenue growth of 68.5% in the reporting year.

Other operating income rose by 46.1% to 4.0 mEUR, thus exceeding the year-earlier level of 2.7 mEUR. The growth is attributable above all to the capitalisation of development costs in the Plastics segment, along with the increase in income from the sale of materials in China.

The increase or decrease in finished goods and work in progress and services came in at – 1.7 mEUR, thereby falling significantly short of the previous year's figure of 5.2 mEUR. This development is due above all to delivering customer tools for new projects. In conjunction with the decline in the volume of revenues, a decrease of 7.5% to 129.0 mEUR in material expenses was also recorded (2019: 139.5 mEUR) which was principally attributable to the lower cost of raw materials, consumables and supplies. Accordingly, the cost-of-materials ratio also dropped only marginally from 55.6% in 2019 to 54.9% in the 2020 financial year.

At the end of the reporting period, the STS Group had a workforce of 1,600 employees worldwide (2019: 2,455). The lower headcount is due above all to restructuring measures implemented in headquarters as well as to the sale of the Acoustics segment. Personnel expenses fell by 11.9% to 61.8 mEUR during the reporting period (2019: 70.2 mEUR) which, along with the lower number of employees, is to be seen in the context of short-time work being introduced, particularly in the French plants.

Other operating expenses remained virtually unchanged at 31.8 mEUR (2019: 33.6 mEUR).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) stood at 14.7 mEUR in the period under review, thereby falling short of the previous year's level (2019: 15.3 mEUR). The downtrend in EBITDA is especially attributable to the decline in revenues. During the period under review, special expenses were incurred by reorganisation measures and by the sale of the Acoustics segment. These expenses amounted to 3.0 mEUR in total.

Adjusted EBITDA (adjusted for special items associated with the reorganisation measures) dropped by around 1.1% to 17.7 mEUR, down from 17.9 mEUR.

In the year under review, depreciation, amortisation and impairment increased slightly by 1.3% to 16.1 mEUR (2019: 15.9 mEUR).

The depreciation of property, plant and equipment amounted to 12.4 mEUR (2019: 11.2 mEUR), of which 4.5 mEUR for capitalised usage rights (2019: 3.9 mEUR), while the amortisation of intangible assets came in at 3.6 mEUR (2019: 3.9 mEUR), of which 0.3 mEUR for capitalised usage rights (2019: 0.3 mEUR).

As a result, earnings before interest and taxes (EBIT) of minus 1.4 mEUR were recorded (2019: minus 0.5 mEUR).

The result from discontinued operations comprises that of the Acoustics segment from the first 10 months of the financial year amounting to minus 13.2 mEUR (2019: minus 7.6 mEUR). A counter trend emanated from proceeds of 3.9 mEUR from the sale of the Acoustics segment. This amount is calculated on the basis of a negative purchase price of 2.5 mEUR, taking account of the disposal of negative equity capital from the segment.

The consolidated annual result deteriorated to minus 15.9 mEUR in the 2020 financial year (2019: minus 12.1 mEUR), due to the lower operating result in the context of the decline in revenues in 2020.

Earnings per share pursuant to IFRS, undiluted and diluted, stood at minus 2.6 mEUR (2019: minus 2.0 mEUR).

RESULTS OF OPERATIONS BY SEGMENT

Plastics Segment

The Plastics segment saw revenues decline by 23.1% to 129.9 mEUR in the financial year ended (2019: 169.0 mEUR). The downturn is due in particular to plant closures required in the context of the COVID-19 pandemic in the first six months, compounded by a weak market for commercial vehicles at the start of the year. After the lockdown, the plants in France slowly resumed production over the period from April 14 to 29, 2020, and reached the level prior to the plant closures over the course of the second half of the year. The segment's EBITDA came in at 1.6 mEUR, reflecting a decline compared with the previous year's level (2019: 11.4 mEUR). The result was negatively impacted by 0.7 mEUR in extraordinary expenses (2019: 1.2 mEUR). Adjusted EBITDA amounted to 2.3 mEUR in the period under review (2019: 12.6 mEUR). Cost reduction measures, especially the introduction of short-time work in all areas in France, were only partly able to compensate for the negative impact on earnings.

China Segment

At the start of the financial year, the China segment was burdened by the COVID-19 pandemic and the requisite plant closures in February and March 2020. Strong customer demand in the commercial vehicles segment has ensured that the plants' have been working at full capacity since mid-March, which has enabled the China segment to more than compensate for the loss of revenues. Revenues soared by 68.5% to 85.0 mEUR, up from 50.4 mEUR. The segment's EBITDA rose sharply to 17.4 mEUR in the reporting period (2019: 8.7 mEUR). In the current financial year, the result is burdened by special expenses of 0.0 mEUR (2019: 0.4 mEUR). Adjusted EBITDA increased to 17.4 mEUR (2019: 9.0 mEUR). The improvement is principally attributable to the significant increase in revenues achieved through the launching of new projects as well as through healthy demand in the local commercial vehicles market.

Materials Segment

The Materials segment was also impacted from mid-March to April 14, 2020 by temporary plant closures and production downtime. This situation caused revenues to decline by 33.0% to 26.7 mEUR in the period under review compared with 39.8 mEUR in the previous year. EBITDA dropped by 0.8 mEUR to 1.4 mEUR compared with the previous year's period (2019: 2.2 mEUR). The result was negatively impacted by 0.2 mEUR in special expenses in the current financial year (2019: 0.2 mEUR). Insofar, adjusted EBITDA for the reporting period stood at 1.6 mEUR (2019: 2.4 mEUR).

FINANCIAL POSITION

Principles and objectives of financial management and dividend policy

The Group's financing strategy is geared toward the provision of the resources necessary to implement the corporate strategy and the requirements of operations. The aim is to secure the necessary resources for growth, to limit the associated financial risk and to optimise the cost of capital. Various financing instruments are used, such as loans, factoring, leasing and overdraft facilities.

No dividend distribution is planned for the 2020 financial year. The Company intends to use a significant portion of its future potential profits – less the amounts to be transferred to the statutory reserve – to finance its further growth in the financial years ahead and to pay a dividend in as much as this is compatible with its business and investment plans.

The Group has fixed and floating rate credit facilities. These floating rate loans are based on a 1-month, 3-month and 6-month EURIBOR plus a margin. A number of loans are subject to covenants requiring compliance with key ratios and some loans are secured. For information on financial liabilities, reference is made to Section 4.12. Non-current and current financial liabilities in the notes to the consolidated financial statements.

Cash Flow

in mEUR	2020	2019[1]
Net cash flows from operating activities	– 1.6	36.7
Net cash flows from investing activities	– 23.7	– 15.0
Net cash flows from financing activities	28.1	– 35.6
Effect of currency translation on cash and cash equivalents	– 0.1	0.0
Net increase/decrease in cash and cash equivalents	**2.7**	**– 13.9**

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

The STS Group generated a **net cash flow from operating activities** of – 1.6 mEUR in the 2020 financial year (2019: 36.7 mEUR). Of this amount, – 0.3 mEUR (2019: 34.2 mEUR) was accounted for by continuing operations and – 1.3 mEUR (2019: 2.5 mEUR) by discontinued operations. The reduced amount resulted from the development of net working capital in particular. A cash outflow of 7.8 mEUR resulted from the change in networking capital in the period under review (2019: cash inflow of 20.1 mEUR). The cash outflow in continued operations was driven especially by the increase in trade receivables in China, accompanied by a reduction in trade payables.

The **cash flow from investing activities** stood at –23.7 mEUR in the 2020 financial year (2019: cash outflow of 15.0 mEUR). Of this amount, –23.5 mEUR (2019: –9.2 mEUR) was accounted for by continuing operations and –0.2 mEUR (2019: –5.8 mEUR) to discontinued operations. The amount also includes a cash outflow of 13.0 mEUR in connection with changes in the consolidated group from the disposal of the Acoustics segment. The other investment activities were mainly incurred by capital expenditure of 8.5 mEUR on property, plant and equipment (2019: 7.8 mEUR) and on intangible assets of 2.4 mEUR (2019: 3.6 mEUR).

Funds of 28.1 mEUR were received by the Group from **financing activities** in the financial year 2020, as opposed to a cash outflow of 35.6 mEUR recorded in the previous financial year. Of this amount, 19.4 mEUR (2019: – 31.6 mEUR) was attributable to continued operations and 8.7 mEUR (2019: – 4.0 mEUR) to discontinued operations. By contrast, the Group received funds of 28.6 mEUR from borrowing in the reporting year. These funds pertained in particular to state-guaranteed loans granted in the context of the COVID-19 pandemic, especially to the French and Italian entities. The state-backed loan in Italy was deconsolidated in the process of the sale and is allocated to the discontinued operations. In the previous year, the level of financing dropped by 24.1 mEUR essentially due to receivables sales in the process of switching from recourse factoring to non-recourse factoring.

Cash and cash equivalents

Unrestricted cash amounted to 20.0 mEUR as of December 31, 2020 (December 31, 2019: 17.2 mEUR) and consisted mainly of bank balances.

Net financial liabilities

The Group's net financial liabilities[1] declined by 16.2 mEUR to 22.9 mEUR as of December 31, 2020 (December 31, 2019: 39.1 mEUR) mainly due to the deconsolidation of the Acoustics segment. Although liabilities to banks increased due to receiving state-backed loans from France in the Plastics segment, this was offset by an increase in the cash and cash equivalents item as of December 31, 2020 compared with the previous year's figure. In addition, two short-term loans amounting to 6.5 mEUR (December 31, 2019: 0.0 mEUR) were granted by Mutares SE & Co. KGaA shareholders. Other liabilities to third parties, as well as lease liabilities, were reduced through the sale of the Acoustics segment. Similarly, the liabilities from factoring from the sale of the Acoustics segment were fully assigned.

[1] Net financial liabilities = bank liabilities + liabilities from loans + liabilities from factoring + lease liabilities – cash

FINANCIAL POSITION

in mEUR	December 31, 2020	December 31, 2019
Non-current assets	86.3	136.4
Current assets	99.4	120.0
Total assets	**185.7**	**256.5**
Total equity	51.1	68.6
Non-current liabilities	41.7	55.0
Current liabilities	92.9	132.9
Total equity and liabilities	**185.7**	**256.5**

Total assets declined from 256.5 mEUR to 185.7 mEUR in comparison with December 31, 2019, principally due to the deconsolidation of the Acoustics segment which affected all items on the assets and liabilities side of the balance sheet. A counter trend emanated from the increase in liabilities and trade receivables on the back of the sharp increase in revenues from the China segment. The share of current assets in the balance sheet amounts to 53.5%, reflecting an increase of 6.7% compared with the year-earlier level. The share of current liabilities in total assets dipped by around 1.8% compared with the previous year (51.8%).

Non-current assets decreased by 50.3 mEUR to 86.3 mEUR (December 31, 2019: 136.4 mEUR). Property, plant and equipment dropped from 102.9 mEUR to 61.2 mEUR compared with December 31, 2019.

Current assets declined by 20.6 mEUR to 99.4 mEUR (December 31, 2019: 120.0 mEUR). This development was attributable to the disposal of the Acoustics segment and the ensuing derecognition of current assets worth 40.3 mEUR. The associated derecognition of trade receivables in an amount of 23.0 mEUR was offset by an increase in this item of 13.8 mEUR due to the China segment generating a sharp rise in the volume of revenues.

Equity declined by 17.5 mEUR to 51.1 mEUR compared with 68.6 mEUR posted on December 31, 2019. The main factors reducing equity were as follows: the consolidated result of – 15.9 mEUR, the revaluation of pension obligations and differences from currency translation. A counter trend emanated from the capital increase, approved in September 2020, of 1.5 mEUR against capital contribution. The equity ratio remained virtually unchanged at 27.5% as of December 31, 2020 (December 31, 2019: 26.8%).

Non-current liabilities decreased by 13.3 mEUR to 41.7 mEUR as of December 31, 2020 (December 31, 2019: 55.0 mEUR). The reduction here is also mainly due to the deconsolidation of the Acoustics segment. The receiving of loans from banks in France which increased to 11.8 mEUR (December 31, 2019: 2.2 mEUR) constituted a counter effect.

Current liabilities declined by 40.0 mEUR to 92.9 mEUR as of December 31, 2020 (December 31, 2019: 132.9 mEUR) essentially due to the full assignment of liabilities from factoring (– 12.1 mEUR).

OVERALL STATEMENT BY THE EXECUTIVE BOARD ON THE ECONOMIC SITUATION

The Company sustained significant revenue declines due to the spread of the coronavirus pandemic across the globe in the first six months of 2020, the resulting shutdown of the global economy and, in particular, plant closures.

The Group was especially hard hit by the pandemic in the Plastics, Acoustics and Materials segments, i.e. in the regions of Europe and South America. Signs of an only slight recovery filtered through in the second and third quarter in these parts of the world. In the final quarter of the 2020 financial year, however, the sales volume delivered in the previous year was achieved again, above all in the Plastics segment.

By contrast, the China segment staged a swift recovery from the plant closures and by the second quarter had already reached a much higher level in a year-on-year comparison. Lost revenues were not only made up but also significantly overcompensated, prompting exceptional growth in the reporting year.

The Company responded to the pandemic in the first half-year with wide range of measures, which included the introduction of short-time work in all plants and adapting external capacities. Adjusted EBITDA nevertheless dropped below the year-earlier figure, while the adjusted EBITDA margin was kept virtually unchanged from the previous year's level. By contrast, the consolidated result which was additionally burdened by the result from discontinued operations also fell substantially below the year-earlier figure in the 2020 financial year.

Furthermore, various measures to strengthen liquidity, such as borrowing in France were initiated, which increased liquidity in the financial year. The disposal of the Acoustics segment served to significantly improve net financial debt as of December 31, 2020 and was generally an appropriate measure in the opinion of the Executive Board. With the loans received, the sale of the Acoustics segment and the restructuring of headquarters, the Executive Board views the financial position as satisfactory. The Executive Board considers to the provision of equity capital to be sufficient.

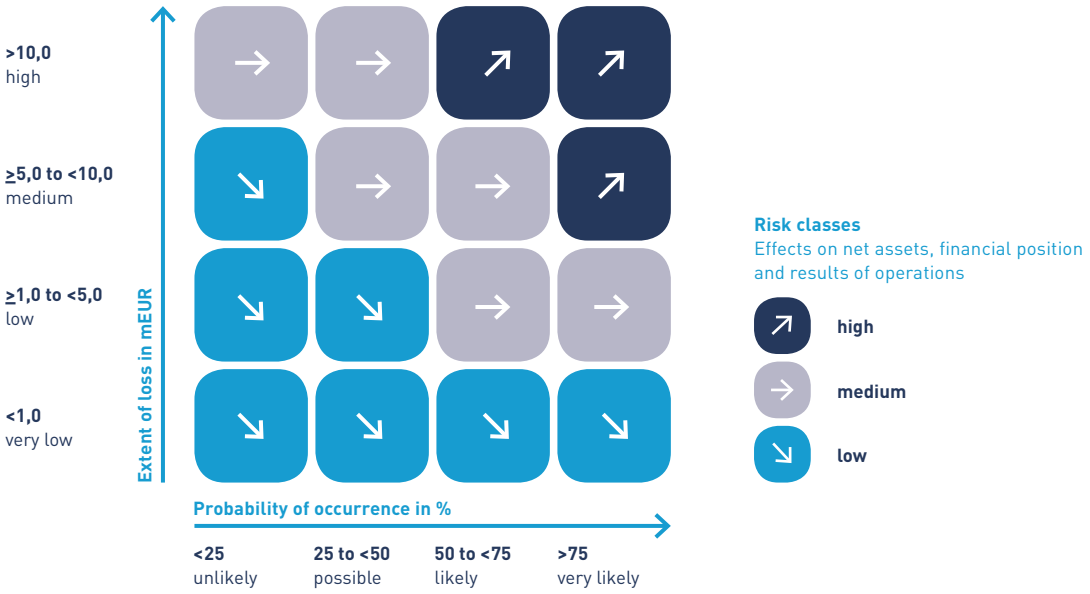
OPPORTUNITIES AND RISK REPORT

RISK MANAGEMENT SYSTEM

Risk management as the aggregate of all organisational rules and measures for early risk detection and the adequate handing of the risks arising from our business activities is accorded a high priority in our Group and plays a key role in our business model. The Executive Board has installed an early risk detection system in order to identify developments that could potentially endanger the Company as a going concern at an early stage. All critical business developments and liability risks are subjected to a critical review and regularly reported on in the reviews of the subsidiaries and in Executive Board and Supervisory Board meetings. The Executive Board examines the business performance of the subsidiaries in regular reviews and is informed about the revenue, earnings and liquidity situation of all investments on the basis of the implemented reporting system. The Group has sufficient free financial resources to be able to react flexibly and appropriately if necessary.

Only risks that exceed a threshold of 0.1 mEUR net and 1 mEUR gross in terms of their impact on EBIT are considered in the context of risk management, with the risks being assessed according to their monetary impact (extent of loss) and probability of occurrence. The assessment of monetary impact distinguishes between the four categories of very low, low, medium and high, and is based on the extent of loss in terms of one year. The probability of occurrence is assessed on a percentage scale and divided into the four categories of unlikely, possible, likely and very likely. The combination of extent of loss and probability of occurrence defines the risk class, which is classified as low, medium or high in its impact on the net assets, financial position and results of operations. The risks are allocated to the respective risk classes on the basis of the risk matrix.

RISK MATRIX[1]



1 Classification of net risk

In the risk assessment, a distinction is drawn 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. The net risk is then the extent of loss and probability of occurrence, taking the measures to mitigate loss introduced before the reporting date into account. The identified risks are to be managed actively in order to achieve the risk reduction targeted by the Company. All risks against which no suitable measures can be taken must be classified as business risks. The management of risks which have a minor impact on the STS Group is incumbent on the management responsible for operations. Current risks are regularly reported to the Executive Board. Within its various remits, the Executive Board determines any necessary measures and ensures their ongoing implementation.

Internal control and risk management system as part of the financial reporting process

The internal control and risk management system has an appropriate structure along with processes which are defined accordingly. It has been designed to guarantee the prompt, uniform and correct accounting entry of all business processes and transactions. For the purpose of including the subsidiaries in the consolidated financial statements, the internal control system ensures that legal standards, financial reporting requirements and internal operating instructions on financial reporting are complied with. Changes therein are continuously analysed with regard to their relevance and impact on the consolidated financial statements and accounted for accordingly. The STS Group has defined a schedule for its subsidiaries concerning the monthly, quarterly and annual preparation of the consolidated financial statements. Instructions for the quarterly and annual financial statements are sent to the subsidiaries and a request is made for additional data/information deemed necessary for all relevant topics relating to content, processes and deadlines for the preparation of financial statements. A standardised Group chart of accounts and uniform accounting standards are used for the purposes of Group consolidation. Appropriate consolidation software is used for consolidation. The operating units and headquarters collaborate closely in the context of Group accounting. Following the introduction of a new consolidation software package at the start of 2020, a wide range of activities (such as preparing the monthly reporting packages) in this context were assigned to the local finance departments and the consolidation process further automated. Moreover, due to extensive restructuring at headquarters, external experts are regularly commissioned to provide support. In addition to defined controls, automated and manual reconciliation processes, the segregation between implementing and controlling functions and compliance with guidelines and operating instructions are essential components of the internal control system. Quality assurance with regard to the accounting data used in the Group is carried out centrally by the Finance department on the basis of analyses and plausibility checks.

The Group companies are responsible for compliance with the applicable guidelines and financial reporting processes and the proper and timely preparation of financial statements. The Group companies are supported in the accounting process by contact persons in head office.

Financial risk management

The management of the Group monitors and manages the financial risks associated with the Group's businesses by means of internal risk reporting which analyses the risks in terms of degree and dimension. These risks include credit risk, liquidity risk and market risk (currency risk and interest rate risk).

In some cases, the SCS Group minimises 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 are defined for effecting derivative and non-derivative financial transactions and for investing excess liquidity. The STS Group does not contract or trade financial instruments, including derivative financial instruments, for speculative purposes.

MACROECONOMIC OPPORTUNITIES AND RISKS

GLOBAL ECONOMIC RECOVERY HINGES ON THE DEVELOPMENT OF THE PANDEMIC

According to the Kiel Institute for the World Economy (IfW), the risks for the global economy and its determinant framework conditions arise from uncertainty about how the pandemic will develop. Fresh waves of infection with extensive renewed lockdowns would hamper the global economy in its recovery. This also applies to expectations of economic activity returning to normal levels in contact-intensive areas should rolling the vaccine out to the population be delayed. In China, economic risks arise from a partial closing of borders, particularly for supply chains. In this situation, foreign buyers from the US and Europe cannot visit their producers. By contrast, the incidence of infection in China's economy is virtually fully under control. In the euro region, the ongoing high infection rates constitute the greatest risks for the currency area. Euro member countries are seeking to avert insolvencies, thus preserving production structures and jobs, through extensive financial measures, labour market policies and fiscal measures. In the meantime, risks arising from the pandemic in Mexico remain high due to comparatively few effective containment measures. An additional difficulty is the fact that there are a few measures to bolster the economy. Conversely, if the environment is favourable, there are opportunities for a swift recovery and greater economic momentum. After months of doing without contact-intensive services, pent-up demand from consumers, with little reduction in disposable income, is an opportunity for the economy to bounce back. At the same time, savings have accumulated on a larger scale because of this demand giving rise to the risk of sharper price increases due to limited capacities. This could, in turn, lead to tighter orientation of fiscal policy. An associated increase in capital market interest rates could ultimately put the recovery in the global economy under pressure. The Executive Board assesses the risk as medium in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

CHINA – GOVERNMENT SPENDING IN AN UPTREND

Positive economic development in the People's Republic of China

According to Germany Trade & Invest (GTAI), the positive economic development of the People's Republic of China depends to a great extent on government spending, aimed primarily at stabilisation in society through improving key economic indicators and creating jobs. In this context, the productivity of government investment has entered a significant downtrend while public debt has increased dramatically and is rising further. The trend is similar in the case of state-owned enterprises. By contrast, investment in the private sector declined. Given salaries which are stagnating or only rising slightly, Chinese consumers also proceed cautiously and tend to shy away from expenses which are unnecessary against the backdrop of an unviable social system. An exception is the state-funded sale of cars. The Executive Board assesses the risk as medium in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

ECONOMIC AND POLITICAL RISKS IN THE EUROZONE

In the eurozone, the change of government in the United States may present an opportunity for an improved trading environment. By contrast, the risk of unknown effects following the withdrawal agreement between the United Kingdom and the European Union remains. Although trade tensions have receded due to the coronavirus crisis, they have not been resolved. It can be assumed that the new US government will pursue a stronger multi-lateral approach with its European partners in issues of trade policy in order to adopt a unified position in relation to the existing trade conflicts with China. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

Global trade tensions eclipsed by Corona crisis

DEVELOPMENT OF THE PANDEMIC AS A KEY DETERMINANT FOR RECOVERY IN NORTH AMERICA

Mexico's economy could grow more strongly than anticipated provided that the vaccine rollout is successful in halting the pandemic. Growth in Mexico's economy could prompt improved export potential to the US, suported by the new USCMA trade agreement, which would have a positive effect. Despite a number of restrictions, Mexico is still accorded preferred access to the US market. At the same time, the reliability in relation to the US has increased through the new US administration. Even if further protectionist measures cannot be entirely discounted, Mexico's position as a production location for the North American market will be strengthened. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

Mexico as production location for the North American market strengthened

SECTOR OPPORTUNITIES AND RISKS

Zero-emission commercial vehicles gearing up

According to the consultancy firm strategy&, zero-emission commercial vehicles are the future. While zero-emission lightweight commercial vehicles will be competitive in cost terms, heavy commercial vehicles will present a high TCO (total cost of ownership) risk. Even if electric alternatives with batteries and fuel cells appear promising, zero-emission technologies have so far proved unsuitable for fully replacing diesel trucks. At the same time, the manufacturers of commercial vehicles are being called upon to electrify vehicle fleets in order to comply with environmental requirements. European standards are forcing truck manufacturers to reduce fleet emissions by a minimum of 30% by the year 2030. Heavy commercial vehicles are responsible for around 66% of CO_2 emissions in road haulage in Germany alone. From a technological standpoint, the electrification of commercial vehicles with rising operating ranges, combined with a heavy laden weight, is becoming increasingly difficult. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

Reduction of fleet emissions by the year 2030 by at least 30%

The start of the production of commercial vehicles with alternative drive types and the obsolescence of combustion engines is accelerating. Consequently, strategy& anticipates that the next five years will gradually produce further opportunities for the automotive and supplier industries. Lower energy prices and the widespread uptake of particularly long-life batteries necessary in this scenario for the competitiveness of zero-emission commercial vehicles in line with the market are to be anticipated as from

Weight-reducing technologies are an essential aspect in the reduction of emissions

2025. The sale of lightweight electric commercial vehicles should achieve a significant share in the market as from 2025, and a considerable take-up of heavy zero-emission vehicles is consequently to be expected as from 2030. strategy& anticipates that more than 30% of all European trucks will be emission free by 2030. Along with electrification, the introduction of weight reducing technologies constitutes a significant aspect in lowering emissions. In the future, heavy components made of metal are to be replaced by fibre-reinforced plastic parts that are equally conducive to stability. The latter could contribute to lowering weight by up to 50%. The STS Group makes a contribution to lowering the emissions of commercial vehicles and automobiles through components designed to improve aerodynamics and reduce weight. The Company can draw on three development centres in these activities.

According to the market research company LMC Automotive, risks for the development of the global commercial vehicles and automotive market arise from uncertainty about the fiscal incentives to overcome the economic consequences of the coronavirus pandemic and in delays in the recovery of the global economy. By contrast, against the backdrop of demand rebounding quickly, risks are inherent in supply and production bottlenecks of components and disruptions to supply chains. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

Further risks result from possible changes in the new US administration, which, along with the US economy, could also impact the pace at which the electrification of vehicles in the US takes place as well as on tariffs and global trade. Upon the signing of the trade and cooperation agreement between the European Union (EU) and the United Kingdom, risks from uncertainties about the impact on trade and on the commercial vehicles and automotive markets continue to exist. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

The automobile as marking progress in individual mobility

In the past financial year 2020, the coronavirus pandemic triggered a slump in the global economy and paralysed large swathes of social life, along with companies. At the same time, people around the world changed their habits and traditions in order to avoid infection. In the mobility sector, passengers now prefer safe – and also hygienic – means of transport. Consultancy company McKinsey & Company identifies the return of car ownership as a new trend triggered by the coronavirus pandemic. While, in the past, the length of the journey, the cost and comfort were traditionally decisive factors for consumers in the choice of transportation, the most important consideration now consists of lowering the risk of infection.

Deciding in favour of an electric vehicle is one of the greatest changes in consumer preferences. According to McKinsey & Company, consumers are now convinced, contrary to earlier surveys, that traditional automobile manufacturers are well qualified to push ahead with innovations such as the electrification of mobility. The propensity to purchase electric vehicles has risen by 21% since 2019 although consumers still have concerns about batteries and charging stations, sufficient range and higher costs in comparison with vehicles equipped with combustion engines.

At the same time, technological progress in electric mobility is the most prominent in comparison to autonomous and networked vehicles and shared mobility. According to McKinsey & Company, the automotive industry will set about introducing around 600 new battery-powered and plug-in hybrid vehicles over the period up until 2025, thus significantly widening the choice for customers. Over the same period, vehicle manufacturers are likely to invest more than 120 billion USD in battery-powered vehicles, reflecting a share of 25 to 30% of the overall investment.

Changing consumer preferences and the associated drive to use private vehicles as well as technical progress in electric mobility will give rise to new opportunities and possibilities for adding value and realising profit both for vehicle manufacturers and suppliers.

OTHER RISK AREAS, MATERIAL OPPORTUNITIES AND INDIVIDUAL RISKS

RISKS

- The STS Group consistently analyses all relevant risks of the COVID-19 pandemic on its operations in order to take the necessary measures at short notice, if required. Over the past year, the STS Group had to adjust its own capacities to global demand against the backdrop of plant closures in the first wave of the pandemic at the start of 2020. No further production outages were reported, however, neither during the second COVID-19 wave as from the autumn in 2020, nor were plant closures due to more virulent mutations foreseeable in 2021 at the time when this report was being drawn up. The pandemic was largely already contained in China in the first half of 2020. Restrictions on production in Chinese locations have not been imposed nor are they anticipated in the current financial year.

  An unexpected spread of the COVID-19 pandemic with renewed plant closures contrary to expectations could have a negative impact on the STS Group's liquidity and financing situation. With the view to counteracting this scenario, the Company implemented a large number of measures over the course of the past year:
  - Additional local financing arrangements, subsidised by extensive government measures to support the economy in Europe's core market of France, in particular financing of the French subsidiaries in an aggregate amount of around 12.8 mEUR, with flexible repayment modalities,
  - Liquidity aid from customers as well as deferment of payments, such as social security contributions and various taxes, permitted under the law,
  - Flexibilisation of production in France through extensive agreements on short-time work,
  - Reduction of the cost structure through restructuring headquarters in Germany,
  - Taking out loans from Mutares SE & Co KGaA.

  The Executive Board assesses the risk as medium in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations. The Executive Board does not anticipate a threat to the Company as a going concern.

- The STS Group concludes long-term contracts (LTAs) with its customers. Over the course of these activities, obligations or commitments are made which must be fulfilled over a longer period of time or which cannot be met due to unforeseen events. In retrospect, these activities could prove to be disadvantages 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 probability of occurrence and its impact on the net assets, financial position and results of operations.

- The STS Group depends on a limited number of major customers and the relationships with them. A loss of these business relationships could have a significant, negative effect on the business activity and net assets, financial position and results of operations of the 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 probability of occurrence and its impact on the net assets, financial position and results of operations.

- The STS Group places a high priority on environmental protection. The STS Groups, 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 may 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 probability of occurrence and its impact on the net assets, financial position and results of operations.

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

- The STS Group's production is very plant-intensive and therefore associated with high fixed costs. A decrease in capacity utilisation in the plants due to a downturn in customer orders would result in rising costs and possibly in plant closures. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

- The development of negative economic and political circumstances in the main regional markets in which the STS Group operates or in which its customers use its products could have a substantial negative effect on the business activity and net assets, financial position and results of operations of the Group. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

- Through acquisitions in the past and in the future, the 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 probability of occurrence and its impact on the net assets, financial position and results of operations.

- The STS Group depends on its ability to adapt to changing technologies and new trends and on continuing to develop new products. If the STS Group is not successful in presenting new products for the automotive and truck industry in the future, it could lose its competitive edge and market shares. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

- The STS Group may be exposed to product liability claims and claims relating to specific services or defects of its products which could result in claims for damages or other claims. Furthermore, the STS Group also manufactures products to customer specifications as well as in line with performance and quality requirements. If products are not delivered on time or do not meet the agreed specifications, the STS Group may face substantial contractual penalties and rework costs. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

- The STS Group is subject to worldwide tax audits under which remit 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 the 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 may have an impact on the financial position. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the 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. Interruptions to operations may be triggered by internal or external circumstances. If the STS Group is unable to meet its contractual delivery obligations, this could have a negative impact on business and customer relationships. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

- An unexpected price increase for raw materials, components and equipment that the Group needs for the development and production of its products could result in price increases that cannot be passed onto the Group's customers or otherwise be compensated through other cost savings programmes. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

- The SCS 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 in terms of the extent of damage and probability of occurrence and its impact on the 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 behaviour on site, minimise the risk of accidents for employees. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

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

- The STS Group relies on complex IT systems and networks which may become vulnerable to damage, disruption or cyber attacks through increased hacker activity or fraud. Although the STS Group has taken precautions to manage its risks in connection with system and network disruption, security breaches or similar events, this could result in longer, unexpected disruption to its systems or networks, thereby hampering normal business operations and also leading to the loss of data and know-how of the customer, which could have a significant, negative impact on the customer's business and reputation. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

To the exception of the risk from the COVID-19 pandemic and the resulting plant closures, all risks reported in the STS Group have remained unchanged compared with the previous year. The risk of the COVID-19 pandemic, with the associated plant closures, has been assessed at high to medium this year with regard to the extent of damage and probability of occurrence and in terms of its impact on the net assets, financial position and results of operations.

OPPORTUNITIES

- New opportunities to acquire new customers or retain customers and thus realise sales growth are actively sought on an ongoing basis. The further strengthening of the product portfolio and the expansion in growth regions offer growth opportunities for the STS Group in the medium and long term.

Sales of electric vehicles on the rise

- The STS Group's return to a growth trajectory depends above all on its 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, the 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 STS Group's main target markets is increasingly influenced by a number of trends, in particular by the trends to reduce emissions and the growing concentration on e-mobility, which are primarily driven by the emission targets required in various parts of the world. The STS Group takes these trends into account through its materials which facilitate the manufacturing of lightweight products that reduce the total weight of vehicles and thus lead to lower emissions, while reducing the product costs of structural parts compared with metal products.

- The STS Group regards STS Plastics as the only provider on the market which can offer both thermosetting and thermoplastic technologies and is thus able to serve all markets for such products and even to combine both technologies into comprehensive system solutions.

- The STS Group is able to scale its batch sizes to its customers' individual requirements. The 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 the 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 these key customers reduce the number of car and truck parts they purchase. The STS Group has a strong, globally integrated business in its key markets, from which it can generate further international growth. The STS Group operates 12 sites in four countries on three continents, with large sites in the most important regional markets of Europe, China and Middle America. These facilities are strategically located near or integrated into the sequencing facilities of their large OEM customers. They enable the STS Group to provide the services and products their customers need through the use of local personnel who are qualified to operate such facilities, tailored to promptly and inexpensively cater to the needs of local customers. In addition, the STS Group is able to grow organically with its key customers and to respond better to the changing needs of its international customers as they know their situation through their proximity and understanding of their customers' business.

- Having won a major order on December 19, 2019, the STS Group will also be able to tap the US market in the future. Consequently, the STS Group can also build up its operations on the world's second largest commercial vehicles market and win market share, alongside the Chinese and European markets. Long-nose trucks established there represent huge revenue potential per vehicle for STS products. In addition, the STS Group can rely on the customer relationships already existing in Europe and turn them to its advantage in acquiring further projects in the US.

Long-nose trucks in USA represent very large sales potential

- The STS Group's experienced management team can monetize its long-standing 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-standing customer relationships of more than 20 years on average (Europe > 20 years, China >10 years and America ~10 years) underpin the Company's strong position based on a high order backlog in a fiercely competitive market environment.

FORECAST

GLOBAL ECONOMY IN RECOVERY

Recovery of the world economy in the first quarter 2021

Following the unprecedented downturn in the financial year ended, the global economy is expected to expand rapidly in 2021. According to the Kiel Institute for the World Economy (IfW), economic activity will continue to recover despite another rise in infection rates and the renewed tightening of measures to combat the pandemic. Accordingly, the recovery in the global economy should pick up momentum over the course of 2021 as the risk of infection diminishes. The framework conditions for particularly contact-intensive segments and parts of the economy still exposed to great restrictions should stage a steady return to normal levels. Having adjusted its December forecast by 0.6 percentage points, the IfW anticipates an increase in global production of 6.7% in 2021. Following an adjustment to the forecast of 0.6 percentage points, global output in 2022 is set to grow even more strongly at 4.7% than the medium-term trend and rapidly close the gap in relation to the level forecast for global production prior to the crisis.

EXPANSION BACK TO PRE-CRISIS LEVEL IN CHINA

Far advanced recovery from the pandemic-related economic slump in China

In the financial year ended, China largely recovered from the economic slump caused by the pandemic. The IfW assumes that growing employment figures and an increase in disposable income will support domestic demand in 2021. In conjunction with successful immunisation, this will boost the recovery of sectors which were particularly hard hit by the pandemic, such as the hospitality industry, retail and transport industries. Generally speaking, the total economic output of the People's Republic is expected to rise by 9.7% in the current year. In 2022, a slowdown to the level before the crisis and a production potential of 5.7% are anticipated due to the expiry of fiscal stimuli and another possible tightening of monetary and credit policy.

ECONOMIC ACTIVITY RETURNS TO NORMAL LEVELS IN THE EUROZONE

European economy expected to grow by 4.8%

Following another decline in total economic output caused by the Corona pandemic in the eurozone at the end of the past financial year, the IfW anticipates a strong recovery of 4.8% over the course of 2021. With the vaccine rollout accelerating and the ensuing control of infection rates, the extensive restrictions on social and economic activities can be gradually lifted. Economic activity which was constrained of necessity will therefore be able to rapidly pick up momentum and the pent-up buying power of private households in the past months can be released, with the commensurate impact on demand. Particularly strong growth rates are also anticipated for services and for the capital expenditure relevant to the STS Group. The economy is expected to grow by 4.3% in 2022, thereby re-attaining the pre-crisis level by the end of the year.

RECOVERY IN GERMANY PRIOR TO THE SECOND WAVE

The resurgence of the corona pandemic and the measures to contain it reintroduced in November 2020 halted the recovery of Germany's economy. With progress made in the vaccination campaign, the IfW expects burdens placed by the pandemic on the economy to ease and the economy to recover at a rapid pace. As the economic losses are expected to be considerably more strongly concentrated on consumer-oriented services sector and retail than in the previous year, the overall economic impact should therefore be reduced. Against this backdrop, the export business is expected to recover further and, with the

availability of an effective vaccine, companies should therefore cease postponing larger investments. Following a positive adjustment of 0.7 percentage points compared with its December forecast, the IfW expects Germany's gross domestic product to rise by 3.8% in 2021. Provided that measures to contain the pandemic are sustainably effective, a strong recovery with a significant increase in the gross domestic product of 4.8% is set to materialise over the course of the year in 2022.

SECTOR FORECAST

According to the German Association of the Automotive Industry (VDA), the signs generally point to recovery in 2021. Commercial vehicle markets in Europe and the in US are expected to grow by around 15.0% respectively but will therefore be unable to compensate for the declines in the previous year. The VDA anticipates a substantial market correction in China in 2021, with a downturn of around 25.0%, representing a decline of around 4.0% in the global commercial vehicle market. Adjusted for the market correction in China, an increase in global sales of around 19.0% is nevertheless anticipated. Given the very strong momentum on the Chinese market at present, the STS Group expects a normalisation in the market in the second half of the year. By comparison, the STS Group is also seeing the take-up of customers at a sustained high level in the first half of 2021 and, based on experience of strong order intake in the past years, continues to anticipate that it will be able to develop contrary to the general market trend in the full year 2021 as well.

It can be assumed that 2021 will see a similar improvement in the market for lightweight vehicles and cars although the previous year's declines will not be fully offset. While the Chinese market is set to exceed the pre-crisis level with a growth of around 8.0% in 2021, the international markets will be only slow to recover. According to the VDA, Europe will see growth of approximately 12.0% and the US of around 9.0%. All in all, sales in the global market for light vehicles and cars are expected increase by around 9.0%.

GROUP FORECAST FOR 2021, ACHIEVEMENT OF THE 2020 FORECAST

Expectations for an extremely challenging market environment for the STS Group in the 2020 financial year were based on developments in Europe, North and America in the first six months against the backdrop of the COVID-19 pandemic. As from mid-March 2020, STS plants in these regions were closed or production significantly scaled back. The plants were only able to resume production at the and of April. The further impact of COVID-19 on these markets could not be reliably assessed at the time, and the Executive Board was only in a position to issue a comparative forecast. This development was also affirmed in the context of publishing the figures for the first six months.

In this environment, the Executive Board assumed that revenues in the financial year 2020 would fall considerably short of the previous year. Extensive measures for reducing costs had already been introduced. A declining adjusted EBITDA margin was nevertheless anticipated for the STS Group.

The Executive Board specified its forecast for the STS Group on November 17, 2020, indicating that customer take-up had already increased by the third quarter to the level seen at the end of the previous year. Strong growth in the China segment was also expected to hold steady in the fourth quarter. Finally, the sale of the loss-making Acoustic segment, completed at the end of October, was also considered. This forecast was subject to the assumption that no further significant restrictions due to COVID-19 would be imposed on the general development of business.

Accordingly, the Executive Board provided firm guidance:

- Decline in revenues of between – 16.0% (305 mEUR) and – 14.0% (312 mEUR) (excluding the Acoustics segment: – 8.0% (231 mEUR) to – 5.1% (238 mEUR) compared with the previous year (2019: 363 mEUR, excluding the Acoustics segment: 251 mEUR)
- Adjusted EBITDA margin of 4.0 to 4.8% (2019: 4.9%)

With revenues of 308.1 mEUR and a decline of 15.1%, along with an adjusted EBITDA margin of 4.0%, the results settled within the announced range.

For the financial year 2021, the Executive Board anticipates organic revenue growth in the scale of around 10% and an adjusted EBITDA margin in the high single-digit percentage range. Special expenses are not planned for the financial year so that adjusted EBITDA will equate to EBITDA. This assumption is based on the Chinese business remaining at the strong level of 2020. On the one hand, the market is expected to normalise in the second half of the year while, on the other, order intake should remain at a high level. In Europe, the commercial vehicle market is expected to continue its steady recovery over the course of the year. In addition, STS will continue to display flexibility in adjusting production to OEM requirements and market events.

General Risk Disclaimer

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

REPORT ON EVENTS AFTER THE END OF THE REPORTING PERIOD

As announced on March 11, 2021, Mutares SE & Co. KGaA signed a share purchase agreement with Adler Pelzer Holding GmbH, a member company of the Adler Pelzer Group ("Adler Pelzer Group"), for the sale of its majority holding of around 73.25% in the share capital of STS Group AG to the Adler Pelzer Group. According to Mutares SE & Co. KGaA, a purchase price of EUR 7.00 EUR was agreed per share sold of the STS Group AG. Based on Mutares SE & Co. KGaA's notification, the Adler Pelzer Group also undertakes to guarantee the settlement of all loans granted to STS Group AG by SE & Co. KGaA to STS Group AG as of December 31, 2021. According to Mutares SE & Co. KGaA, the transaction is still subject to the approval of the Adler Pelzer Group's funding entity and of the anti-trust authority. Mutares SE & Co. KGaA anticipates that the transaction is likely to be completed in the first half of 2021.

TAKEOVER-RELATED DISCLOSURES

ACCORDING TO SECTION 289 A AND SECTION 315 A OF THE GERMAN COMMERCIAL CODE (HGB)

As a publicly traded company whose voting shares are listed on a regulated market pursuant to Section 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG), the STS Group AG is required to make the disclosures stipulated under Sections 289a and 315a of the German Commercial Code (HGB) in its management report or Group management report. This information is intended to allow third parties which are interested in taking over a public company to gain an impression of the company, its structure and potential obstacles to a takeover.

COMPOSITION OF SUBSCRIBED CAPITAL

STS Group AG's subscribed capital amounted to 6,500,000.00 EUR on December 31, 2020 (December 31, 2019: 6,000,000.00 EUR) and was divided into 6,500,000 no-par value bearer shares each with a notional interest in the share capital of 1.00 EUR. Under partial utilisation of Authorised Capital 2018/I, STS Group AG resolved on September 11, 2020 to raise the share capital by 500,000 EUR to 6,500,000 EUR by issuing 500,000 new shares against cash contribution to the exclusion of subscription rights. Mutares SE & Co. KGaA was solely authorised to subscribe to and take over the new shares. Based on an issue amount of 3.00 EUR per share, STS Group AG therefore received gross issuing proceeds totalling 1,500,000 EUR.

Pursuant to Section 5 (2) of STS Group AG's Articles of Association, shareholders are not entitled to securitisation of their shares to the extent that this is legally permissible and securitisation is not required in accordance with the rules of the 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. Entry into 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 arise from the provisions under AktG, in particular from Sections 12, 53a ff., 118 ff. and 186 AktG.

As of December 31, 2020, the Company had 50,000 treasury shares.

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

Each share grants one vote at the General Meeting in accordance with Article 21 (1) of the Articles of Association of STS Group AG and determines the shareholders' interest in the net profit of STS Group AG in accordance with Article 24 (2) of the Articles of Association. This does not apply to the treasury shares held by STS Group AG which do not confer any rights upon STS Group AG. Restrictions on the voting rights attached to shares may arise, in particular, from the provisions under German stock corporation law, such as Section 136 AktG. Breaches of the disclosure obligations set out in Sections 33 (1), 38 (1) and 39 (1) of the German Securities Trading Act (WpHG) may mean the suspension, at least temporarily, of the rights attached to the shares and the voting rights in accordance with Section 44 WpHG. STS Group AG is not aware of any contractual restrictions on voting rights.

The shares of the Company are freely transferable in accordance with the statutory provisions concerning 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 WHICH EXCEED 10.0% OF THE VOTING RIGHTS

As of December 31, 2020, 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), most recently announced on July 24, 2019 that it held 65.1% of the voting rights in STS Group AG. There are no further voting rights notifications of Mutares SE & Co. KGaA as no new relevant thresholds were exceeded or fallen short of. Beyond this, STS Group AG has not been notified and is not otherwise aware of any other direct or indirect holdings in the Company's capital which reach or exceed the threshold of 10% of the voting rights.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROLLING POWERS

No shares with special rights conferring controlling powers were issued.

CONTROL OF VOTING RIGHTS IN THE EVENT OF EMPLOYEE PARTICIPATION

Insofar as STS Group AG has issued or issues shares to employees under employee share option plans, these shares are transferred to the employees directly. The beneficiary employees may exercise the control rights to which they are entitled from the employee shares directly in the same way as other shareholders in accordance with the statutory provisions and the Articles of Association.

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

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

Amendments to the Articles of Association require a resolution by the Annual General Meeting in accordance with Sections 119 (1) item 5 and 179 AktG. The authority to amend the Articles of Association which only affect the wording is assigned to the Supervisory Board pursuant to Section 179 (1) sentence 2 AktG in conjunction with Article 12 (4) of the STS Group AG's Articles of Association. In addition, the Supervisory Board was authorised by way of resolution passed by the Annual General Meeting of July 14, 2018 to amend Section 4 of the Articles of Association in accordance with the respective utilisation of the Authorised Capital 2018/I and the Conditional Capital 2018/I and after the respective authorisation period has expired.

Resolutions of the Annual General Meeting require a simple majority of the votes cast and, if a majority of the capital is required, a simple majority of the share capital represented at the time of the resolution, unless a larger majority is required by law (Article 21 (2) of the Articles of Association of STS Group AG). Accordingly – in derogation of Section 179 (2) sentence 1 AktG – resolutions of the Annual General Meeting amending the Articles of Association also require a majority of the share capital represented at the time of the resolution in addition to a simple majority of the votes cast, unless a larger majority

is required by law. Furthermore, Article 21 (2) of STS Group AG's Articles of Association of specifies that – in derogation of Section 103 (1) sentence 2 AktG – a majority of the votes cast suffices for the dismissal of members of the Supervisory Board.

AUTHORITY OF THE EXECUTIVE BOARD TO ISSUE OR BUY BACK SHARES

a) Authorized Capital 2018/I

By way of resolution passed by the annual General Meeting of May 3, 2018, the Executive Board is authorised, with the approval of the Supervisory Board, to raise the share capital on or before May 2, 2023 by up to 2,000,000.00 EUR (2019: 2,500,000.00 EUR) once or several times by issuing up to 2,000,000 (2019: 2,500,000) new no-par value bearer shares against cash and/or contributions in kind ("Authorised Capital 2018/I"). On September 11, 2020, STS Group AG resolved to raise the share capital under partial utilisation and reduction of the Authorised Capital 2018/I by 500,000 EUR, to 6,500,000 EUR by issuing 500,000 new shares against cash contribution to the exclusion of subscription rights. Shareholders are to 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 subscription rights to new no-par value bearer shares in the Company to bearers and holders 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 are entitled to exercise the option or conversion rights or after fulfilment of conversion or option obligations as shareholders;
(iii) for the issuance 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 within the meaning of Sections 203 (1) and (2), 186 (3) sentence 4 of the German Stock Corporation Act (AktG) and which is based on the exclusion of subscription rights pursuant to Section 186 (3) sentence 4 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 the company, participations in companies or other assets or for servicing bonds issued against contributions in kind.

Further details can be found in the authorisation resolution and in Article 4 (5) of STS Group AG' Articles of Association.

b) Conditional Capital 2018/I

By way of resolution passed by the Annual General Meeting of May 3, 2018, the share capital of the Company was contingently increased by up to 2,000,000.00 EUR through issuing up to 2,000,000 new no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR (Contingent Capital 2018/I). Contingent Capital 2018/I serves to grant shares when options or conversion rights are exercised or upon fulfilment of option or conversion obligations to the bearers or holders of convertible bonds, bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) issued in accordance with the authorisation resolution of the Annual General Meeting of May 3, 2018. Further details can be found in the authorisation resolution and in Article 4 (3) of STS Group AG's Articles of Association.

c) Conditional Capital 2018/II

By way of resolution passed by the Annual General Meeting of May 3, 2018, the share capital of the Company was contingently increased by up to 500,000.00 EUR through issuing up to 500,000 new no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR ("Contingent Capital 2018/II"). Contingent Capital 2018/II will only be utilised to the extent that subscription rights are issued under the 2018 stock option plan in accordance with the resolution of the Annual General Meeting of May 3, 2018, these subscription rights are exercised by the holders and the Company does not grant treasury shares in fulfillment of the subscription rights. The total volume of subscription rights is distributed among the authorised groups of persons in accordance with these rules:

- 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 authorisation resolution and in Article 4 (4) of STS Group AG's Articles of Association.

d) Share buyback

The Executive Board of STS Group AG is authorised to buy back shares of the Company and to sell repurchased shares in the cases regulated by Section 71 of the German Stock Corporation Act (AktG). By way of resolution passed on May 3, 2018, the Annual General Meeting authorised the Executive Board, with the approval of the Supervisory Board, to acquire the Company's own shares amounting to up to 10% of the share capital of the Company at the time when the resolution is passed or – if this value is lower – of the Company's share capital at the time when the authorisation is utilised in the period up until May 2, 2023. The shares acquired pursuant to this authorisation, together with other treasury shares of the Company which the Company has acquired and still owns, or which it has acquired in accordance with Section 71a ff. 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 a public invitation to shareholders to submit sales offers.

The Executive Board was also authorised by way of resolution passed by 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 retracted and the Company's share capital may be reduced by the portion of the share capital attributable to the retracted shares.
(ii) They may be offered to third parties in exchange for non-cash contributions and transferred to such parties.
(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 than 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 attributable to the number of shares sold under this authorisation may not exceed 10%.
(iv) They may be used to service purchase obligations or rights for shares of the Company arising from and in connection with convertible bonds, bonds with warrants or profit participation rights with conversion rights or warrants issued by the Company or one of its subsidiaries.

Further details can be found in the authorisation resolution.

The Executive Board was also authorised by way of resolution passed by the Annual General Meeting of May 3, 2018, with the consent of the Supervisory Board, to purchase treasury shares amounting to up to 5% of the share capital at the time when the resolution is passed through the use of derivatives (put or call options or a combination of both). The term of the options must be selected in such a way that the acquisition of shares by exercising the options takes place no later than May 2, 2023. In analogous application of Section 186 (3) sentence 4 AktG, shareholders are not entitled to conclude such option transactions with the Company. Further details can be found in the authorisation resolution.

MATERIAL AGREEMENTS CONDITIONAL UPON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

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

COMPENSATION AGREEMENTS CONCLUDED WITH MEMBERS OF THE EXECUTIVE BOARD OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

No compensation agreements with the Executive Board have been entered into in the event of a change of control.

REMUNERATION REPORT

The following remuneration report describes the basic components of the remuneration system for the Executive Board and the Supervisory Board in the 2020 financial year. In accordance with the resolution passed by the Annual General Meeting of July 14, 2020, an individual disclosure of Executive Board member remuneration was waived with the approval of the Annual General Meeting to the extent permitted under the law. This applies to the financial year 2020.

REMUNERATION STRUCTURE FOR EXECUTIVE BOARD MEMBERS

The remuneration of Executive Board members is designed to ensure that such remuneration is competitive in the market for highly qualified executives and offers incentives for successful and sustainable work in a corporate structure with a concerted focus on performance and results. At the request of the Company, Executive Board members also assume board functions in affiliated companies or resign from them. If an Executive Board member receives remuneration for serving on the executive bodies of third-party enterprises, this is shown separately below.

Executive Board remuneration is presented in accordance with two different sets of rules: firstly, in accordance with the recommendations of the German Corporate Governance Code (GCGC) as amended on December 16, 2019, and secondly in accordance with the German Commercial Code (HGB), taking account of the applicable accounting policies (DRS 17).

MAIN FEATURES OF THE REMUNERATION SYSTEM

The applicable remuneration system consists of fixed and variable components. The variable components comprise both short-term and long-term objectives.

The Supervisory Board reviews the Executive Board's remuneration system at regular intervals and draws up proposals for improving or amending it, if applicable. The Supervisory Board carefully considers these recommendations, takes them as a basis for its decisions and decides in plenum.

The remuneration system differentiates between Executive Board members' secondment by majority shareholder Mutares SE & Co. KGaA and external members. Consequently, the remuneration system rests on two different pillars.

REMUNERATION SYSTEM OF THE STS GROUP AG

Seconded Executive Board Members	External Board Members
Patrick Oschust (until May 31, 2020) **Mathieu Purrey** (from July 3, 2020)	**Andreas Becker** (until June 30, 2020) **Dr. Ulrich Hauck** (until June 20, 2020)
1. Remuneration system of the Mutares Group 2. Charging on costs in the course of a Management Service fee	1. Fixed renumeration 2. Benefits 3. One-year variable remuneration
Multi-annual variable remuneration	
D&O insurance	

In the period under review, the Mutares Group seconded Patrick Oschust (until May 31, 2020) and Mathieu Purrey (as from July 3, 2020) to serve on the Executive Board of STS Group AG.

The remuneration structure applicable to Executive Board members seconded by the Mutares Group is regulated in the context of a consulting service agreement.

The Supervisory Board of STS Group AG is involved in defining Executive Board member service agreements and in drawing up consulting service agreements for seconded Executive Board members. Moreover, the Supervisory Board monitors any conflicts of interest which could arise in connection with individual relationships with Mutares SE & Co. KGaA. In order to avoid conflicts of interest, the assumption of an Executive Board function at STS Group AG is conditional upon ceasing to perform functions within the Mutares Group.

The two pillars of the remuneration system take account i.a. of the tasks and services of the respective Executive Board member and the Executive Board as a whole, achieving the corporate targets, the size and international nature of the Company, its economic and financial situation, its future prospects, the economic environment, the size and structure of peer companies and the remuneration structure otherwise applicable to the STS Group.

The Supervisory Board also monitors the development of Executive Board remuneration compared with other enterprises and compared with the remuneration structure otherwise applicable in the STS Group.

The aim of the remuneration system is to make a contribution to the sustainable and long-term development of the Company. Against this backdrop, multi-year variable remuneration components are an integral part of the remuneration system.

This structure of the Executive Board remuneration enables the Company to respond flexibly and quickly to changes in the business environment.

CHANGES AT EXECUTIVE BOARD LEVEL

Appointments to the Executive Board and any Executive Board contracts of employment are prepared by the Supervisory Board of STS Group AG, negotiated with the respective Executive Board member and concluded following approval by the entire Supervisory Board.

The following changes at Executive Board level took place in the reporting year:

- Mr. Mathieu Purrey was appointed to the Executive Board on July 3, 2020 for a period of three years, thereby fulfilling the recommendation of the GCGC in respect of the first-time appointment of an Executive Board member.
  There is no separate Executive Board service agreement with STS Group AG. Mathieu Purrey has been seconded by Mutares SE & Co. KGaA as an Executive Board member.
- Mr. Patrick Oschust laid down his office as of May 31, 2020. After this date, the Company had no further remuneration obligations in the context of paying a management service fee.
- Dr. Ulrich Hauck laid down his office as of June 20, 2020, which also marked the termination of the existing service agreement. After this date, the Company no longer had any obligations for further remuneration or benefits.
- Mr. Andreas Becker withdrew from the Company's Executive Board, effective June 30, 2020. The Supervisory Board reached a mutual agreement on the cancellation of the existing service agreement with Mr. Becker as of July 14, 2020.

REMUNERATION SYSTEM

CONSULTING SERVICE AGREEMENT FOR SECONDED EXECUTIVE BOARD MEMBERS

The Executive Board members seconded by the Mutares Group do not have an Executive Board service agreement with STS Group AG. The contractual terms and conditions of employment and service agreements with the Mutares Group apply to these Executive Board members.

A separate consulting service agreement between Mutares SE & Co. KGaA and STS Group AG regulates the terms and conditions and the amounts charged to STS Group AG.

The terms and conditions of the consulting service agreement are reviewed once a year. In this review, the Supervisory Board takes account of the extent to which the Company has achieved its corporate targets in the respective financial year.

FIXED REMUNERATION FOR EXTERNAL EXECUTIVE BOARD MEMBERS

The fixed remuneration consists of a cash payment pertaining to the current financial year, which is geared to the portfolio of responsibilities assigned to the respective Executive Board member and is paid retrospectively in twelve equal monthly installments at the end of the month.

BENEFITS FOR EXTERNAL EXECUTIVE BOARD MEMBERS

Executive Board members' taxable fringe benefits consist in particular of providing official accommodation at the Company's registered office, company cars as well as subsidised insurance.

ONE-YEAR VARIABLE REMUNERATION FOR EXTERNAL EXECUTIVE BOARD MEMBERS

The short-term variable remuneration usually consists of a bonus (annual bonus). Its amount is individually capped for the individual Executive Board members and the actual amount is determined by the Supervisory Board before the respective annual financial statements are approved.

In this task, the Supervisory Board takes account of the extent to which the Company has achieved its corporate targets in the respective financial year. The Board sets these corporate targets at its discretion no later than the beginning of each financial year. The bonus is due for payment the following month after it has been determined.

MULTI-ANNUAL VARIABLE REMUNERATION

STS LONG TERM INCENTIVE BONUS („LTI")

STS Group AG ("STS") grants Mr. Andreas Becker a remuneration component based on a multi-year variable component as defined under a performance bonus plan.

Mr. Becker receives variable remuneration (performance bonus) after the end of each financial year. The amount of the performance bonus is based on STS achieving certain objectives which depend on the share price performance and the fulfilment of the strategic medium-term planning and are explained in detail below. The following components are relevant for assessing the performance bonus:

Achievement of Performance Target 1 ("outperfomance components"):

- In order to determine Performance Target 1, the share price performance of STS ("STS share") is compared with the development of the DAX Auto Parts & Equipment subsector or a corresponding successor 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%, Performance Target 1 is not achieved. If the performance relative to the index is 90%, Performance Target 1 is achieved at 80%. If the performance relative to the index is 105%, Performance Target 1 is achieved at 100%. If the performance relative to the index is 150% or higher, the achievement rate of Performance Target 1 is capped at 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 aforementioned scheme.
  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 of a successor system which takes the place of the XETRA system) on the last 30 trading days before the start and end of the performance period.

Achievement of Performance Target 2 ("EPS component"):

- "Adjusted Earnings Per Share" are used to determine Performance Target 2. The performance period runs for 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 to determine the target value, the targets for the future financial years are 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 performance relative to the index is less than 80%, Performance Target 2 is not achieved. If achievement is 80%, Performance Target 2 is achieved at 80%. If achievement is 100%, Performance Target 2 is achieved at 100%. If the performance in relation to the index is between the points shown of at least 80% and a maximum of 150%, the achievement of the objective is determined by linear interpolation between these points as a continuation of the aforementioned scheme. If achievement is 150% or higher, a cap of 200% is applied.

Payment of LTI

- The net amount of the LTI determined after 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 the STS Group AG share in Xetra trading on Deutsche Börse.
- To ensure compliance with the holding obligation, a lockdown is placed in the securities account of the beneficiary.
- In the 2020 financial year, no expenses were recorded under the LTI programme and no disbursement was made to the Executive Board (2019: kEUR 153). Upon dismissal of Executive Board members, all claims under the LTI programme expire. The Company's current Executive Board is not affected by this remuneration component.

STS SHARE OPTION PLAN 2018

The share option program 2018 (Conditional Capital 2018/II of STS Group AG) is part of the Executive Board's variable compensation geared to sustainably positive corporate development, with a focus on a transparent and comprehensible system.

The compensation component is aimed at increasing the share's market price. The performance target for exercising subscription rights granted is reached when the Company's closing share price exceeds the market price of the STS Group share by a percentage specified in advance on the day the respective subscription rights are allocated on a total of 60 trading days in a period of twelve months following the granting of the respective subscription rights.

The option holders must be in an active permanent employment relationship with the STS Group or a company affiliated with it at the time the subscription rights are exercised. The vesting period for exercising an option for the first time amounts to four years from the date on which the options were allocated. Once the vesting period has expired, all options for which the performance target has been achieved can be exercised within the next three years respectively.

Subscription volume and term

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

No allocations from the STS share option plan 2018 were made in the 2020 financial year.

As of December 31, 2020, the maximum contractual term of the individual options still amounted to four and a half years.

Subscription rights entitlement for former Executive Board members

Upon dismissal of an Executive Board member, all personal subscription preconditions and option rights under the share option plan expire.

MUTARES SHARE OPTION PLAN 2016 AND 2019

The Mutares Share Option Plan 2016 and the Share Option Plan 2019 are aimed at employees and senior executives of Mutares SE & Co KGaA and its affiliated companies, and therefore also apply to STS Group AG's Executive Board members.

The share options can be exercised for the first time after a vesting period of four years from the respective issue date. Moreover, a special precondition that the average, volume-weighted share price of the Mutares share has exceeded the exercise price by a specific percentage during the last 20 trading days before the beginning of the respective exercise period also counts for exercising the share options. A share option has a term of six years from its respective issue date. Thereafter, share options that have not been effectively exercised will lapse without compensation. A limit is set in advance for the total amount of share options for the members of the management of Mutares Group companies over the term of the option plan.

Upon dismissal as an Executive Board member, all personal exercise preconditions and option rights under this share option plan expire. Consequently, the 45,000 options still existing as of December 31, 2019 have expired without compensation.

Allocations

Under this share option plan, the current Executive Board members were granted 15,000 options from Share Option Plan 2019 in the 2019 financial year and 16,000 options in the 2020 financial year.

MUTARES PARTICIPATION BONUS

The members of the Executive Board are also entitled to a "participation bonus", the costs of which are borne solely by former sole shareholder Mutares AG.

As part of the agreement, the Executive Board members receive individual percentage rates of the net proceeds generated for Mutares SE & Co. KGaA from its investment in the STS Group.

Net proceeds are calculated as the difference between the investment proceeds and the cost from the investment. Investment proceeds specifically include dividend payments and transaction proceeds.

Executive Board members entitled to the Mutares Participation Bonus:

- Mr. Oschust receives 1.2% of the net proceeds generated for Mutares SE & Co. KGaA from its investment in the STS Group.
- **Up until June 20, 2020:** Dr. Hauck receives 2% of the net proceeds generated for Mutares SE & Co. KGaA from its investment in the SCS Group.
- **Up until June 30, 2020:** Mr. Becker receives 2.4% and 2.8% (from future investments as from April 1, 2019) of the net proceeds generated for Mutares SE & Co. KGaA from its investment in the STS Group.

Any payments to Executive Board members are made on a quarterly basis. No participation bonus was paid out to Executive Board members in the period under review. Upon dismissal of Executive Board members, any obligations arising from the participation bonus have partly expired. The Company's current Executive Board is not affected by this remuneration component.

D&O INSURANCE

The members of the Executive Board are insured by the Company through a financial loss liability insurance (D&O insurance) with a standard amount of cover.

PENSION

The contracts of the Company's Executive Board members do not include a pension commitment.

LIMIT ON SEVERANCE PAYMENTS

The Supervisory Board has agreed a fixed severance package in accordance with the recommendations of the German Corporate Governance Code.

In the event of and Executive Board member's contract of employment being terminated without good cause, a severance payment of a specific amount has been agreed in compensation for a post-contractual non-competition agreement. The agreed payment does not exceed the value of two years' fixed compensation (severance cap). A cap on severance payment depending on the remaining term of their employment contracts has been agreed in the contracts in accordance with the recommendations of the German Corporate Governance Code.

The severance agreement shall not apply if the contract of employment is terminated at the request of the respective Executive Board member or for an important reason for which he is responsible.

In the reporting period, severance payments amounting to 1.23 mEUR were paid to former Executive Board members.

AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL

In the event of a change of control, Mr. Becker had a non-recurrent special right to terminate his employment contract with a period of notice 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 Mr. Becker having become aware of a change of control.

When exercising the special right of termination, Mr. Becker is entitled to a severance payment determined identically to the severance.

No special agreements applied to the other Executive Board members in the event of a change of control.

LOANS TO EXECUTIVE BOARD MEMBERS

No loans or advances were granted to Executive Board members of STS Group AG, neither in the 2020 financial year nor in the prior year. Contingencies in their favor were not entered into either.

CLAWBACK MECHANISM

No clawback mechanism was contractually agreed for former external Executive Board members.

The structure of the remuneration system, which includes a consulting service fee to be paid, replaces an individual clawback mechanism as the amount of remuneration here can be individually adjusted in application of specific criteria.

Moreover, the terms and conditions of the consulting service contract are reviewed once a year. In this task, the Supervisory Board takes account of the extent to which the Company has achieved its corporate targets in the respective financial year and the individual performance of the respective Executive Board member. This contractual arrangement gives the Company considerably more flexibility in responding to a change in the Company's situation.

GENERAL PRESENTATION OF REMUNERATION PAID IN THE REPORTING PERIOD

Inter alia, the table shows the short-term and multi-year variable remuneration granted. The minimum and maximum amounts achievable are also indicated. In the absence of any agreement on pensions, the pension-related expense is included in the total remuneration with a value of EUR 0.

BENEFITS GRANTED

	Total			
in kEUR	2020	2020 (min)	2020 (max)	2019
Fixed compensation	509	509	509	898
Fringe benefits	34	34	34	62
Total	**544**	**544**	**544**	**960**
Severance payments	1,230	1,230	1,230	0
Annual variable compensation	188	100	455	581
Multi-annual variable compensation	3	0	0	198
Share based LTI	0	0	0	153
Share based payment (mutares AOP 2016)	3	0	0	25
Share Option Plan 2018	0	0	0	21
Total	**1,421**	**1,330**	**1,685**	**779**
Pension commitment	0	0	0	0
Total compensation	**1,965**	**1,874**	**2,229**	**1,739**

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

The inflow for the fixed annual salary, fringe benefits, short-term variable remuneration and multi-year variable remuneration in or for financial year 2020 is shown in the following table.

INFLOW

	Total	
in kEUR	2020	2019
Fixed compensation	509	898
Fringe benefits	34	62
Total	**544**	**960**
Severance payments	1,230	0
Annual variable compensation	395	398
Multi-annual variable compensation	0	0
Share based LTI	0	0
Share based payment (mutares AOP 2016)	0	0
Share Option Plan 2018	0	0
Total	**1,625**	**398**
Pension commitment	0	0
Total compensation	**2,169**	**1,358**

EXECUTIVE BOARD REMUNERATION ACCORDING TO THE GERMAN COMMERCIAL CODE (HGB)

The total emoluments of the Executive Board in accordance with Section 314 (1) item 6a sentence 1 to 4 HGB are shown in the following overview. The information on the share option plan reflects the fair value on the grant date.

HGB

	Total	
in kEUR	2020	2019
Short-term compensation		
Fixed compensation	544	960
Severance costs	100	0
Variable performance-related compensation	430	269
Total	**1,074**	**1,229**
Long-term compensation		
Long-term performance-related compensation	3	198
Total	**3**	**198**
Total compensation	**1,077**	**1,427**

The emoluments of former Executive Board members in the financial year according to Section 314 (1) item 6b sentence 1 to 2 HGB amounted to 1,230 kEUR in the period under review and pertained to severance costs.

REMUNERATION STRUCTURE FOR SUPERVISORY BOARD MEMBERS

Article 15 of STS Group AG's Articles of Association regulates the Supervisory Board's remuneration. The Annual General Meeting decides on the level of compensation. This last took place on July 14, 2020.

As from July 1, 2020, each regular member of the Supervisory Board receives remuneration of 25,000.00 EUR for each full financial year of service on the Supervisory Board. As of June 30, 2020, the fixed remuneration for Supervisory Board membership stood at 50,000.00 EUR.

In accordance with the resolution passed by the Annual General Meeting of July 14, 2020, the fixed remuneration for the Chairman of the Supervisory Board was reduced to 50,000.00 EUR (up until June 30, 2020: 100,000.00 EUR) and for the Deputy Chairman to 37,500.00 EUR (up until June 30, 2020: 75,000.00 EUR). The fixed remuneration applies to each full financial year of serving on the Supervisory Board.

In adjusting the remuneration structure at Supervisory Board level, the Company is responding to the financial impact of the COVID-19 pandemic on the Company.

The Supervisory Board did not form any committees in the reporting year. In view of the size of the Supervisory Board, namely three members, the Company does not consider this necessary.

The Supervisory Board members are included in a third party financial loss insurance policy for Board members (D&O insurance) maintained in the interests of the Company.

REMUNERATION OF THE SUPERVISORY BOARD

In the 2020 financial year, the Supervisory Board's actual fixed remuneration amounted to 168 kEUR in total (prior year: kEUR 225). The change in the remuneration system for the Supervisory Board as well as changes at Supervisory Board level were taken into account on a pro rata basis.

The overall remuneration of the Supervisory Board is distributed among the individual members as follows:

EMOLUMENTS OF THE SUPERVISORY BOARD

	Dr. Wolf Cornelius Chairman of the Supervisory Board since June 22, 2020		**Dr. Wolfgang Lichtenwalder** Deputy Chairman of the Supervisory Board since June 22, 2020		**Robin Laik** Chairman of the Supervisory Board until June 20, 2020		**Dr. Kristian Schleede** Deputy Chairman of the Supervisory Board until June 20, 2020		**Bernd Maierhofer** Member of the Supervisory Board		**Total**	
in kEUR	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Compensation	28	0	21	0	47	100	35	75	38	50	168	225
Other benefits	0	0	0	0	0	0	0	0	0	0	0	0
Total	**28**	**0**	**21**	**0**	**47**	**100**	**35**	**75**	**38**	**50**	**168**	**225**
Pension commitment	0	0	0	0	0	0	0	0	0	0	0	0
Total compensation	**28**	**0**	**21**	**0**	**47**	**100**	**35**	**75**	**38**	**50**	**168**	**225**

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

In accordance with Section 3.10 of the GCGC, STS Group AG reports on the working methods of the Executive and Supervisory boards in the corporate governance report. The corporate governance report also includes the declaration on corporate governance pursuant to Section 289F of the German Commercial Code (HGB) and Section 315D HGB and is publicly available at https://www.sts.group/investor-relations/corporate-governance

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

In January 2021, the Executive Board and Supervisory Board of STS Group AG issued the declaration required under Section 161 of the German Stock Corporation Act (AktG) and made it 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 reasonable consideration in each transaction listed in the report on relationships with affiliated companies for the reporting period from January 1 to December 31, 2020 in accordance with the circumstances known to us at the time when the transactions were carried out or not. Other measures were not taken or omitted during the period under review at the instigation of or in the interest of a dominant company or a company associated with a dominant company.

NON-FINANCIAL DECLARATION

STS Group AG fulfils its obligation to make a non-financial declaration (NFD) in accordance with Sections 315b, 289b HGB by publishing a separate non-financial Group report on the STS Group AG website at https://www.sts.group/investor-relations/publications.

In addition to a description of the business model, the NFD also includes information on the following aspects insofar as they are relevant for the understanding of the course of business, the results of business, the position of the Group and the impact of 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 reporting on the STS Group, we provide explanations on the development of STS Group AG below.

STS Group AG is the parent company of the STS Group and carries out the corresponding management and head office functions. Following the process of restructuring, which took place in the 2020 financial year, many tasks were assigned to the local units. In future, STS Group AG will assume significant general responsibilities such as groupwide finance and accounting, the provision of management and services in the areas of acquiring and selling companies and strategic corporate development, as well as global corporate and marketing communication. STS Group AG holds shares in eight companies, directly or indirectly. As of December 31, 2020, four employees (2019: 34) were employed by STS Group AG. The decline is attributable to restructuring headquarters. The economic conditions of STS Group AG were essentially in line with those of the STS Group as described in the background information on the Group 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 complete annual financial statements are published separately at https://www.sts.group/investor-relations/publications.

With regard to STS Group AG, revenues from management and service fees and income from dividend payments by the subsidiaries constitute the key performance indicators.

RESULTS OF OPERATIONS

The **economic situation** of STS Group AG is mainly influenced by the operating activities of its subsidiaries. STS Group AG participates in the operating results of its subsidiaries through their dividend distributions. As such, the economic situation of STS Group AG is essentially that of the STS Group, which is explained in the economic report.

INCOME STATEMENT OF STS GROUP AG IN ACCORDANCE WITH HGB

in kEUR	2020	2019
Revenues	4,067	5,969
Other operating income	15,357	1,770
Personnel expenses	– 4,913	–4,680
Amortization of intangible assets and depreciation of tangible assets	– 112	–1,034
Other operating expense	– 10,157	–10,290
Income from equity investments	0	3,193
Other interest and similar income	304	465
Write-downs on financial assets	– 12,944	0
Other interest and similar expense	– 219	– 253
Taxes on income	– 45	–141
Profit after taxes on income	**– 8,662**	**–5,001**
Other taxes	– 1	– 2
Net loss for the year	**– 8,663**	**–5,003**
Retained accumulated losses/profits carried forward	– 9,278	–4,275
Withdrawal of the capital reserve	17,942	0
Accumulated losses carried forward	**0**	**–9,278**

In the 2020 financial year, **revenues** declined to 4,067 kEUR (2019: 5,969 kEUR) due to lower levies for management and corporate services charged to the subsidiaries.

Other operating income increased by 13,587 kEUR to 15,357 kEUR (2019: 1,770 kEUR) and is attributable in an amount of 12,771 kEUR to the disclosure of hidden reserves in connection with the business combination between a direct subsidiary absorbed by indirect subsidiary in the reporting year. In this context, a direct subsidiary of the Plastic segment was combined with an indirectly operating subsidiary of SDS Group AG. In the process, the respective option was exercised and the fair value of the shares was recognised. Moreover, other operating income includes the passing on of expenses to the subsidiaries, cost reimbursement by Mutares SE & Co. KGaA, the clearing of other non-cash receipts for private motor vehicle use and income from currency translation.

A counter trend emanated from severance costs in the context of lower personnel costs from reducing personnel at company headquarters in Hallbergmoos. **Personnel expenses** therefore rose by 233 kEUR to 4,913 kEUR in the financial year 2020 (2019: 4,680 kEUR). The Company is therefore adjusting to the streamlined Group structure and is realigning itself with a decentralised structure. The number of employees declined from 34 as of December 31, 2019 to four employees as of December 31, 2020.

Other operating expenses remained virtually unchanged at 10,157 kEUR (2019: 10,290 kEUR). This reflects the decline in legal and consulting costs, along with expenses pertaining to affiliated companies, and considerably lower business travel expenses, on the one hand, which demonstrates that measures introduced to lower costs at company headquarters were already taking effect in 2020. On the other, selling costs of 4,292 kEUR (2019: 0 kEUR) in connection with the disposal of the Acoustics segment had a counter effect owing to additional payment obligations and waivers of claims.

Income from shareholdings came in at 0 kEUR (2019: kEUR 3,193). In the previous year, dividend was received from a subsidiary (3,193 kEUR).

Other interest and similar income dropped by 161 kEUR to 304 kEUR (2019: 465 kEUR) due to the lower level of interest income from affiliated companies, which is attributable to the write-downs of loans to affiliated companies in the 2020 financial year.

Unscheduled **write-downs on financial assets** of 12,944 kEUR (2019: 0 kEUR) pertaining to shares in STS Acoustics S.p.A. and STS Brazil Holding GmbH were recognised as expenses in the 2020 financial year. In the context of selling the Acoustics segment, shares of the indirect subsidiaries STS Acoustics S.p.A. and STS Brazil Holding GmbH were fully disposed of. Write-downs in an amount of the book value of 8,039 kEUR (2019: 0 kEUR) on the shares in these companies and unscheduled write-downs of loans worth 4,905 kEUR (2019: 0 kEUR) granted to these companies were carried out.

Interest and similar expenses dropped marginally to 219 kEUR (2019: 253 kEUR), of which 214 kEUR (2019: 253 kEUR) are accounted for by affiliated companies.

Taxes on income also decreased to 45 kEUR (2019: 141 kEUR), essentially resulting in the context of residual dividend payment of 33 kEUR (2019: 156 kEUR) from the previous year from a foreign subsidiary and of withholding tax pertaining to management and corporate services charged to foreign subsidiaries.

After deduction of taxes, the **net loss** for the year stood at 8,663 kEUR compared with 5,003 kEUR in the previous year.

The **accumulated loss** in the reporting year was fully compensated by a partial withdrawal of the capital reserve (December 31, 2019: 9,278 kEUR).

NET ASSETS AND FINANCIAL POSITION

BALANCE SHEET OF STS GROUP AG IN ACCORDANCE WITH HGB

in kEUR	December 31 2020	2019
ASSETS		
Fixed assets	**19,277**	**25,383**
Intangible assets	159	214
Tangible assets	24	219
Financial assets	19,094	24,950
Current assets	**1,000**	**8,305**
Receivables and other assets	439	6,729
Cash and cash equivalents	561	1,576
Prepaid expenses	**148**	**155**
Total assets	**20,425**	**33,843**
EQUITY AND LIABILITIES		
Share Equity	**12,648**	**19,812**
Provisions	**488**	**2,259**
Other provisions	488	2,259
Liabilities	**7,289**	**11,772**
Trade payables	345	641
Liabilities to affiliated companies	6,472	10,902
Other liabilities	472	229
Total equity and liabilities	**20,425**	**33,843**

At 20,425 kEUR, **total assets** fell significantly short of the year-earlier level (December 31, 2019: 33,843 kEUR).

Over the course of 2020, **fixed assets** declined to 19,277 kEUR (December 31, 2019: 25,383 kEUR). This development was due in particular to the disposal of the Acoustics segment to the Adler Pelzer Group and the associated transfer of STS Group AG's shares in STS Acoustics S.p.A. and in STS Brazil Holding GmbH. This measure led to a reduction in financial assets as a result of unscheduled write-downs on the shares in these companies in an amount of the shares' carrying value of 8,039 kEUR (2019: 0 kEUR), as well as unscheduled write-downs on loans of 4,905 kEUR granted to these companies 2019: 0 kEUR). This was counteracted by the business combination between a direct subsidiary absorbed into an indirect subsidiary and the fair value of the shares being recognised in an amount of 12,771 kEUR. Similarly, property, plant and equipment in headquarters was reduced by 195 kEUR to 24 kEUR. This decline essentially resulted from disposal of office equipment in connection with restructuring company headquarters.

Receivables from affiliated companies and other assets dropped by 6,290 kEUR to 439 kEUR (December 31, 2019: 6,729 kEUR). Receivables from affiliated companies decreased by 5,844 kEUR to 354 kEUR, down from 6,198 kEUR, due mainly to debt waivers vis-a-vis three subsidiaries in the context of the aforementioned waivers. Other assets declined from 531 kEUR to 446 kEUR primarily due to the lower level of sales tax.

Cash and cash equivalents decreased by 1,015 kEUR to 561 kEUR (December 31, 2019: 1,576 kEUR). Cash and cash equivalents are deposits held at credit institutions and cash on hand. A bank account was closed in the reporting year.

Over the course of 2020, **equity** declined by 7,164 kEUR to 12,648 kEUR (December 31, 2019: 19,812 kEUR). The equity ratio stood at 61.9% as of the reporting date (December 31, 2019: 58.5%). In this context, STS Group AG held 50,000 treasury shares as of December 31, 2020. Subscribed capital rose by 500,000 EUR to 6,500,000 EUR under partial utilisation of Authorised Capital 2018/I through issuing 500,000 new shares against cash contribution to the exclusion of subscription rights. Based on the share capital increase in the financial year, capital reserve rose by 1,000 kEUR. The accumulated loss was fully compensated through a partial reversal of the capital reserve (December 31, 2019 9,278 kEUR).

Provisions dropped by 1,771 kEUR to 488 kEUR compared with December 31, 2019 (2,259 kEUR). This is essentially due to the lower level of provisions for personnel, preparing and auditing the annual financial statements and for outstanding invoices.

Liabilities declined by 4,483 kEUR to 7,289 kEUR (December 31, 2019: 11,772 kEUR). This amount includes trade payables of 345 kEUR (December 31, 2019: 641 kEUR) and liabilities to affiliated companies of 6,472 kEUR (December 31, 2019: 10,902 kEUR) which comprise a loan liability of 4,000 kEUR and liabilities from management and corporate services vis-a-vis Mutares SE & Co. KGaA.

OPPORTUNITIES AND RISKS

The business development of STS Group AG is essentially subject to the same opportunities and risks as the STS Group. In principle, STS Group AG participates in the risks of its subsidiaries directly and indirectly. Relations with the subsidiaries may also result in charges and write-downs on the shares in affiliated companies due to contractual liabilities (in particular financing). STS Group AG is ultimately also exposed to a financing risk and the dependence of the Group AG on the ongoing financing of the shareholders and via the subsidiaries (through management fees and dividend).

As the parent company, STS Group AG is integrated into the STS Group's groupwide risk management system. The description of the internal control system for STS Group AG as required by Section 289 (4) HGB is included in the section entitled "Risk and opportunity report".

OUTLOOK

Against the backdrop of the COVID-19 pandemic's development, the Company anticipated the following in 2020: that revenues from management services would fall short of the level posted in 2019, along with a result at the year-earlier level due to efficiency measures and the resulting reduction in costs. Expectations for STS Group AG partly reflect expectations based on developments against the backdrop of the COVID-19 pandemic in the current financial year. Although the revenue trend in the 2020 financial year was affirmed, the result fell short of the previous year's figure. Write-downs in connection with the sale of the Acoustics segment and one-off expenses from restructuring headquarters were not compensated by the positive effect accruing from the business combination of subsidiaries.

In the financial year 2021, management expects revenues from management services to be significantly lower than in 2020 due to the restructuring of headquarters in 2020 and the lower level of expenses. At the same time, the measures introduced will result in a significant improvement in the result compared with the previous year.

General Risk Disclaimer

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

Hallbergmoos, March 31, 2021

Mathieu Purrey (CEO)