STS Group

Annual Report 2019

INHALT

AT A GLANCE

RESULTS OF OPERATIONS

in mEUR	January 1 – December 31, 2019	January 1 – December 31, 2018
Revenues	362.8	401.2
Segment Acoustics	112.1	124.4
Segment Plastics	169.0	198.6
Segment China	50.4	48.6
Segment Materials	39.8	40.0
Corporate/consolidation	–8.6	–10.5
EBITDA	14.6	11.9
Adjusted EBITDA	17.6	23.7

Reconciliation to Adjusted EBITDA		
EBITDA	**14.6**	**11.9**
Adjusted for non-recurring effects	3.0	11.8
Adjusted EBITDA	**17.6**	**23.7**

BALANCE SHEET KEY FIGURES

in mEUR	January 1 – December 31, 2019	January 1 – December 31, 2018
Equity	68.6	82.4
Capital ratio	26.8 %	30.1 %
Total assets	256.5	273.8
Cash and cash equivalents (unrestricted)	17.2	31.2
Net Financial Debt[1]	39.1	31.1

1 Net Financial Debt = Bank Loans + Third Party Loans + Lease Liabilities + Recourse Factoring – Cash

In the 2019 financial year, the Group generated revenues of 362.8 mEUR (2018: 401.2 mEUR). The 9.6% decline in revenues is primarily attributable to a declining European market, which is reflected in the cumulative decline in revenues of 11.6% in the Acoustics, Plastics and Materials segments. Only the China segment could achieve a slight growth of 3.7%.

Adjusted EBITDA decreased by 6.1 mEUR in the reporting period to 17.6 mEUR (2018: 23.7 mEUR). Adjusted EBITDA is derived from EBITDA. In the reporting year 2019, EBITDA increased from 11.9 mEUR to 14.6 mEUR. EBITDA as of December 31, 2019 was adjusted for special expenses of 3.0 mEUR.

COMPANY PROFILE

STS Group AG
www.sts.group (ISIN: DE000A1TNU68), is a leading system supplier for the automotive industry with a focus on solutions in the areas of acoustics, thermals and structure. It employs more than 2,500 people worldwide and has achieved revenues of 362.8 mEUR in the 2019 financial year. STS Group ("STS", "the group") produces and develops plastic and acoustic components in its 17 plants and four development centers in France, Italy, Germany, Poland, Mexico, Brazil, China and in the future also in the USA, such as e.g. fixed and flexible vehicle and aerodynamic cladding, noise and vibration damping materials, holistic interior and exterior cladding systems, as well as lightweight- and battery-components for electric vehicles. STS is considered a technological leader in the production of special acoustic products, plastic injection moulding and components made of composite materials (Sheet Molding Compound, SMC). STS has a strong global footprint with plants on four continents. The customer portfolio includes leading international manufacturers of commercial vehicles, passenger cars and electric vehicles.

EMPLOYEES
>2.500

DEVELOPMENT CENTERS
4 worldwide

REVENUE 2019
>362,8

BUSINESS SEGMENTS

Matrix Organisation – High transparency for stakeholders
Everything from a single source; from the idea to the finished product: The high vertical integration of production gives the STS Group a clear competitive advantage. The competencies are spread over four segments.

ACOUSTICS
The soft-trim components increase comfort in the cab and perform thermo-insulating functions in the engine compartment.

MATERIALS
The semi-finished products and fiber molding compounds produced are used internally within the Group as intermediate products or are delivered directly to customers.

PLASTICS
Production of hard trim components such as exterior body parts and interior modules for commercial vehicles and passenger cars.

CHINA
In the Chinese market, STS offers plastic components for commercial vehicles as well as parts for passenger cars such as the battery cover.

A YEAR OF DYNAMICS

Together we shape our successful future in dynamic times: global mega-trends like mobility, globalization or individualization change our world at an accelerated pace. Especially the automotive and commercial vehicle industry play a significant role in this. We take responsibility for this. As a leading system supplier for automotive and commercial vehicle industry we see ourselves as driver and designer of innovative and individual solutions for our clients.

On this basis, STS Group creates sustainable and successful answers to the mega-trends of this industry. They make an important contribution to the reduction of emissions. They optimize the potential of new drives. They pave the way for the digital revolution in the vehicle and beyond. And they help to cope with the rapidly increasing volume of transport worldwide.

The year 2019 shows that we have achieved strategically important goals. We have grown worldwide and have managed to enter new promising markets. The foundation for this is an international team with competence and passion, always developing new innovative solutions and implementing them.

We remain dynamic.
For our customers. For you.

A conversation with the members of the STS Group Management Board (from left to right): Patrick Oschust (COO), Andreas Becker (CEO) and Ulrich Hauck (CFO). Together they sketch the picture of a preferred automotive supplier with a sustainably growing global footprint.

“WE WANT TO EXPAND OUR WORLD-WIDE LEADING POSITION”

In a challenging year for the automotive and commercial vehicle industry, STS Group AG has set an important course for a successful future. In this interview, the Executive Board members Andreas Becker (CEO), Ulrich Hauck (CFO) and Patrick Oschust (COO) explain how they ensure sustainable success as a Preferred Supplier in the long term.

2019 was a year full of challenges for STS Group. How did the company deal with this?

ANDREAS BECKER: It is normal for markets and industries to continuously evolve. STS Group cannot ignore this either. However, we always see change as an opportunity – even in a financial year such as 2019, in which the economic environment has deteriorated over the course of the year. Regardless, we pursue our goals steadily and consistently. We are robustly positioned for many scenarios. Both strategically and operationally, our innovative strength and our global cooperation pave the way for a continued successful future. This gives us some independency and motivates us for top performance in the future.

Can you give us an example illustrating this?

ULRICH HAUCK: The European truck market has been declining since the second half of 2019. However, we expect the truck market to reach its bottom in the fourth quarter of 2019 and the first quarter of 2020. After that point in time, we expect the markets to recover. We are convinced that demand for transport capacity will again increase in the future. Therefore, we perceive further growth in the truck market in Europe over the medium term. STS is now doing its

ANDREAS BECKER, CEO
member of the STS Executive Board since 2013. Becker has more than 20 years of experience in the industry. He has been active as CEO of STS Group since it was founded and had previously held several management positions in the Autoneum Group in Italy and in the Truck Business Worldwide Division.

"The variety of technologies combined with a high degree of vertical integration makes STS a unique system provider."

Andreas Becker
STS Group AG CEO

homework to be well prepared for an upward movement of the market. Sustainable measures are important to us in this regard.

How can future developments contribute to the success of STS Group?

AB: Global mega-trends will transform the entire automotive and commercial vehicle industry. This includes, for example, the growth of transport flows mentioned before. Emissions from all vehicles, from noise to exhaust gases, will decrease. Digitization processes permeate all areas of mobility, in addition to an increasing number of driving assistants, just think of the move towards the autonomous vehicle. After all, the portfolio of drive types is constantly growing, demanding new components for the periphery. All these mega-trends are a great opportunity for current and upcoming solutions, which only STS-Group can offer in this form. We have long recognized these developments and set up the necessary course for a successful future. Our customers benefit from tailor-made and individual innovations for ever new market requirements.

Sounds conclusive. But how does this affect your developments?

AB: STS Group is a system provider that can offer concentrated know-how bundled in a wide range of products and services from a single source. STS technologies are vital in creating individual and integrated solutions. Drawing on our wide range of competence, we combine different technologies into an innovative complete solution. This results in unique systems in the areas of acoustics, structure, visual appearance and temperature. The variety of technologies combined with a high level of vertical integration positions STS a unique system provider for customers, often ranked as a Tier 1 supplier.

Can you explain this with a specific product?

PATRICK OSCHUST: Take, for example, a front module for trucks: We offer complete solutions that improve the vehicle's aerodynamics, reduce noise emissions and weight, while also enhancing the aesthetics of a vehicle. We consider our answers to the major mobility questions, such as a cover for battery systems, which the group produces for various electric vehicle manufacturers in China, to be particularly future-proof. The 1.70 metre long cover meets the highest requirements by withstanding high temperatures and high pressure. Their lightweight construction with composite materials contributes significantly to weight reduction. In future, the cover will also ensure the electromagnetic shielding of the battery. And this is a great example of our competence as a global group.

How is that?

AB: We developed this product. Subsequently, we optimised and produced it locally in China for the local market. And in January 2020, we were able to win the first order for this innovation in the European market and manufacture it there for the hybrid vehicle of a well-known premium sports car manufacturer. As a result, STS is strengthening its position in the European market with a strategically important product. There is also a considerable growth potential for this new product group in Europe. Especially in the e-mobility sector, we see very good growth opportunities. The transfer of STS competencies contributes to the Group's worldwide success. And this is conducted in constant dialogue with the respective customers.

How do customers benefit from this strategy?

PO: All of our customers are the focus and benchmark of our actions. And we take care of them and their success right where ever they may be active. This is documented by our ever-expanding global footprint. In 2017, production kicked off at our plant in Poland in order to offer optimal service to customers in Northern Europe. In 2018, the development center in Wuxi followed, which, in combination with the Shiyan plant starting in 2019, cemented our presence in the vital Chinese market. Next, we're taking a decisive step in North America.

What is on the STS Group agenda in North America?

AB: We are shaping STS Group into a leading global supplier of components and systems for the automotive and commercial vehicle industries. The US market is the third largest in the world and offers us fantastic opportunities. Consequently, we want to become more involved there. Our plant in Mexico is a solid foundation for these activities. Based on these capabilities, we were able to win one of the major commercial vehicle manufacturers based in North America as a customer already in 2018. The next important strategic milestone followed at the end of 2019 in order to further exploit the considerable growth potential of this domestic market: a large scale order, which will result in the first STS plant in the US.

Why do you perceive so much potential for STS in North America?

AB: The market is a perfect match for what we are capable of doing and what we want to do. The long-nose truck with its large surface areas, which is common over there, is ideal for STS systems. This design offers twice the sales potential compared

“We work hard and are convinced of our success.
Because STS Group always pursues its goals with sustainable measures.”

Ulrich Hauck
STS Group AG CFO

ULRICH HAUCK, CFO
member of the STS Executive Board and CFO of STS Group since April 2019. Hauck draws on more than 20 years of experience in the sector. Previously, he was active as CFO and Group CFO of Schaeffler AG. In other positions, he was responsible as Corporate Senior Vice President for worldwide accounting and controlling at Bayer AG and for group accounting at Rheinmetall AG.

“We are setting the course for even greater productivity and commitment - with a clear focus on providing an ideal customer experience.”

Patrick Oschust
STS Group AG COO

PATRICK OSCHUST, COO
member of STS Executive Board since 2013. Oschust commands more than 20 years experience in the industry. He has held the COO position since the foundation of the STS Group. Previously, Patrick Oschust held several positions at the German automotive supplier Dräxlmaier, most recently as Managing Director in Germany and Romania.

to the EU standard. In future, all vehicles will have to become lighter and more efficient. Our know-how will make them future-proof. On this basis, we also want to win further projects and partners in the region and put in steady growth.

Well, North America is definitely a market that STS is involved in. But that is only one of the strategic goals that STS Group is pursing. What about the others?

AB: As planned, our presence in China is growing steadily. It was only in April 2019 that STS Group celebrated the opening of the Shiyan plant. There, we are producing new, innovative components, such as hybrid doors for a local electric vehicle manufacturer, for example. In addition, there are classic SMC exterior modules, which we sell in large numbers in that market.

And what is going on in Europe?

UH: STS Group is on the right track in Europe, our core market. The cost reduction we initiated in the plants and in the administration will have a positive impact on our results. In addition, production for a large order is starting this year at our Polish plant, which significantly increases the capacity utilization of this site. In addition, we continue to pursue tight working capital management in order to optimize liquidity. With our new factoring program, we were also able to significantly reduce the Group’s net debt in the fourth quarter and improve the balance sheet ratios.

Mr. Hauck, you are mentioning very specific measures. You have been member of the STS Executive Board since 2019. What are your goals in your role as CFO?

UH: It is an exciting and fascinating task to further develop STS Group in a dynamic environment with full determination. I would like to make a sustainable contribution to consolidating and expanding our position as a leading provider of components and systems for the automotive and commercial vehicle industries. With regard to the financial area, the creation of transparency is also a very important success factor for a global supplier. We find potential for improvement every day. From this we derive the necessary measures to become leaner, more efficient and more profitable.

Of course, this also applies to production.

PO: STS Group has a uniquely broad technological basis for new product systems featuring first-class functionality. This holds enormous potential. The overriding goal is to improve and automate processes. This is why we gave the impetus for a standardization offensive last year, for example in the areas of industrial engineering, quality or project management. The principles of lean management form the high-level framework and a globally binding timetable sets the direction. Overall, we are thereby setting the course for even greater productivity and commitment – with a clear focus on an ideal customer experience.

How does STS Group manage to get its employees around the world committed and enthusiastic about this path?

AB: As a global company in a dynamic environment, motivated and committed employees are our greatest asset. That is why we consistently promote our communication in order to optimize processes and channel the exchange of skills and knowledge. The basis for this is our clearly defined STS Group identity. This creates a high degree of identification with the Group by all employees and clearly defines our vision, mission and values. It also provides our new QHSE policy (Quality, Health & Safety, Environment. We use this to formulate globally applicable standards for our actions. STS Group stands for quality with passion. We place a strong emphasis on employee health and safety. We always have a keen eye on the environment and are absolutely determined to successfully and passionately implement this policy. This commitment unites and motivates all STS employees worldwide. Our customers can rely on this at all times.

This sounds like a determined and committed team. But how does STS Group manage to convey this hunger for success to the outside?

AB: Our website is an essential communication tool, both internally and externally. That is why we completely relaunched our presence in 2019 and improved it in every aspect. We regard it as a figurehead and also a central platform for information and interaction with the respective target groups, our employees for example, the markets in general or our current and future partners.

The website is just one of many communication tools. What other channels have you opted for?

AB: As a listed company, it is a matter of course that we are interacting with our environment at large – especially with market representatives. That is why we are offering a multitude of digital and analog platforms for dialoging. We use regular webcasts to contact investors and experts directly, regardless of their location. We are also consistently expanding classic forums for dialogue. In 2019, the STS Group attended eight conferences, initiated three roadshows and held more than 100 investor meetings – and we held the first Capital Markets Day in Frankfurt/Main in October 2019. The high-profile program, strong interest and stimulating discussions on this day showed us that we are on the right track in this regard too.

A highlight of the Capital Markets Day was certainly the lecture by a vehicle concepts expert from the Technical University of Munich. What did you find particularly exciting about this?

AB: Sebastian Wolff from the Faculty of Vehicle Technology at the Technical University of Munich (TUM) outlined the challenges and future trends of the global commercial vehicle industry. He convincingly described the conflicting topics of a steadily increasing volume of transport and, simultaneously, the need to reduce emissions. It became clear that new engine concepts, lightweight components and aerodynamic systems form the key technologies for more sustainable transport solutions. It was a great confirmation for the entire Group and its work. This is because Mr. Wolff's statements have shown that STS Group is offering ideal solutions for these developments. Based on this self-confidence, we want to continue to grow and expand our leading position as a global system supplier. We have the ideal mix of future-proof technologies and highly competent employees.

Editor's note:
This interview was conducted in January 2020.

HIGHLIGHTS 2019

STS Group has successfully concluded a dynamic and moving year for itself. Based on its corporate strategy, the foundation for further profitable growth were laid. Find out more about the milestones of the 2019 financial year here.

FEBRUARY 2019

Good start of the year in the Acoustics segment

Immediately after the beginning of the year, the Acoustics segment wins new orders of components for cars.

APRIL 2019

Opening of the third production site in China

On April 11, 2019, STS opens another production site in Shiyan, the heart of the Chinese automotive industry. In addition to the plants in Qingdao and Jiangyin, it marks the third local production facility. After only six months of construction from June to December 2018, the new plant started manufacturing the first components in the first quarter of 2019. STS opened its new headquarters in Wuxi already in the fourth quarter of 2018 and also shifted its development activities to the eastern Chinese metropolis.

MAY 2019

Large scale order from China

Garnering a high-volume order for front and side panels for long-nose trucks from a Chinese commercial vehicle manufacturer, STS has reached another milestone of its communicated strategy. Among other things, the strategy aims for growth in key automotive markets such as China and the USA. The construction of long-nose trucks has only been permitted since 2016 in China. Consequently, experts expect dynamic growth in this segment.

JUNE 2019

Groundbreaking license agreement

In order to be able to leverage further sales potential in the market with lightweight components, STS concludes a license agreement with AMA Composites. The cooperation enlarges the product range and competence in fiber composite materials. Thanks to so-called LWRT components (Leight Weight Reinforced Thermoplastic), weight reductions of 30 to 50 % compared to conventional materials such as aluminum or steel are possible.

WEIGHT REDUCTION

30 – 50 %

AUGUST 2019

Third order from the Chinese e-mobility sector

A third order from China follows immediately after the order was placed in July. Covers for battery systems for use in electric vehicles are again being ordered.

JULY 2019

Two new orders for the e-mobility sector

STS continues its expansion in the Chinese market with two further orders to supply covers for battery systems of electric vehicles. The local demand for alternative drive systems is growing dynamically.

OCTOBER 2019

Successful first Capital Markets Day

More than 70 investors, analysts and media representatives accepted the invitation to the first STS Capital Markets Day in Frankfurt. CEO Andreas Becker gives an insight into the growth strategy; Eric Morvan, Vice President Research & Development, presents pioneering STS technologies and components.

OCTOBER 2019

STS lightweight components in high demand in China

In the final quarter, STS won another strategic order in the Chinese automotive market. Hybrid doors will be supplied for an electric vehicle model starting in the fourth quarter of 2020. The combination of injection molding technology with fiber-reinforced sheet molding compound (SMC) results in a significant weight reduction compared to conventional materials. At the same time, STS is once again proving its high degree of vertical integration.

DECEMBER 2019

Major order from the USA and first plant

Shortly before the turn of the year, STS wins a major order from the USA for a total volume of 230 million Euro. At the same time, STS plans to enter the US market through its own plant facility in the northeastern United States. Once again, a strategic goal was achieved as part of the growth strategy.

THE FUTURE AS AN OPPORTUNITY: THE TRENDS IN THE COMMERCIAL VEHICLE INDUSTRY

The commercial vehicle industry is about to change radically. Climate change and associated CO_2 limits demand the use of alternative drives. In addition, automated driving will fundamentally change the commercial vehicle as we know it today. Both technologies require the use of all possible technical levers. The industry must seize the potential of technologies for their future and accept change as an opportunity.

The global commercial vehicle industry is currently facing increasing challenges. On one hand, climate change requires far-reaching measures in all areas of life to reduce global warming. On the other hand, the global economy is faced with the challenge of making meaningful progress in digitization. In particular, the electrification of vehicle automation is opening up promising opportunities for the commercial vehicle industry.

More and more goods are being transported worldwide – a large part of them on the road. The Federal Ministry of Transport is expecting an increase in transport volume of 38 % by 2030 compared to 2010. In order to be able to meet the increasing volume of transport in the future, it is important to develop innovative concepts. Although fuel consumption of commercial vehicles has been steadily trending downwards in recent years, emissions in freight transport have been increasing for years. This so-called rebound effect is due to the increasing efficiency of the vehicles and thereby declining transport costs.

The consequence are not least the limits for CO_2 emission introduced by the EU, which will also apply to heavy commercial vehicles from 2025 for the first time. The new regulation forces vehicle manufacturers and suppliers to put new concepts on the road to avert the threat of fines. On the other hand, this is also creating new opportunities to make vehicles more efficient and economical.

While the market for commercial vehicles in Europe and the USA is growing steadily but moderately, the Chinese market is experiencing rapid and dynamic growth. Moreover, international markets can also benefit from major Chinese projects such as the new Silk Road. One of the challenges of the next few years will be to advance technological innovations while at the same time reacting to globally growing markets and their local needs.

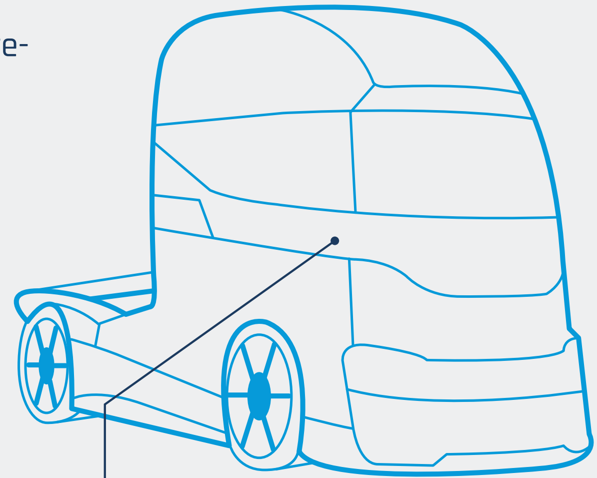
New technologies are opening up new business areas
Advancing digitization can both support and complicate this process. New technologies such as automated or autonomous driving are opening up new business areas at both product and service levels. On the other hand, major investments are required for the development of the technology. A recent study by Boston Consulting Group (BCG) concludes that manufacturers will concentrate on keeping the development and thus the added value of the software in automated vehicles in-house. Alternatively, they will enter into partnerships with suppliers, which will increasingly include software companies. However, this also frees up business areas for traditional suppliers who will fill the gaps that have arisen with system solutions.

Sustainably successful solutions for the commercial vehicle industry are facing fundamental change. Against the background of all-encompassing digitization, new products and business areas are emerging. STS Group is profiting from this development.

AUDIO
FM
MEGAPOL Den perfekta mixen med Erik
Spotify
TuneIn
USB
AUX
AUDIO
PHONE
FLEET
NAVI
CAMERA
ESC
OFF ROAD

HOW AERODYNAMICS OPTIMIZES TRANSPORT EFFICIENCY

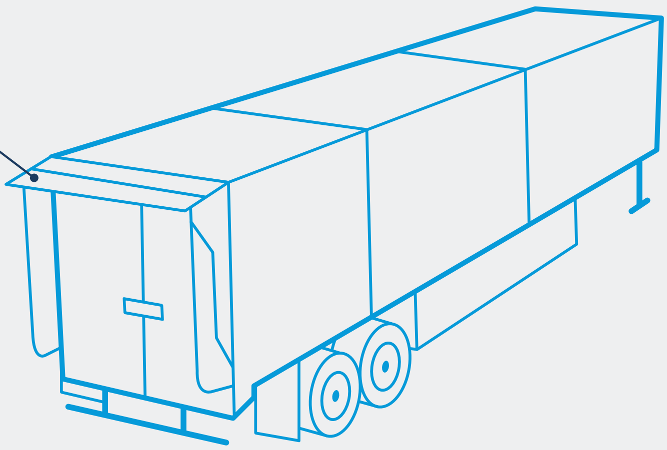
An average European front-wheel drive truck needs about a third of its mechanical energy in long-distance traffic to overcome aerodynamic drag. This number shows: Measures to optimise aero-dynamics are making decisive contributions to efficiency, environmental protection and the confident dealing with the require-ments of EU legislation.



FOLD-OUT WINGS

Special wing systems at the rear optimize the aerodynamic properties of the trailers.

↘ ~ 3 %



VEHICLE FRONT

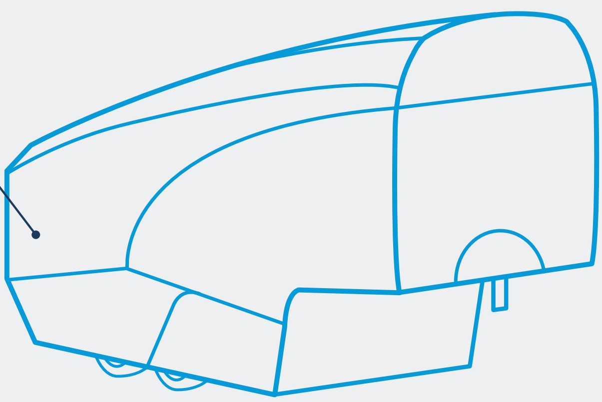
A longer and streamlined vehicle front in combination with an even smoother underbody, significantly increases the saving effects in terms of aerodynamic drag.

↘ ~ 4 %

CLADDING

It's the total sum that counts: New cladding systems in many parts of the vehicle also contribute to optimizing aerodynamics.

↘ ~ 3 %



Various studies agree that the strong use case for automated commercial vehicles will accelerate the introduction of the technology compared to passenger cars. Automated commercial vehicles also have the potential to reduce operating costs and energy consumption and, last but not least, improve air quality and threby human health, as researchers at the University of Orlanda have found. Before fully automated vehicle concepts can be used, however, the extensive sensor technology must first be integrated into existing concepts. The placement of the sensors on heavy commercial vehicles, for example, is currently a real challenge.

Just as automation will change commercial vehicle concepts in the future, new drive concepts will also be introduced. The climate targets and ongoing cost pressure are currently causing several concepts to compete for market share. While the trend in light and medium-sized commercial vehicles is clearly towards battery-electric drives, it is not yet possible to predict whether heavy commercial vehicles will be equipped with large batteries or fuel cells in the future. It is also unclear what role concepts such as power supply using overhead lines will play.

New drives make a meaningful contribution to climate protection

The evaluation of transport efficiency of the vehicle and drive concepts mentioned will play a decisive role in reducing CO_2 emissions in the future. Besides efficiency on the road, fuel and electricity production will also be included in the assessment. Battery-electric drives have disadvantages in terms of the payload, but overall have the highest efficiency in energy conversion: In battery-electric vehicles, more than two thirds of the energy is also put down on the road. Hydrogen, on the other hand, has significantly higher losses, so that just under a third of the energy provides propulsion. Both drives can only make a meaningful contribution to climate protection in combination with renewable energy. Vehicle batteries represent a critical aspect in the introduction of electric mobility is the batteries in the vehicles. It does not matter whether the battery is used in a hybrid, battery or fuel cell vehicle. The major challenge is to manufacture batteries with low weight and high energy density – without sacrificing safety. While modern production methods, innovative materials and new cell chemistries still enable significant performance gains, according to the latest study by the Swedish IVL, the environmental impact of battery production can also be reduced significantly.

Lightweight design and construction is becoming increasingly relevant

Since optimization alone cannot compensate for the additional weight of the batteries, lightweight con-

"Reaching the CO_2 limits requires the deployment of all possible technical levers."

Sebastian Wolff
Faculty of Vehicle Technology, TU Munich

Personal Details

Sebastian Wolff has been doing his doctorate at the Faculty of Vehicle Technology at the Technical University of Munich since 2017. The graduate vehicle technician and mechanical engineer has been leading the research group for vehicle concepts for one year. As project manager, he presented the Truck 2030 research project at the IAA Commercial Vehicles in 2018. In addition to commercial vehicles and alternative drives, his research focuses on sustainability issues in the automotive industry.

With Truck 2030, researchers at the Technical University of Munich are already showing what the future of the intelligently networked truck can look like: smarter, more efficient and more environmentally friendly than ever before. This creates good opportunities for the STS Group.

struction will become even more important in the future. The increased use of appropriate materials such as aluminum or plastics can help to reduce vehicle weight. It's worth taking a look at the American market, where vehicles are traditionally lighter than in Europe due to stricter weight limits. Plastics can also make battery systems lighter and thus increase their energy density.

The optimization of aerodynamics is another important lever to improve transport efficiency. In the current EU legislation, the focus is primarily on aerodynamics of heavy commercial vehicles. Fold-out wings at the rear of the vehicle can reduce energy consumption by around 3 %. Other measures, such as appropriate underbody or side panels, contribute a further 3 %. A planned change in legislation, which allows for a longer, streamlined front of the vehicles, in combination with the smooth underbody of electric drives, can achieve a further significant reduction in air resistance. Overall, energy consumption savings of around 10 % are possible.

Climate change, digitization and the growing volume of transport present major challenges for the commercial vehicle industry. Achieving CO_2 targets requires the use of all possible technical levers. In addition to new electrical drive concepts, almost every component has to be optimized. Automated driving can help reduce emissions in traffic while saving costs. The development of such a multitude of technologies in both hardware and software requires extensive investments. But they can also result in establishing new partnerships. Not only are business areas reshuffled, but new ones are also created. Innovation and partnerships also enable new service and customer-oriented business models. Even if the industry is facing far-reaching changes, it is less an issue of risks and more about opportunities to seize.

WHY THE TRENDS AND DEVELOPMENTS IN THE COMMERCIAL VEHICLE INDUSTRY OFFER GREAT OPPORTUNITY FOR STS GROUP

01
Transport volumes are trending upwards worldwide – and with it the market for commercial vehicles. The respective markets differ in their requirements. STS is pursuing a global strategy that responds to regional needs. This is very promising in the long term.

02
Alternative drives will find their way into all commercial vehicle classes in the future. Innovative know-how from STS is supporting these developments. System solutions that take full advantage of the lightweight construction potential of plastics will make a decisive contribution to reducing consumption and also to switching to alternative drives. Partners of STS benefit from many years of experience in material development. This significantly increases the safety, for example of battery systems.

03
The aerodynamics and consequently the exterior of commercial vehicles are increasingly becoming the focus of development due to changes in law with ever stricter regulations on emissions. STS already offers innovative system solutions for this and makes a significant contribution to achieving CO_2 targets.

04
It will take some more time before automated commercial vehicles will determine the street scene. Sustainable companies still have to master major technical challenges in the field of exterior sensors integration. System solutions from STS are based on many years of competence in development and production. This experience represents genuine added value for customers.

FINANCIAL CALENDAR 2020

February 4, 2020
Montega Hamburg
Investors Day, Hamburg

March 10, 2020
Publication of
preliminary results 2019

April 9, 2020
Publication of
annual report 2019

April 28 to 29, 2020
Munich Capital Market
Conference, Munich

May 13, 2020
Publication of
quarterly statement
(reporting date Q1)

May 18 to 20, 2020
Spring conference,
Frankfurt/Main

June 18, 2020
Quirin Champions Conference,
Frankfurt/Main

July 14, 2020
Annual General Meeting,
Munich

August 6, 2020
Publication of
semi-annual report

November 4, 2020
Publication of
quarterly statement
(reporting date Q3)

November 16 to 18, 2020
German Equity Forum 2020,
Frankfurt/Main

You can download the annual report as a PDF file at:
https://www.sts.group/investor-relations/publications

This is a translation of the German "Geschäftsbericht 2019 der STS Group".
Sole authoritative and universally valid version is the German language document.

1 — TO THE SHAREHOLDERS

DEAR SHAREHOLDERS,

STS Group AG can look back to an eventful financial year 2019. Above all, we have succeeded in implementing the primary goals of our communicated corporate strategy and thereby laying the foundation for further profitable growth.

The automotive market is currently undergoing a dynamic transformation, which is characterized above all by four mega-trends: emission reduction, alternative drives, digitalization and increased transport volumes. The STS Group is well positioned and offers answers to the mobility issues of tomorrow with its solutions. With lightweight and innovative aerodynamic systems, STS ensures a sustainable reduction of CO_2 emissions and a reduction of noise emissions. Components such as covers for battery systems in the e-mobility sector make a significant contribution to the realization of alternative drive concepts. To meet the increasing requirements in the context of advancing digitization, STS is designing components made of the composite material Sheet Molding Compound (SMC) together with the customers. Due to the permeability for radar waves, these are particularly suitable for the integration of cameras, radar and lidar systems. The steadily increasing transportation volume will ensure an increased demand for commercial vehicles. With innovative interior concepts, STS is already making the workplace more attractive for truck drivers and countering the existing shortage of specialist staff.

These technologies and components form the future-oriented foundation of the STS Group. On this, we will be able to benefit from the mega-trends in the automotive industry.

In the 2019 financial year, STS Group AG generated revenues of 362.8 mEUR. In the previous year, revenues totaled 401.2 mEUR. The decline in revenues is mainly due to a declining European market, while in China we were able to achieve slight growth in a challenging market environment. The company generated earnings before interest, taxes, depreciation and amortization (EBITDA) of 14.6 mEUR. Adjusted EBITDA amounted to 17.6 mEUR. The adjusted EBITDA margin amounted to 4.9% in the reporting period. As a result, revenues, earnings and EBITDA margins in the reporting period developed in line with management's expectations adjusted at the beginning of August 2019.

Four pillars – a solid foundation

Our strategy communicated in the context of the IPO is based on four pillars:

- Market leadership and growth, especially in the Chinese market
- Technology leadership through innovative products in the e-mobility sector
- Global customer proximity with entry into the US automotive market
- Operational Excellence through the continuous and targeted optimization of our cost structures

We are pleased to be able to communicate here that we have succeeded in reaching important milestones in our strategy in the 2019 financial year.

In China, STS significantly strengthened its position in the 2019 financial year. In addition, we were able to slightly increase our revenues in an overall declining automotive market. In April 2019, we opened another plant with an official ceremony in Shiyan, in close proximity to our important customers. With Qingdao, Jiangyin and Shiyan, we now have three production facilities in China. The Chinese headquarter, which opened at the end of 2018, is located in Wuxi, as well as all local development activities. In addition, the development activities were relocated to Wuxi. The Chinese market will become even more attractive for us in the future, as long-nose trucks are now also permitted there. These models achieve better aerodynamic values and therefore consume less fuel. Experts therefore expect a dynamic increase in demand for long-nose trucks in China. The increasing prevalence of long-nose trucks is advantageous for us, as they contain significantly more plastic parts in SMC technology than conventional trucks. We were able to win a major order for the delivery of front and side panels for a long-nose truck model already in May 2019. Production is scheduled to start in the financial year 2020 at the new plant in Shiyan. In addition to our established SMC technology, we also introduce injection moulding technology to offer our customers the complete product portfolio locally. The Chinese market offers us opportunities not only in the commercial vehicle market, but also in passenger cars – especially in the area of advancing e-mobility. In the 2019 financial year, we won a total of three orders for our innovative components such as covers for battery systems and lightweight components such as hybrid doors from the Sheet Molding Compound (SMC) composite material.

The licensing agreement with AMA Composites in mid-2019 also underlines the extent to which we are driving our innovations. It significantly expands the product portfolio of Light Weight Reinforced Thermoplastic Components (LWRT). With fiber-reinforced thermoplastic technology, weight reductions of 30 to 50 percent can be achieved compared to aluminum or steel.

We are pleased with the development and at the same time observe an increased attention to our products in the European automotive market. This is underpinned by an order for battery coverage systems from a well-known premium sports car manufacturer in January 2020. The order is important from a strategic perspective as it is the first assignment of STS in the field of e-mobility in the European market. On one hand, we are strengthening our position in Europe, and on the other hand, we are laying the foundation for growth in the dynamic local e-mobility market. We have proven that we already have the components for tomorrow's mobility concepts in our program. This includes not only our coverage systems and hybrid doors. We are also a recognized dialogue partner when it comes to components for noise emission, aerodynamics or weight reduction – and often in the rank of a Tier 1 supplier. Analysts, investors and media representatives were able to convince themselves of our strategy, our products and our innovative strength at our first Capital Markets Day in October 2019. We were able to welcome a total of 70 participants in Frankfurt and received consistently positive feedback.

Towards the end of the year, we won a large-volume and strategic contract in the United States. In the future, STS will manufacture complete truck roof systems for a well-known commercial vehicle manufacturer. Overall, the order has a volume of approx. 230 mEUR. Associated with the order is the establishment of a dedicated STS production site in the U.S. state of Virginia. In this way, we follow our claim to always be represented with our own plants close to important customers and thus to be able to guarantee an efficient supply chain. At the same time, we are putting ourselves in a good position to acquire further orders in the world's third-largest truck market. Long-nose trucks have long been established in the US market. This design offers additional revenue potential per vehicle for STS.

As part of our expansion strategy, we will not lose sight of the cost side and continue to work on our structures. These include, in particular, processes for optimizing production at our European plants.

Outlook

We are pleased to have implemented strategically important projects in the 2019 financial year, as we have intended and communicated. Growth and entry into the North American market, further growth in the important Chinese market, as well as the development of innovative components for tomorrow's mobility provide a solid foundation for future growth.

Our customers have demand for our products in all major markets. The local proximity to the customers and the high vertical integration in terms of the production process are clear competitive advantages of the group.

For the current business year, the latest developments with regards to the COVID-19 pandemic pose major challenges for the entire economy and in particular for the automotive industry. As a globally active group, we take current developments very seriously and resolutely meet our responsibility towards employees, customers and shareholders. We face the additional challenge of the Corona virus with the highest priority, have already initiated extensive measures and will respond immediately to further developments. For our Chinese locations, we were able to demonstrate our resolute handling of the spread of the corona virus at the beginning of 2020. We are convinced that the products of STS Group, promising as they are already today, will be so even after the crisis, and will continue to play a relevant role for our customers.

At this point, I would like to take the opportunity to express my thanks – also on behalf of the entire Executive Board – for the great commitment of all employees in the past financial year 2019. We thank you, dear shareholders, for the trust placed in us.

Hallbergmoos, April 6, 2020

Andreas Becker (CEO)

DEAR SHAREHOLDERS,

In the 2019 financial year, STS Group AG faced particular challenges due to the decline in the European and Chinese automotive markets. Nevertheless, strategically important milestones were implemented that further advanced the company. In addition, STS was able to win new orders with significant volumes at the end of the year, which will significantly expand the footprint in North America, especially in connection with the establishment of its own production site in the US state of Virginia.

Monitoring and consulting in continuous dialogue with the Executive Board

In the 2019 financial year, the Supervisory Board of STS Group AG carried out with great care the consulting and control tasks entrusted to it by law, articles of association, corporate governance code and rules of procedure. He advised the Executive Board on corporate management, overseeing and supervising the management and development of the company. In the context of close cooperation, the Executive Board has regularly, promptly and comprehensively informed the Supervisory Board in writing, by telephone and in face-to-face discussions on the situation and perspectives, the principles of business policy, the profitability of the company and the company's main business transactions. In addition, the Supervisory Board was also in personal contact with the Executive Board outside the scheduled meetings and was involved in the discussion and decision-making in matters of fundamental importance. Furthermore, the entire Supervisory Board was continuously informed by the Executive Board of relevant developments and transactions requiring approval. The Supervisory Board was directly and timely involved in all decisions of fundamental importance for the company or in which it was to be involved by law, articles of association or rules of procedure. In urgent cases, the Board was able to make decisions by written circulation if necessary. Due to the regular, timely and detailed information provided by the Executive Board, the Supervisory Board was always able to fulfill its supervisory and advisory function. The Supervisory Board therefore considers that the Executive Board has acted lawfully, properly and economically in all respects.

Meetings and main topics

In the year under review, the Supervisory Board held a total of 11 meetings with personal attendance – January 31, 2019, February 25, 2019, April 1, 2019, May 14, 2019, May 17, 2019, June 24, 2019, July 22, 2019, September 30, 2019, October 23, 2019, November 28, 2019 and December 18, 2019. The Supervisory Board was fully represented at all meetings.

In addition, the Supervisory Board complied with its statutory obligation to approve the catalogue of transactions of STS Group AG requiring approval, even outside the regular Supervisory Board meetings through 8 written circular resolutions.

At the meetings, the Supervisory Board regularly received reports of the Executive Board in accordance with Section 90 (1) (1) sentence no. 1–3 AktG on the intended commercial policy, profitability and course of business, including market and competitive situation, and discussed them in detail.

Furthermore, the Executive Board reported in accordance with Section 90 (1) sentence no. 4 AktG on transactions which may be of significant importance for the profitability or liquidity of the company and/or the group. Regular topics of the plenary sessions were also the areas of finance and controlling, sales and marketing, production, quality management, human resources, research and development as well as mergers & acquisitions.

In the 2019 financial year, a random check was carried out in accordance with Section 342b (2) sentence no. 3 HGB of the consolidated financial statements as of December 31, 2018 as well as the associated summarized management report for the financial year 2018 by the German Audit Office DPR eV, which was also the subject of deliberations in the Supervisory Board. The responsible chamber of the inspection body has not found any incorrect accounting for the 2018 financial year.

The Executive Board also reported on the strategic situation of the respective business units and the associated foreign subsidiaries of STS Group AG and their major developments. Due to the developments in the declining European and Chinese automotive market, the Executive Board presented concepts for optimizing the earnings situation and increasing productivity. The Supervisory Board dealt in depth with the concepts presented and monitored their implementation over the course of the year. As part of these measures, the Supervisory Board approved a capital increase at STS Acoustics SpA and at STS Acoustics Poland Sp. Z o.o. as well as a restructuring of the Polish management.

Due to the market changes in the 2019 financial year, the Supervisory Board also focused on monitoring the rolling financial and liquidity situation of the associated companies.

In the course of an active examination of the relevant markets, opportunities through acquisitions were also examined. The Supervisory Board and Executive Board were in regular contact on these issues.

In the sense of an active risk monitoring in accordance with Section 91 (2) AktG, the Supervisory Board dealt in detail with the organizational requirements and best practice structures of risk management. The Supervisory Board followed the recommendations of the ECIIA (European Confederation of Institutes of Internal Auditing) and recommended that the Management Board set up three organizationally separate lines of defense. At its meeting on April 1, 2019, the Supervisory Board approved the implementation of an internal audit plan for the first time. The Supervisory Board also dealt with the requirements of a compliance management system and approved the Code of Conduct presented by the Executive Board in November 2019.

Election to the Supervisory Board

The term of office of the members of the Supervisory Board ended at the close of the ordinary general meeting, convened on May 17, 2019. Therefore new elections were necessary. Robin Laik, Dr. Kristian Schleede and Bernd Maierhofer stood for re-election and were each confirmed with 77.73% of the capital present at the general meeting. In the spirit of good corporate governance, the election to the Supervisory Board was held as individual election.

According to section 5.4.1 (6) to (8) of the German Corporate Governance Code (in the version of February 7, 2017) Mr. Bernd Maierhofer is an independent member of the Supervisory Board.

In its constituent Supervisory Board meeting – following the general meeting on Mai 17, 2019 – The Supervisory Board elected Mr. Robin Laik as Chairman and Dr. Kristian Schleede as Deputy Chairman of the Supervisory Board. With Dr. Kristian Schleede the company has a member of the Supervisory Board with expertise in the fields of accounting or auditing in accordance with Section 100 clause 5 1. AktG.

Formation of committees

In the 2019 financial year, the company's three-member Supervisory Board decided not to form committees and dealt with all upcoming issues within the board.

Members of Executive Board and Supervisory Board

The Executive Board of STS Group AG included Andreas Becker as Chairman (CEO), Dr. Ulrich Hauck as CFO (since April 1, 2019) and Patrick Oschust as COO. Dr. Ulrich Hauck was appointed by the Supervisory Board on February 25, 2019 to the Executive Board until June 30, 2022. Stefan Vrublovsky had not extended his contract, which was expiring as scheduled, for personal reasons and resigned as CFO on March 31, 2019. The Supervisory Board would like to take this opportunity to thank him again for his commitment to the STS Group.

In the Supervisory Board meeting on May 14, 2019, the Supervisory Board decided to extend the existing Executive Board contracts with Mr. Andreas Becker and Mr. Patrick Oschust in accordance with Section 84 (1) Sentence 2 AktG. Effective as of July 1, 2019, Mr. Andreas Becker was appointed to the Executive Board of STS Group AG for another four years until June 30, 2023. The appointment of Mr. Patrick Oschust was extended with effect of July 1, 2019, for another two years until June 30, 2021.

Corporate Governance and Declaration of Compliance

The Supervisory Board and Executive Board act in the awareness that good corporate governance is an important basis for the company's success. The Executive Board and the Supervisory Board have issued the Declaration of Compliance with the Corporate Governance Code on December 18. 2019. There were no conflicts of interest for individual members of the Executive Board and the Supervisory Board in the 2019 financial year. A list of all mandates of the members of the Supervisory Board is contained in section 5.7 of the notes to the consolidated financial statements.

Information on the Supervisory Board-related aspects of the company's corporate governance can be found in the corporate governance report, which is part of the corporate governance declaration on the company's homepage at https://www.sts.group/investor-relations/corporate-governance and is permanently publicly accessible.

The remuneration of the members of the Supervisory Board can be found in the remuneration report on pages 73 ff. of the annual report, individually and broken down by component.

In the year under review, the Supervisory Board did not identify any potential conflicts of interest with regard to a member of the Supervisory Board.

The company is committed to the recommendations set out in the German Corporate Governance Code. The Declaration of Compliance issued annually by the Executive Board and the Supervisory Board, most recently from December 2019, is permanently available to the public on the company's website under https://www.sts.group/investor-relations/corporate-governance.

Audit of the financial statements for the 2019 financial year

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the resolution of the Annual General Meeting of 17 May 2019 as auditor and as group auditor for the financial year from January 1, 2019 to December 31, 2019 and commissioned by the Chairman of the Supervisory Board. A Declaration of Independence by the auditor in accordance with section 7.2.1 of the German Corporate Governance Code has been made available to the Supervisory Board.

The audit were based on the annual financial statements of STS Group AG prepared by the Executive Board in accordance with the German Commercial Code (HGB) for the financial year of January 1, to December 31, 2019 the consolidated financial statements for the financial year of January 1 to December 31, 2019, prepared by the Executive Board in accordance with Section 315a of the German Commercial Code (HGB) on the basis of the international accounting standards IFRS, to December 31, the management report of STS Group AG, which is summarized together with the Group Management Report of the STS Group. At the end of the audit, PricewaterhouseCoopers GmbH issued an unqualified audit certificate to the annual financial statements, the consolidated financial statements and the combined group management report of the STS Group and STS Group AG.

The audit has shown that the management board of STS Group AG in compliance with the requirements of section 91 (2) AktG has taken the appropriate measures to set up an early risk detection system and that the early risk detection system is suitable for early detection of developments that could endanger the continued existence of the company.

The annual financial statements, the consolidated financial statements, the combined group management report of the company as well as the report of the auditor on its audit were available to all members of the Supervisory Board in good time before the resolution and approval by the Supervisory Board on April 6, 2020. The auditor reported to the Supervisory Board on the course and the main results of his audits and was available to answer questions, discuss them and provide additional information. He took part in the deliberations of the supervisory board on the annual and consolidated financial statements and the meeting of the supervisory board for the approval of the annual and consolidated financial statements and approval of the consolidated financial statements on April 6, 2020.

At its balance sheet meeting, the Supervisory Board dealt with the financial statements of STS Group AG and the STS Group, as well as the combined group management report.

The Supervisory Board also submitted its proposal to the Annual General Meeting for the election of the auditor. Beforehand, the Supervisory Board obtained a written declaration of independence from the auditor. In the course of an independent monitoring process, the Supervisory Board also formed its own opinion about the independence of the auditor.

Pursuant to Section 315b (3) HGB, the company prepares a separate non-financial group report. The contents of the report were examined by the Supervisory Board.

The board also examined the dependency report prepared by the Executive Board, the accounting process and the company’s risk management system, as well as the effectiveness, appropriateness of the internal control systems and compliance with the integrity of the financial reporting.

After detailed discussion of the audit reports on the individual and consolidated fi-nancial statements as of December 31, 2019 and the combined group management report of the company and the Group, the Supervisory Board raised no objections. The Supervisory Board approved in its meeting of the Supervisory Board on April 6, 2020 the annual financial statements prepared by the Executive Board and the consolidated financial statements of STS Group AG for the 2019 financial year to-gether with the combined group management report. The 2019 annual financial statements have thus been adopted (section 172 sentence 1 AktG).

Dependency report

Furthermore, in the meeting of April 6, 2020 the Supervisory Board reviewed the report of the Executive Board of STS Group AG for the 2019 financial year on relationships with affiliated companies (dependency report) in accordance with Section 312 AktG.

The report prepared by the Executive Board on relationships with affiliated companies in accordance with section 312 (1) AktG has also been audited by the auditor. The auditor has issued the following unqualified audit opinion in accordance with section 313 (3) AktG:
"Having conducted a proper audit and appraisal, we hereby confirm that

- the actual disclosures contained in the report are correct,
- the payments of the company were not inappropriately high or the disadvantages were compensated for in the legal transactions listed in the report,
- there are no circumstances supporting an assessment materially different from that reached by the Board with regard to the actions referred to in the report."

The auditor submitted the audit report to the Supervisory Board. The dependency report and the audit report were submitted to the Supervisory Board in good time. The auditor attended the meeting of the Supervisory Board on April 6, 2020 and informed about the main results of his review of the dependency report.

The Supervisory Board, for its part, examined the Executive Board's dependency report and the auditor's report.

The Supervisory Board concurs with the result of the audit by the auditor and approves the report after the final result of its own audit. According to the final result of the audit, the Supervisory Board has no objections to the declaration by the Executive Board at the end of the dependency report.

Dear shareholders, in view of the mega-trends of emission reduction, electro-mobility and digitization, we see our group of companies well positioned for the future. The Supervisory Board expresses his thanks and appreciates to the members of the Executive Board and the employees of all Group companies for their personal commitment and their contribution in 2019.

Hallbergmoos, April 6, 2020

For the Supervisory Board

Robin Laik
Chairman of the Supervisory Board

STS GROUP AG ON THE CAPITAL MARKETS

SHARE INFORMATION

Stock Exchanges	Xetra, Frankfurt, Berlin, Dusseldorf, Munich, Stuttgart, Tradegate
Symbol	SF3
Total number of shares	6,000,000
Amount of share capital	6,000,000 EUR
ISIN	DE000A1TNU68
WKN	A1TNU6
Market segment	Regulated Market
Transparency level	Prime Standard
Designated sponsor	Hauck & Aufhäuser Privatbankiers AG, mwb fairtrade Wertpapierhandelsbank AG

CAPITAL MARKET ENVIRONMENT

In 2019, international investors were not worried by a possible recession or the American-Chinese trade war. While economic developments were disappointing, global equity markets benefited from the continued expansionary monetary policy of the central banks. The German stock index (DAX) rose by 26.3% in 2019 to 13,249.01 points compared to the previous year's close of 10,558.96 points. The DAX sub-sector automotive, on the other hand, only recorded a nominal increase of 1.2% in the reporting period. As a result, the automotive market developed significantly worse in 2019 than the overall market.

SHARE: PRICE HISTORY AND TRADING VOLUME

The STS Group AG shares started the trading year on January 2, 2019 with an opening price of 10.30 EUR. Since the second half of 2018, widespread skepticism has shaped capital market expectations due to the declining development of the general automotive markets. This particularly affected stocks with a small market capitalization, which also put the shares of STS Group under further pressure at the beginning of 2019.

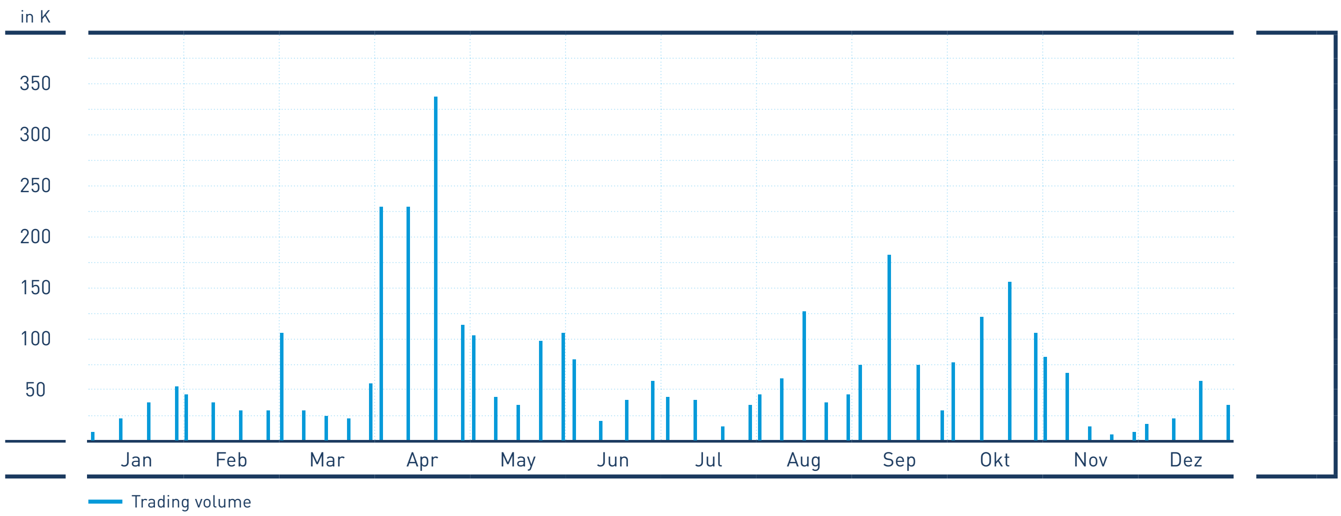
In the second quarter, after the successful start of production of a third plant in China, the price managed to resist the negative development on April 23, 2019, and reached a high of 11.75 EUR. Despite a robust order development with orders from the Chinese e-mobility market and large orders for major Chinese commercial vehicle manufacturers, the price decline resumed in the second quarter. After the revenues and earnings expectations adjusted at the beginning of August 2019 and the continued decline in the European commercial vehicle market, the share price reached its low in the reporting period at a price of 3.91 EUR on October 17, 2019.

October 22, 2019: First Capital Markets Day in Frankfurt

With the presentation of future-oriented technologies and the presentation of the updated corporate strategy at the first Capital Markets Day of the STS Group on October 22, 2019, the share experienced a positive trend reversal. The major order from a leading commercial vehicle manufacturer in North America and the planned construction of a first US plant set the pace for a share price recovery. STS Group AG shares ended trading in 2019 at a closing price of 5.62 EUR on December 30, 2019. Overall, the price fell 44.8% from the previous year's close of 10.17 EUR.

SHARE PRICE HISTORY (JANUARY 1 TO DECEMBER 31, 2019)

TRADING VOLUME (JANUARY 1 TO DECEMBER 31, 2019)



SHARE: OVERVIEW OF SHARE PRICE DEVELOPMENT

Opening price	**January 2, 2019**	**10.30 EUR**
High	April 23, 2019	11.75 EUR
Low	October 19, 2019	3.91 EUR
Closing price	**December 30, 2019**	**5.62 EUR**
Market capitalization	**December 30, 2019**	**33.7 mEUR**

As of the 2019 balance sheet date, the market capitalization of STS Group AG was EUR 33.7 million based on 6,000,000 shares in circulation. In the previous year, the market value for the same number of shares and a closing price of EUR 10.17 was 61.0 mEUR (on the basis of Xetra prices). The average daily trading volume of STS Group shares on all German stock exchanges increased to 15,034 shares in 2019 compared to 7,009 shares in 2018.

SHARE BUYBACK PROGRAM

In the period from November 22, 2018 to May 3, 2019, STS Group AG acquired in total 50,000 shares for a total amount of 505,371.00 EUR. The share buyback as part of the share buyback program 2018/I was carried out by Hauck & Aufhäuser Privatbankiers AG exclusively via the electronic XETRA trading system. The share buyback program 2018/I, which was approved by the Executive Board of STS Group AG with the approval of the Supervisory Board on November 21, 2018, had a target to buy back a total of 50,000 treasury shares of the company during the period from November 22, 2018 to May 21, 2019 in the amount of up to 1.0 mEUR (excluding incidental acquisition costs) and was completed as planned.

MANAGER'S TRANSACTIONS

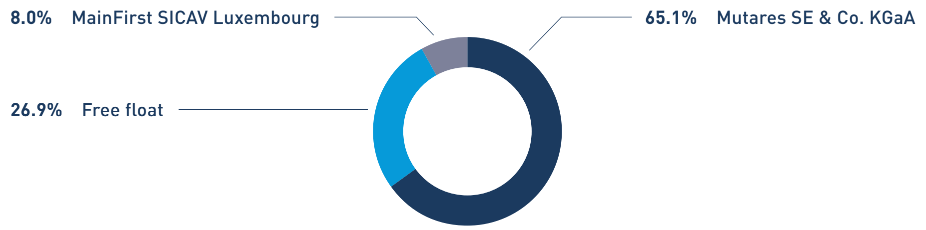
92,000 EUR: Members of the Executive Board build trust by purchasing Company shares

During the reporting period, members of the Executive Board acquired shares of around 92,000 EUR in direct transactions by executives, co-called directors' dealings. In doing so, they reaffirmed their confidence in the progress of STS's efficiency measures and the future growth prospects.

SHAREHOLDER STRUCTURE

As of December 31, 2019, the company had a balanced relationship between free float and institutional investors. With 65.1%, Mutares SE & Co. KGaA (formerly mutares AG) holds as a strategic anchor investor the majority of the shares in circulation. MainFirst SICAV Luxembourg holds 8.0% of the voting shares. As of December 31, 2019, free float shares are 26.9% of total shares. 2019.

SHAREHOLDER STRUCTURE



ANALYST RESEARCH

With Hauck & Aufhäuser Privatbankiers, Kepler Cheuvreux, MainFirst Bank, Quirin Privatbank and SMC Research, renowned bank and research houses analyzed and evaluated the STS Group AG share in the reporting period. The price targets and recommendations of the securities analysts reflect in particular the weak development of the European commercial vehicle industry in the 2019 financial year, but also the first signs of a stabilization of the Chinese automotive industry. Even if the analysts' assessments are sometimes very differentiated, the analyzes reflect the general skepticism about the future development of the automotive industry and the challenges companies face in adapting their cost structures flexibly to existing market needs.

ANALYST OVERVIEW

Date	Publisher	Target price	Recommendation
November 19, 2019	SMC Research	10.00 EUR	Speculative Buy
August 20, 2019	MainFirst	6.00 EUR	Hold
December 20, 2019	Kepler Cheuvreux	4.80 EUR	Reduce
August 5, 2019	Hauck & Aufhäuser	7.00 EUR	Hold
May 20, 2019	Quirin	6.50 EUR	Sell

INVESTOR RELATIONS ACTIVITIES

The shares of STS Group AG are listed in the strictly regulated Prime Standard market segment of the Frankfurt Stock Exchange. The company informs its shareholders and capital market participants immediately of important events in its business activity or of relevance to share price developments by means of ad hoc announcements or corporate news.

The management of STS Group AG maintains a close communication with investors and analysts as well as the financial and business press. In addition, the Executive Board is available at regular telephone conferences for the exchange of information with capital market participants when business results are announced.

Management held numerous one-on-one meetings with analysts, investors and financial journalists in the reporting year. The board presented STS Group AG, its business model and its strategy at road shows and capital market conferences in European financial centers.

INVESTOR RELATIONS OVERVIEW

February 12, 2019	CF&B 12th European Midcap Event, Frankfurt/Main
February 27, 2019	Publication of preliminary figures for 2018
April 4, 2019	Publication of Annual Report 2018
April 16 to 17, 2019	CF&B 14th Smallcap Event, Paris
April 29, 2019	Roadshow Helsinki/Copenhagen
May 7 to 8, 2019	MKK Munich Capital Market Conference, Munich
May 15, 2019	Publication of Quarterly Statement (reporting date Q1)
May 17, 2019	Annual General Meeting
May 28, 2019	MainFirst SMID Cap One-on-One Forum, Frankfurt/Main
June 4, 2019	Prior Capital Market Conference, Frankfurt/Main
August 7, 2019	Publication of Semi-Annual Report
September 2 to 3, 2019	Autumn Conference, Frankfurt/Main
September 11, 2019	ZKK Zurich Capital Market Conference, Zurich
September 23, 2019	Roadshow Hamburg
October 22, 2019	Capital Markets Day in Frankfurt/Main
November 6, 2019	Publication of Quarterly Statement (reporting date Q3)
November 13, 2019	Roadshow Madrid
November 25 to 27, 2019	Deutsches Eigenkapitalforum, Frankfurt/Main

In 2019, as designated sponsors, Hauck & Aufhäuser Privatbankiers AG and mwb fairtrade Wertpapierhandelsbank AG continuously supported the reasonable tradability of the STS Group shares through tradable bid and ask prices.

The Investor Relations section of STS Group AG offers a comprehensive insight into business development at sts.group.

FINANCIAL CALENDAR 2020

February 4, 2020	Montega Hamburg Investors Day, Hamburg
March 10, 2020	Publication of preliminary results 2019
April 9, 2020	Publication of Annual Report 2019
April 28 to 29, 2020	Munich Capital Market Conference, Munich
May 13, 2020	Publication of Quarterly Statement (reporting date Q1)
July 14, 2020	Annual General Meeting, Munich
May 18 to 20, 2020	Spring Conference, Frankfurt/Main
June 18, 2020	Quirin Champions Conference, Frankfurt/Main
August 6, 2020	Publication of Semi-Annual Report
November 4, 2020	Publication of Quarterly Statement (reporting date Q3)
November 16 to 18, 2020	Deutsches Eigenkapitalforum, Frankfurt/Main

All dates are available for download in the financial calendar on the website at:
https://www.sts.group/investor-relations/financial-calendar

2 — COMBINED MANAGEMENT REPORT

BASIS OF THE GROUP

BUSINESS MODEL

17
Plants worldwide

4
Research and Development centers

>2,500
Employees

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

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

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

OVERVIEW OF LOCATIONS

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

BUSINESS ACTIVITY

The Group's business is divided into four segments:

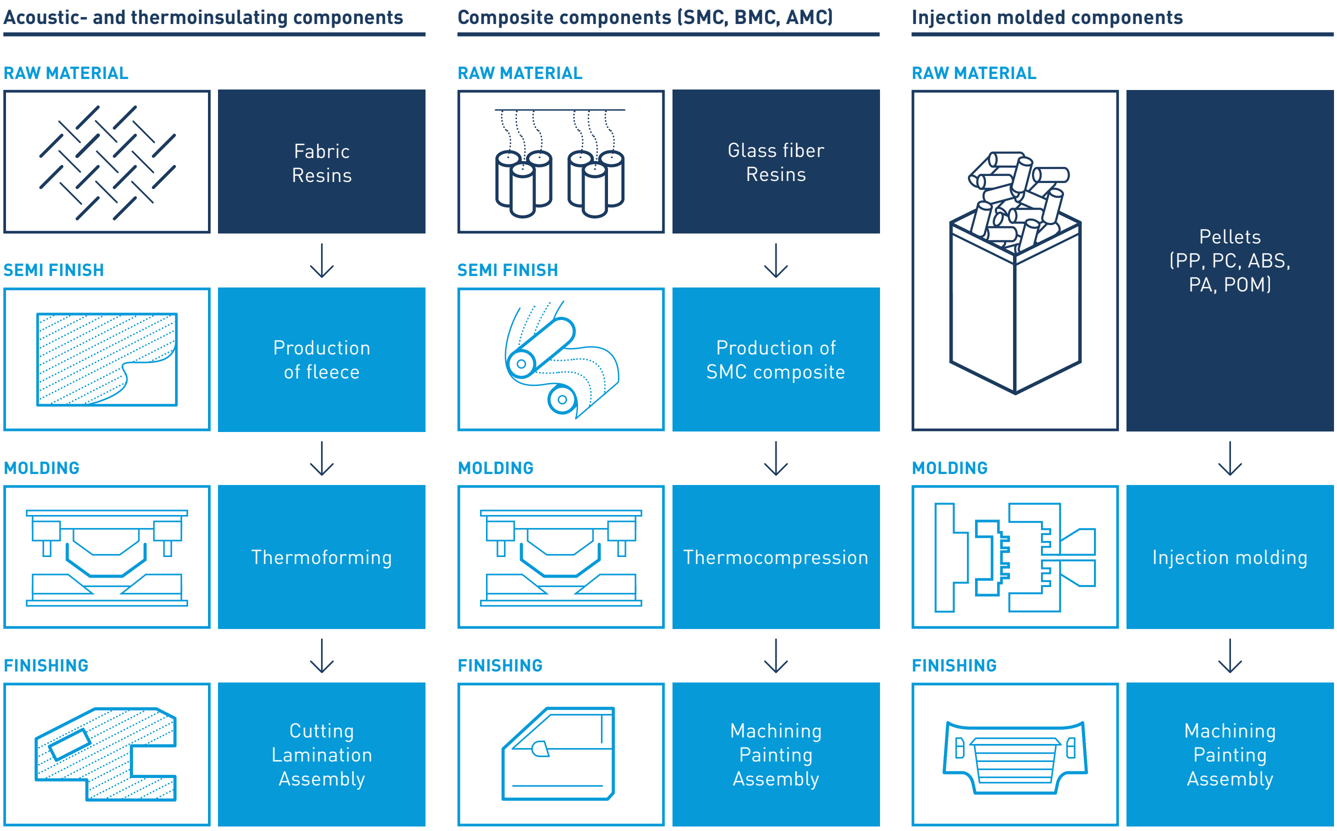
- **Acoustics:** The segment's activities include the development and production of integrated acoustic and thermal systems. The focus is on soft trim products; mainly for the European and South American market. The manufactured parts have different uses for the vehicles. They increase the comfort in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

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

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

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

THE HIGH VERTICAL INTEGRATION ENSURES AN EFFICIENT PRODUCTION PROCESS



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

GROUP STRATEGY AND MANAGEMENT

GOALS AND STRATEGY

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

4

Strategic pillars

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

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

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

MANAGEMENT SYSTEM

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

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

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

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

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

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

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

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

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

EMPLOYEES

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

STS still attaches great importance to accident prevention and health promotion. This can be seen, among other things, in measures to prevent accidents such as employee training, safety audits, cross-location exchange on best practices and improved process monitoring and technical measures for machine safety. STS promotes health through a variety of local initiatives: there are free vaccinations for employees, cancer screening and training on the subject of attentiveness. In addition, the external reviews of operational measures addressed in the previous year will be continued. The main individual companies are certified according to OHSAS 18001 (occupational health and safety).

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

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

RESEARCH AND DEVELOPMENT

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

High Performance Networking of all four development centers

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

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

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

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

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

Ideas implemented in new developments:

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

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

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

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

ECONOMIC REPORT

MACROECONOMIC ECONOMIC AND INDUSTRY SPECIFIC CONDITIONS

MACROECONOMIC DEVELOPMENT

Global economy with continued declining momentum

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

Global production for the full year 2019 with decreasing momentum

China's economy continues to cool

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

Burdens due to protectionism and weak global economy

The economic upswing in the Eurozone continues to weaken

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

Trade dispute and a weak automotive sector burden

North and South America fail to meet expectations

Economic reforms under pressure from global economy

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

Mexican economy stagnates with minimal growth

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

INDUSTRY SPECIFIC DEVELOPMENT

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

Positive trend in fourth quarter in the German domestic market

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

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

2019 with challenges for passenger car market

BUSINESS PERFORMANCE

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

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

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

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

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

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

EARNINGS, ASSETS AND FINANCIAL POSITION OF THE GROUP

EARNINGS SITUATION

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

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

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

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

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

DEVELOPMENT OF SEGMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

EARNINGS BY SEGMENT

Acoustics Segment

In the Acoustics segment, revenues in the 2019 financial year were 112.1 mEUR. With a minus of 9.9%, revenues were significantly below the previous year’s level (2018: 124.4 mEUR). The main reason for the decline in revenues in the reporting period were lower customer requests in the relevant passenger car market in Italy. The segment’s EBITDA improved to minus 0.4 mEUR in the reporting period (2018: EUR 3.0 mEUR). In the reporting period, the result was burdened with special expenses for reorganization measures in the amount of 0.4 mEUR (2018: minus 1.8 mEUR). Adjusted for special expenses, the Acoustics segment posted adjusted EBITDA of around 35 kEUR (2018: minus 1.2 mEUR). Despite lower business volume, adjusted EBITDA increased in the reporting period, which can be attributed to the measures taken to adjust material and personnel costs as well as the positive effects of the first-time application of IFRS 16 of around 1.7 mEUR. The Polish plant continued to contribute a clearly negative EBITDA, although the earnings situation improved significantly, particularly as a result of the measures introduced to increase cost efficiency.

Plastics Segment

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

China Segment

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

Materials Segment

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

FINANCIAL POSITION

Principles and objectives of financial management and dividend policy

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

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

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

Cash Flow

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

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

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

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

Liquid assets

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

Net financial liabilities

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

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

FINANCIAL POSITION

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

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

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

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

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

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

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

OVERALL STATEMENT BY THE EXECUTIVE BOARD ON THE ECONOMIC SITUATION

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

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

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

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

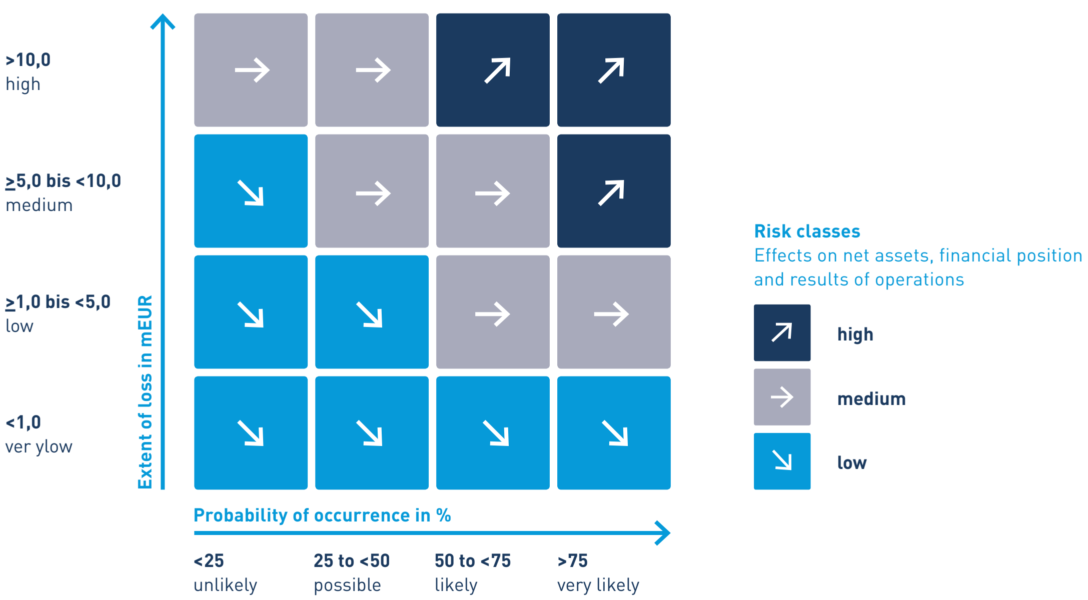
OPPORTUNITIES AND RISK REPORT

RISK MANAGEMENT SYSTEM

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

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

RISK MATRIX [1]



1 Classification of net risk

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

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

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

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

Financial risk management

The management of STS Group monitors and controls financial risks associated with business areas of STS Group using internal risk reporting, which analyzes risks by degree and extent. These risks include credit, liquidity and market risks (currency and interest rate risks).

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

MACROECONOMIC OPPORTUNITIES AND RISKS

WORLD ECONOMY WITH UNCERTAINTY THROUGH TRADE POLICY DISORDERS

Trade policy uncertainties as risks for global economy

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

CHINA – RISK OF DECREASING GROWTH RATES

Mood in China worse than real situation

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

EUROZONE WITH ECONOMIC AND POLITICAL RISKS

Uncertain economic development in Europe

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

POLITICAL UNCERTAINTIES SLOWN DOWN NORTH AND SOUTH AMERICA

Brazil and Mexico dependent on foreign trade

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

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

CHANGED ASSESSMENT OF RISKS AFTER THE END OF THE REPORTING PERIOD

Effects of Coronavirus Pandemic (COVID-19)

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

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

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

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

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

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

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

SECTORAL OPPORTUNITIES AND RISKS

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

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

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

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

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

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

Innovations reduce risks

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

Standardization creates opportunities for electric mobility in the commercial vehicle industry

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

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

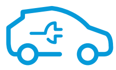
Automobiles as carriers of technology

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

CO_2-neutral mobility as opportunity for the technology driver automobile

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

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



Sales of electric vehicles rising

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

OTHER RISK AREAS AND KEY OPPORTUNITIES AND INDIVIDUAL RISKS

RISKS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OPPORTUNITIES

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

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

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

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

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

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

FORECAST

WORLD ECONOMY UNDER THE SPELL OF CORONA VIRUS

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

Significant slowdown of global economy

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

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

SECTORAL FORECAST

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

Double-digit declines in global commercial vehicle market

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

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

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

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

Plants in China have resumed production

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

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

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

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

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

SUBSEQUENT EVENTS

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

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

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

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

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

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

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

TAKEOVER-RELATED DISCLOSURES

ACC. TO SECTION 289 A AND SECTION 315 A HGB

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

COMPOSITION OF SUBSCRIBED CAPITAL

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

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

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

RESTRICTIONS CONCERNING VOTING RIGHTS OR THE TRANSFER OF SHARE OWNERSHIP

Each share grants, pursuant to SECTION 21 (1) of the statutes of STS Group AG one vote at the general meeting in accordance with section 24 (2) of the articles of association of STS Group AG and determines the share in the profit of STS Group AG for the shareholders. This does not apply to treasury shares held by STS Group AG, from which STS Group AG has no rights. Restrictions on the voting rights of shares can arise, in particular, from stock corporation law regulations, such as from § 136 AktG. Violations of notification obligations within the meaning of sections 33 (1), 38 (1) and 39 (1) of the German Securities Trading Act (WpHG) may result in rights on shares and voting rights not being available at least temporarily in accordance with section 44 of the WpHG. STS Group AG is not aware of any contractual restrictions on voting rights.

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

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

SHAREHOLDINGS THAT EXCEED 10.0% OF VOTING RIGHTS

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

SHARES WITH SPECIAL RIGHTS THAT CONFER POWER OF CONTROL

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

CONTROL OF VOTING RIGHTS IN THE PARTICIPATION OF EMPLOYEES

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

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

The appointment and dismissal of members of the Executive Board are governed by sections 84 and 85 AktG. According to section 7 (1) of the articles of association of STS Group AG, the Executive Board consists of one or more persons. The exact number is determined by the Supervisory Board. The Supervisory Board may, under section 7 (2) of the articles of association of STS Group AG appoint a chairman of the Executive Board and a deputy chairman.

A change of the articles of association requires according to section 119 (1) No. 5, 179 AktG a resolution of the general meeting. The authority to amend the articles of association, which only affect the wording, is in accordance with section 179 (1) sentence 2 AktG in conjunction with section 12 (4) of the articles of association of STS Group AG transferred to the supervisory board. In addition, the Supervisory Board was authorized by resolution of the general meeting of May 3, 2018 to amend Section 4 of the articles of association in accordance with the respective utilization of the authorized capital 2018/I and the Conditional Capital 2018/I and after the respective authorization period has expired.

Resolutions of the general meeting require a simple majority of votes and, if a majority of the capital is required, a simple majority of the share capital represented in the resolution, unless the law requires a larger majority (section 21 (2) of the articles of association of STS Group AG). Accordingly – in deviation from section 179 (2) sentence 1 AktG – resolutions of the Annual General Meeting that change the articles of association, in addition to the simple majority of the majority of the share capital represented in the resolution, unless the law requires a larger majority. In addition, according to section 21 (2) of the articles of association of STS Group AG – in deviation from section 103 (1) sentence 2 AktG – a majority vote suffices for the dismissal of members of the Supervisory Board.

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

a) Authorized Capital 2018/I

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

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

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

b) Conditional capital 2018/I

By resolution of the Annual General Meeting on May 3, 2018, the company's share capital is increased by up to EUR 2,000,000.00 by issuing up to 2,000,000 new no-par value bearer shares with a proportionate amount of the company's share capital of 1.00 EUR per share conditionally increased ("Conditional Capital 2018/I"). The Conditional Capital 2018/I serves to grant shares when exercising options or conversion rights or upon fulfillment of option or conversion obligations to the owners or creditors of convertible bonds, option bonds, profit participation rights and/or profit bonds (or combinations of these instruments) issued on the basis of the authorization resolution of the general meeting of May 3, 2018. Further details can be found in the authorization resolution and in section 4 (3) of the articles of association of STS Group AG.

c) Conditional capital 2018/II

By resolution of the Annual General Meeting on May 3, 2018, the company's share capital is increased conditionally by up to EUR 500,000.00 by issuing up to 500,000 new bearer shares with a pro rata amount of the share capital of the Company of 1.00 EUR each no-par share ("Conditional Capital 2018/II"). The Conditional Capital 2018/II will only be implemented to the extent that, in accordance with the 2018 stock option program in accordance with the resolution of the Annual General Meeting on May 3, May 2018, subscription rights were issued, the holders of the subscription rights exercise their exercise right and the company does not grant any treasury shares to fulfill the subscription rights. The total volume of subscription rights is distributed among the entitled groups of people as follows:

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

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

d) Share buyback

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

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

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

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

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

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

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

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

COMPENSATION REPORT

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

COMPENSATION STRUCTURE FOR THE MEMBERS OF THE EXECUTIVE BOARD

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

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

MAIN FEATURES OF THE COMPENSATION SYSTEM

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

FIXED COMPENSATION

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

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

FRINGE BENEFITS

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

ONE-YEAR VARIABLE COMPENSATION

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

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

MULTI-YEAR VARIABLE COMPENSATION

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

STS LONG TERM INCENTIVE BONUS ("LTI")

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

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

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

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

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

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

Payment of the LTI

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

STS STOCK OPTIONS PROGRAM 2018

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

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

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

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

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

MUTARES STOCK OPTION PLAN 2016

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

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

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

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

PARTICIPATION BONUS MUTARES

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

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

D&O INSURANCE

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

PENSION

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

EXECUTIVE BOARD AGREEMENTS

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

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

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

REVIEW RESP. ADJUSTMENT OF COMPENSATION

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

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

LIMITATION OF SEVERANCE PAYMENTS

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

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

AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL

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

LOANS TO EXECUTIVE BOARD MEMBERS

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

RESIGNATION OF A MANAGEMENT BOARD MEMBER IN THE REPORTING YEAR

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

EXECUTIVE BOARD COMPENSATION ACCORDING TO THE GERMAN CORPORATE GOVERNANCE CODE

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

BENEFITS GRANTED ACCORDING TO GCGC

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

BENEFITS GRANTED

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

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

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

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

INFLOW ACCORDING TO GCGC

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

INFLOW

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

EXECUTIVE BOARD COMPENSATION IN ACCORDANCE WITH THE HGB

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

HGB

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

COMPENSATION STRUCTURE FOR THE SUPERVISORY BOARD MEMBERS

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

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

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

COMPENSATION OF THE SUPERVISORY BOARD

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

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

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

EMOLUMENTS OF THE SUPERVISORY BOARD

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 AKTG

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

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

DEPENDENCY REPORT

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

NON-FINANCIAL DECLARATION

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

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

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

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

STS GROUP AG

In addition to the reporting on the STS Group, we will explain the development of STS Group AG below. STS Group AG is the parent company of the STS Group and performs the corresponding management and central functions. STS Group AG assumes significant general responsibilities such as group-wide finance and accounting, the provision of management and services in the areas of acquisitions and sales of companies, human resources management, process improvements and strategic development as well as worldwide corporate and marketing communication. STS Group AG holds shares in 14 companies, directly or indirectly. As of December 31, 2019, 34 employees (2018: 14) were employed by STS Group AG. The economic conditions of STS Group AG were essentially in line with those of the STS Group, as described in the Group's fundamentals and in the economic report.

In contrast to the consolidated financial statements, STS Group AG does not prepare its annual financial statements in accordance with the International Financial Reporting Standards (IFRS), but in accordance with the provisions of the German Commercial Code ("HGB"). The full financial statements are published separately under:

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

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

EARNINGS SITUATION

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

INCOME STATEMENT OF STS GROUP AG IN ACCORDANCE WITH HGB

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

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

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

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

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

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

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

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

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

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

ASSETS AND FINANCIAL POSITION

BALANCE SHEET OF STS GROUP AG IN ACCORDANCE WITH HGB

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

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

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

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

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

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

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

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

OPPORTUNITIES AND RISKS

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

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

OUTLOOK

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

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

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

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

General Risk Warning

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

Hallbergmoos, April 6, 2020

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

3 — CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in kEUR	Note	2019	2018
Revenues	3.1	362,798	401,228
Increase or decrease of finished goods and work in progress	3.2	6,763	5,790
Other operating income	3.3	5,339	4,474
Material expenses	3.4	−209,256	−233,790
Personnel expenses	3.5	−103,432	−103,902
Other operating expenses	3.6	−47,616	−61,921
Earnings from operations before depreciation and amortization expenses (EBITDA)		**14,596**	**11,879**
Depreciation and amortization expenses	3.7	−21,072	−13,208
Earnings before interest and income taxes (EBIT)		**−6,476**	**−1,329**
Interest and similar income	3.8	83	89
Interest and similar expenses	3.8	−3,527	−2,102
Earnings before income taxes		**−9,920**	**−3,342**
Income taxes	3.9	−2,204	−1,461
Net income		**−12,124**	**−4,803**
Thereof attributable to: Owners of STS Group AG		−12,124	−4,803
Earnings per share in EUR (undiluted)	3.10	**−2.03**	**−1.20**
Earnings per share in EUR (diluted)		**−2.03**	**−1.20**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in kEUR	2019	2018
Net income	**–12,124**	**–4,803**
Currency translation differences	225	–679
Items that may be reclassified subsequently to profit or loss	**225**	**–679**
Remeasurements of defined benefit plans, net of tax	–1,115	490
Items that will not be reclassified to profit or loss	**–1,115**	**490**
Other comprehensive income	**–890**	**–189**
Total comprehensive income	**–13,014**	**–4,992**
Thereof attributable to: Owners of STS Group AG	–13,014	–4,992

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019

ASSETS

in kEUR	Note	December 31, 2019	December 31, 2018
Intangible assets	4.1	23,813	25,565
Property, plant and equipment	4.2	102,927	78,664
Contract assets	4.8	0	91
Other financial assets	4.3	299	246
Income tax receivables	4.4	24	97
Other non-financial assets	4.5	2,551	3,008
Deferred tax assets	4.6	6,834	7,953
Non-current assets		**136,448**	**115,624**
Inventories	4.7	32,331	29,934
Contract assets	4.8	5,198	5,014
Trade and other receivables	4.9	56,100	81,050
Other financial assets	4.3	3,826	1,242
Income tax receivables	4.4	22	1,162
Other non-financial assets	4.5	5,294	6,649
Cash and cash equivalents	4.10	17,234	31,169
Restricted cash	4.10	0	2,000
Current assets		**120,005**	**158,220**
Total assets		**256,453**	**273,844**

EQUITY AND LIABILITIES

in kEUR	Note	December 31, 2019	December 31, 2018
Share capital	4.11	6,000	6,000
Capital reserve	4.11	22,267	22,193
Retained earnings	4.11	42,722	55,266
Other reserves	4.11	–1,881	–991
Own shares at acquisition cost	4.11	–505	–59
Equity attributable to owners of STS Group AG		68,603	82,409
Total equity		**68,603**	**82,409**
Liabilities to banks	4.12	2,952	4,901
Third party loans	4.12	5,832	5,733
Liabilities from finance leases	4.12	18,823	2,471
Other financial liabilities	4.12	114	46
Contract liabilities	4.8	3,098	1,120
Trade and other payables		1,019	768
Provisions	4.13	21,691	20,133
Deferred tax liabilities		1,440	3,999
Non-current liabilities		**54,969**	**39,171**
Liabilities to banks	4.12	9,488	9,040
Liabilities from factoring	4.12	12,072	36,211
Third party loans	4.12	1,869	3,222
Liabilities from finance leases	4.12	5,298	723
Other financial liabilities	4.12	29	29
Contract liabilities	4.8	5,653	4,669
Trade and other payables		69,708	69,963
Provisions	4.13	99	1,129
Income tax liabilities	4.14	4,569	143
Other non-financial liabilities	4.15	24,096	27,135
Current liabilities		**132,881**	**152,264**
Total equity and liabilities		**256,453**	**273,844**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

	Equity attributable to owners of STS Group AG								
	Number of shares	Share capital	Capital reserves	Retained earnings	Other reserves			Treasury shares, at cost	Total
in kEUR					Remeasuring gains/ losses	Foreign currency translation	Total		
Balance at January 1, 2018 before adjustments IFRS 9 and IFRS 15	**50,000**	**50**	**1,615**	**59,802**	**−190**	**−610**	**−801**	**0**	**60,666**
Adjustments IFRS 9	0	0	0	−74	0	0	0	0	−74
Adjustments IFRS 15	0	0	0	341	0	0	0	0	341
Balance at January 1, 2018	**50,000**	**50**	**1,615**	**60,069**	**−190**	**−610**	**−801**	**0**	**60,933**
Capital increase, cash based	4,950,000	4,950	23,000	0	0	0	0	0	27,950
Capital increase from retained earnings	1,000,000	1,000	−1,000	0	0	0	0	0	0
Costs of capital procurement	0	0	−1,480	0	0	0	0	0	−1,480
Acquisition of treasury shares	−4,763	0	0	0	0	0	0	−59	-59
Equity-settled share-based payment	0	0	57	0	0	0	0	0	57
Income after income tax expense	0	0	0	−4,803	0	0	0	0	−4,803
Other comprehensive income	0	0	0	0	490	−679	−189	0	−189
Balance at December 31, 2018	**5,995,237**	**6,000**	**22,193**	**55,266**	**300**	**−1,289**	**−991**	**−59**	**82,409**
Balance at January 1, 2019 before adjustments IFRIC 23	**5,995,237**	**6,000**	**22,193**	**55,266**	**300**	**−1,289**	**−991**	**−59**	**82,409**
Adjustments IFRIC 23				−420					−420
Balance at January 1, 2019	**5,995,237**	**6,000**	**22,193**	**54,846**	**300**	**−1,289**	**−991**	**−59**	**81,989**
Acquisition of treasury shares	**−45,237**	**0**	**0**	**0**	**0**	**0**	**0**	**−446**	**−446**
Equity-settled share-based payment	0	0	74	0	0	0	0	0	74
Income after income tax expense	0	0	0	−12,124	0	0	0	0	−12,124
Other comprehensive income	0	0	0	0	−1,115	225	−890	0	−890
Balance at December 31, 2019	**5,950,000**	**6,000**	**22,267**	**42,722**	**−815**	**−1,064**	**−1,881**	**−505**	**68,603**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in kEUR	Note	2019	2018
Net income		**–12,124**	**–4,803**
Income taxes	3.9	2,204	1,461
Net interest expense	3.8	3,444	2,013
Depreciation of property, plant and equipment	3.7	16,277	9,565
Amortization of intangible assets	3.7	4,795	3,643
Gain (–) / loss (+) on disposal of property, plant and equipment		–84	–27
Other non-cash income (–) and expenses (+)		–244	92
Change in net working capital		22,922	1,877
Inventories	4.7	–2,397	–5,690
Contract assets	4.8	–184	997
Trade and other receivables	4.9	24,774	16,679
Contract liabilities	4.8	984	3,775
Trade and other payables		–255	–13,884
Other receivables		–735	8,059
Other liabilities		1,373	–6,703
Provisions		–977	–3,251
Income tax receivables and liabilities		–209	–4,823
Net cash flow from operating activities		**36,642**	**7,103**
Proceeds from sale of property, plant and equipment		350	144
Disbursements for investments in property, plant and equipment		–13,091	–7,813
Disbursements for investments in intangible assets		–4,254	–4,210
Disbursements for cash deposits	4.10	2,000	–2,000
Net cash flow from investing activities		**–14,995**	**–13,879**
Proceeds from capital increase		0	27,950
Costs of capital procurement		0	–1,480
Proceeds from share premium services		–446	–59
Proceeds from borrowings		5,842	12,112
Proceeds from repayment of loans		–8,773	–13,513
Repayments of lease liabilities		–5,469	–421
Proceeds from factoring (+) / disbursements for factoring (–)		–24,140	–1,356
Interest paid		–2,617	–1,098
Net cash flow from financing activities		**–35,603**	**22,135**
Effect of currency translation on cash and cash equivalents		**20**	**–26**
Net increase/decrease in cash and cash equivalents		**–13,935**	**15,333**
Cash and cash equivalents at the begining of the period		**31,169**	**15,836**
Cash and cash equivalents at the end of the period		**17,234**	**31,169**

4 — NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

1 — SEGMENT REPORT

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

	Acoustics		Plastics		China		Materials		Corporate/ consilidation		Group	
in kEUR	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue – third parties	112,118	124,384	168,771	198,530	50,411	48,631	31,499	29,683	0	0	362,798	401,228
Revenue – inter-segment	0	0	246	52	0	0	8,325	10,325	–8,571	–10,377	0	0
Revenue segment	**112,118**	**124,384**	**169,017**	**198,582**	**50,411**	**48,631**	**39,824**	**40,008**	**–8,571**	**–10,377**	**362,798**	**401,228**
EBITDA	–430	–2,998	11,399	11,380	8,673	6,466	2,199	1,713	–7,245	–4,681	14,596	11,879
EBITDA in % of revenue	–0,4%	–2,4%	6,7%	5,7%	17,2%	13,3%	5,5%	4,3%	84,5%	45,1%	4,0%	3,0%
Adjusted EBITDA	35	–1,241	12,632	16,677	9,044	7,160	2,371	1,927	–6,460	–846	17,621	23,677
Adjusted EBITDA in % of revenue	0,0%	–1,0%	7,5%	8,4%	17,9%	14,7%	6,0%	4,8%	75,4%	8,2%	4,9%	5,9%
Depreciation and amortization	–5,222	–4,281	–9,490	–6,802	–3,680	–730	–1,453	–1,277	–1,227	–118	–21,072	–13,208
EBIT	–5,652	–7,279	1,909	4,578	4,993	5,736	746	436	–8,472	–4,799	–6,476	–1,329
CAPEX	5,911	3,835	5,967	3,095	4,887	3,808	293	436	287	849	17,345	12,023

IFRS 8 Business Segments requires disclosure of information per business segment. The delimitation of operating business segments as well as the amount of information provided in the context of segment reporting are carried out, inter alia, on the basis of information regularly made available to the Executive Board as the main decision-makers and are therefore based on the company's internal control.

The Executive Board of the company decided to classify and control the reporting partly by product type and partly geographically. Accordingly, the corporate key figures are made available to the Executive Board for the following areas:

- **Acoustics:** The activities of the segment include the development and production of integrated acoustic and thermal systems. The focus is on soft-trim products; mainly for the European and South American markets. Soft-trim applications have acoustic and thermal properties that reduce noise and protect against heat. Customers include commercial vehicle manufacturers and FCA ("Free Carrier").
- **Plastics:** The segment manufactures a variety of exterior body parts and interior modules for trucks, commercial vehicles and passenger cars. It includes the hard-trim products made by injection molding and SMC thermal compression. Hard-trim applications are used for external parts (e.g. front modules and aerodynamic cladding) or internal modules ("bunkbox" under the driver's bed and shelf elements) and structural parts (trunk lid). In addition, the segment has its own capacities for the painting of plastic materials.
- **China:** This segment focuses on the regional market in China with the production of plastic parts, mainly for commercial vehicles. The product range includes external parts (shock absorbers, front panels, deflectors, fenders, entrances, etc.) as well as structural parts, e.g. for the trunk lids or battery covers. SMC pressing processes and thermoplastic technologies are used. In addition, the segment has its own capacities for the painting of plastics.

- **Materials:** This segment includes the development and production of semi-finished products (sheet molding compound – SMC), fiber molding compounds (Bulk Molding Compound – BMC) and advanced fiber molding compounds (Advanced Molding Compound – AMC). The semi-finished products are used within the group for hard-trim applications as well as delivered to external third parties. In the stage of development of these basic materials, it is already possible to influence essential parameters of the final product.

The Group manages its business in a total of four segments. In addition to corporate activities, consolidation is also shown within the column "Company/Consolidation". No operating business segments were combined to reach the level of the Group's reportable segments.

The breakdown of revenues with third parties in accordance with IFRS 15 is as follows:

	Acoustics		Plastics		China		Materials		Group	
in kEUR	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Timing of revenue recognition										
Transferred at a point of time	3,408	2,936	17,069	17,307	49,579	46,674	31,499	29,668	101,554	96,585
Transferred over time	108,710	121,448	151,702	181,223	832	1,957	0	15	261,244	304,643
Revenue – third parties	**112,118**	**124,384**	**168,771**	**198,530**	**50,411**	**48,631**	**31,499**	**29,683**	**362,798**	**401,228**

Revenues between the segments are carried out at market-based transfer prices.

In principle, the segments are subject to the same accounting principles as ex-plained in Section 6 Accounting and Valuation Methods. Adjusted "EBITDA" represents EBITDA adjusted for special charges incurred in financial year 2019, for severance and consulting costs as well as for reorganization measures. In the financial year 2018, special charges for the costs of the IPO, legal and consulting expenses, severance expenses and TSA fees (transition services agreements; "TSA") were included.

The reconciliation of reported segment results to earnings before taxes is as follows:

in kEUR	2019	2018
Adjusted EBITDA Group	**17,621**	**23,667**
Management adjustments (netted)	– 3,025	–11,798
EBITDA Group	**14,596**	**11,879**
Depreciation and amortization expenses	– 21,072	–13,208
Earnings before interest and income taxes (EBIT)	**– 6,476**	**–1,329**
Interest and similar income	83	89
Interest and similar expenses	– 3,527	–2,102
Finance result	– 3,444	–2,013
Earnings before income taxes	**– 9,920**	**–3,342**

The application of IFRS 16 to leases previously classified as operating leases in accordance with IAS 17 resulted in a reduction of 1,750 kEUR in other expenses in the Acoustics segment, 2,580 kEUR in the Plastics segment, 1,031 kEUR in the China segment and 184 kEUR in the Materials segment.

The long-term segment assets by registered office of the company are as follows:

in kEUR	December 31, 2019	December 31, 2018
Europe	95,810	78,193
France	55,663	52,068
Italy	25,291	19,943
Germany	2,058	1,301
Others	12,798	4,881
Rest of World	33,505	29,141
Non-current segment assets	**129,315**	**107,334**

Long-term segment assets include property, plant and equipment, intangible assets and other non-financial assets.

In the Acoustics segment, an impairment loss of 755 kEUR (2018: 1,105 kEUR) was recognized in the 2019 financial year after a review of the recoverable amount of the cash generating unit (CGU). For more details please refer to section 4.2 Property, plant and equipment.

Revenues by customer's registered office are as follows:

in kEUR	2019	2018
Europe	291,488	328,427
France	117,064	129,203
Italy	63,410	72,340
Germany	54,118	63,989
Others	56,896	62,895
Rest of World	71,310	72,802
China	48,363	45,537
Others	22,947	27,265
Revenues by location of customer	**362,798**	**401,228**

Revenues to four customers (2018: four customers) accounted for more than 10% of total third-party revenues in the 2019 and 2018 financial years. Revenues to the largest customer are attributable to the Acoustics, Plastics and China segments and amount to 101,999 kEUR (2018: 106,733 kEUR), to the second largest customer to the Acoustics and Plastics segments and amount to 76,818 kEUR (2018: 74,144 kEUR), to the third largest customer to the Plastics, China and Materials segments and amounts to 46,456 kEUR (2018: 51,859 kEUR) and to the fourth largest customer to the Acoustics, Plastics and China segments and amounts to 45,145 kEUR (2018: 48,974 kEUR).

2 — GENERAL DISCLOSURES

STS Group AG (hereinafter also referred to as "the company" and together with its subsidiaries "the group") is an exchange listed German corporation with its registered office at Zeppelinstraße 4, 85399 Hallbergmoos. It is registered in Commercial Register B of the Munich Local Court (Amtsgericht) under HRB 231926. The company is listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard) with the security identification number ISIN DE000A1TNU68. The share capital amounts to 6,000,000 EUR and is divided into 6,000,000 shares.

The majority shareholder of STS Group AG is Mutares SE & Co. KGaA (formerly mutares AG), Munich, Germany.

The consolidated financial statements of STS Group AG as of December 31, 2019 include STS Group AG and its subsidiaries. The group is a leading system supplier of interior and exterior parts for commercial vehicles. The group develops, produces and supplies products and solutions for acoustic and thermal insulation (so-called "soft trim products") and components made of plastic or composite materials (so-called "hard trim products") for the automotive and truck industry.

The Executive Board prepared the consolidated financial statements on April 6, 2020. On this date, the period permitted for the measurement of balance sheet items ends.

2.1 BASIS OF PREPARATION

The consolidated financial statements for the financial year ending December 31, 2019 is based on the premise of a going concern of the company (see point 5.2.2 Financial risk management – under liquidity and financing risk – for further explanations). They were prepared in compliance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as they are to be applied in the European Union (EU), as well as in compliance with Section 315e (1) HGB. The group therefore applies all of the IFRSs published by the IASB and the interpretations issued by the IFRS Interpretations Committee (IFRIC) that were in effect as of December 31, 2019, and were adopted by the EU and are applicable to the group. The term IFRS also refers to all applicable International Accounting Standards (IAS) and all interpretations and changes to the International Financial Reporting Standards.

The group's financial year includes twelve months and ends on December 31.

The consolidated financial statements were prepared in Euro (EUR). Unless otherwise stated, all amounts are based on commercial rounding to thousand Euro (kEUR) rounded up or down. Sums in tables were calculated on the basis of exact numbers and rounded to EUR kEUR. The consolidated financial statements of the group were prepared for all of the reporting periods in compliance with uniform accounting and consolidation principles. The consolidated financial statements were prepared using the acquisition cost principle. This does not apply to certain financial assets and liabilities (including derivative instruments) and share-based payments that are stated at fair value. The group classifies assets and liabilities as current if they are expected to be realized or settled within twelve months after the balance sheet date. Insofar as assets and liabilities have both a short-term and a long-term portion, they are divided into their maturity components and according to the balance sheet structure shown as short-term and long-term assets or liabilities. The profit and loss statement is prepared under the total cost method.

2.2 PRINCIPLES FOR CONSOLIDATION

All subsidiaries controlled by STS Group AG in accordance with the provisions of IFRS 10 "Consolidated Financial Statements" are included in the consolidated financial statements and are fully consolidated. The Group gains control if it can exercise control over the investee, is exposed to fluctuating returns from the investment and has the ability to use its power over the investee in such a way that it affects the rate of return of the investee. The company reviews control again if facts and circumstances indicate that one or more of the criteria for control mentioned above have changed.

Intra-group transactions, balances and intra-group profits or losses from transactions between STS Group AG and its subsidiaries and between the subsidiaries are eliminated as part of the consolidation.

The results of subsidiaries acquired or sold during the course of the year are accounted for in the consolidated income statement and other consolidated earnings with effect from the actual date of acquisition or until the actual date of disposal.

Scope of consolidated companies

As of December 31, 2019 and December 31, 2018, the scope of consolidated companies include the parent company and 14 fully consolidated subsidiaries. In addition to the parent company, two other companies were located in Germany and twelve companies were located abroad.

As of December 31, 2019, the scope of consolidation included STS Group AG and the following fully consolidated subsidiaries:

		Ownership interest in %	
Company	**Domicile**	**December 31, 2019**	**December 31, 2018**
STS Acoustics SpA	Turin, Italy	100	100
STS Acoustics Poland Sp. z o.o.	Miedzyrzecz, Poland	100	100
STS Real Estate Srl	Turin, Italy	100	100
STS Brazil Holding GmbH	Hallbergmoos, Germany	100	100
STS Brasil Ltda.	Betim, Brazil	100	100
STS Plastics Holding SAS	St. Désirat, France	100	100
STS Plastics SAS	Paris, France	100	100
STS Composites France SAS	Lyon, France	100	100
STS Composites Germany GmbH	Kandel, Germany	100	100
Inoplast Truck S.A. de C.V.	Ramos, Mexico	100	100[1]
STS Plastics Co., Ltd.	Jiangyin, China	100	100
STS Plastics (Shi Yan), Ltd.	Shi Yan, China	100	100
STS MCR Holding SAS	Tournon, France	100	100
MCR SAS	Tournon, France	100	100

1 0.2% of the shares in Inoplast Truck S.A. de C.V., Mexico are held indirectly by STS Plastics Holding SAS, France.

Mergers and business value or goodwill

Mergers are accounted for in accordance with IFRS 3 "Business Mergers" using the acquisition method. The consideration transferred in the context of an acquisition corresponds to the fair value of the assets transferred, the equity instruments issued and the resulting or/ assumed debt at the time of the transaction. They also include the fair values of any assets or liabilities recognized resulting from a conditional consideration agreement. Acquisition-related costs are expensed when they are incurred. In the context of a merger, identifiable assets, liabilities and contingent liabilities are evaluated in the first consolidation at their fair values at the time of acquisition.

Goodwill is assessed as the surplus of the acquisition cost, the amount of non-controlling interests in the acquired company and the fair value of any previously held equity shares at the time of acquisition above the Group's share of net assets assessed at the corresponding fair value and shall be checked at least once a year for depreciation. If the acquisition cost is lower than the net assets of the acquired subsidiary assessed at fair value, the difference is accounted for directly in the consolidated income statement after a re-examination.

Tax accruals and deferrals required by IAS 12 "Income Taxes" have been taken into account for temporary differences resulting from consolidation.

Acquisitions

In July 2019, the STS Group reached an agreement with the Plastic Omnium Group on the purchase price of the acquisition made in June 2017. The Plastic Omnium Group and the STS Group waive all claims to adjust the purchase price. Insofar, the preliminary purchase price of 10,630 kEUR Euro as stated in the consolidated financial statements as of May 31, 2018 is equivalent to the final purchase price (see Chapter 1.3 "Consolidation Principles" section Acquisitions, page 112 f.).

2.3 CURRENCY TRANSLATION

Functional currency and currency used in reports

The consolidated financial statements have been prepared in accordance with the concept of functional currency. The functional currency is the primary currency of the economic environment in which STS Group AG operates. It corresponds to the Euro, which also corresponds to the currency used in the consolidated financial statements. The functional currency of the subsidiaries is usually the national currency of the economic environment in which the subsidiaries operate independently. Excluded from this are the Polish and Mexican subsidiaries, whose functional currency corresponds to the currency which prevails in its primary economic environment of its independent activity. The functional currency of the Polish subsidiary is the Euro, of the Mexican subsidiary it is the US, of the Brazilian subsidiary the Real and, for the Chinese subsidiaries, the Renminbi Yuan.

Transactions and balances

In the financial statements of the individual group companies, transactions in foreign currency are translated into the functional currency at the exchange rate applicable at the time of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the middle rate on the balance sheet date. Non-monetary items that have been valued in a foreign currency in relation to their historical cost are converted using the exchange rate on the day of the original transaction. Foreign currency gains and losses from these transactions are shown in the consolidated income statement under "Other operating income" or "Other operating expenses". This procedure also applies to the foreign currency translation of the Mexican subsidiary from the Mexican Peso to the functional currency US Dollar and for the Polish subsidiary from the Polish Zloty to the functional currency Euro. When preparing the consolidated financial statements, the assets and liabilities of the foreign subsidiaries whose functional currency is not the Euro are translated into Euro at the exchange rates applicable on the balance sheet date. Revenues and expenses are translated at the average exchange rate for the period, unless exchange rates are subject to significant fluctuations during this period. In this case, the exchange rates at the time of the transaction would be used. Translation differences from currency translation into the company's functional currency are recorded directly in other comprehensive income within equity until the subsidiary is disposed of.

Goodwill resulting from the acquisition of a foreign business operation and any adjustments of the book value of the assets and liabilities resulting from the acquisition are treated as assets and liabilities of the foreign business operation and converted at the rate on the balance sheet date.

The exchange rates used for currency translation are as follows:

		Spot rate		Average rate	
1 EUR in	Code	December 31, 2019	December 31, 2018	2019	2018
Brazil	BRL	4,516	4,444	4,415	4,421
China	CNY	7,821	7,875	7,729	7,842
Mexico	USD	1,123	1,145	1,119	1,138

3 — NOTES TO THE CONSOLIDATED INCOME STATEMENT

3.1 REVENUES

The group generated in the financial year ending December 31, 2019 revenues of 362,798 kEUR (2018: 401,228 kEUR), which break down as follows:

in kEUR	2019	2018
Revenues from sales	360,356	399,384
Revenues from services	3,870	4,203
Revenue deductions	−1,428	−2,359
Revenues	**362,798**	**401,228**

The decrease in revenues from 401,228 kEUR by 38,430 kEUR to 362,798 kEUR was mainly impacted by a weak Western European market for commercial vehicles in the second half of the year and a significant decline in automobile production in the Italian passenger car market, which is important for the group. The Chinese commercial vehicle market declined in 2019 as a whole, but recovered significantly in the fourth quarter in the segment of logistics trucks that is particularly relevant for the group. The revenues development by region and product group is described in the segment reporting in accordance with IFRS 8, see section 1. All revenues reported as revenues stem from revenues based on contracts with customers.

3.2 CHANGES IN INVENTORY

The increase in finished goods and work in progress is due to an increase of the inventory of tools for customer orders.

3.3 OTHER OPERATING INCOME

in kEUR	2019	2018
Capitalized self-produced assets	1,432	1,232
Income from other services	821	970
Income from subsidies	369	721
Income from raw material and waste recycling	783	480
Income from exchange rate differences	275	331
Income from the disposal of fixed assets	107	76
Miscellaneous other operating income	1,552	664
Other operating income	**5,339**	**4,474**

Capitalized own work refers to the capitalization of expenses incurred in connection with the development of process technologies and tools. The income from public subsidies relates to grants for industrial research and the opening of a new plant. Income from other services essentially include the passing on of additional production costs to customers. The increase of other income includes the positive effect of the agreement with Plastic Omnium on service allowances.

3.4 MATERIAL EXPENSES

in kEUR	2019	2018
Cost of raw materials, consumables and supplies	178,687	199,973
Cost of purchased services	30,569	33,817
Material expenses	**209,256**	**233,790**

3.5 PERSONNEL EXPENSES

The personnel expenses break down as follows:

in kEUR	2019	2018
Wages and salaries	77,309	77,510
Social security	26,123	26,392
Personnel expenses	**103,432**	**103,902**

Personnel expenses decreased by 470 kEUR from 103,902 kEUR to 103,432 kEUR in the 2019 financial year. Despite higher personnel costs per employee, the decrease in the number of employees lead to a decrease in personnel expenses.

The cost of retirement benefits is 4,661 kEUR (2018: 3,819 kEUR).

The average number of employees is follows:

Average number of employees by group	2019	2018
Production	2,164	2,215
Administration	345	326
Total	**2,509**	**2,541**

3.6 OTHER OPERATING EXPENSES

In the 2019 financial year, other operating expenses amounted to 47,616 kEUR (2018: 61,921 kEUR) and include the following expenses:

in kEUR	2019	2018
Maintenance and repairs	10,371	10,904
Legal and consulting costs	7,305	12,000
Selling expenses	6,144	7,917
Administration	3,613	4,932
Occupancy costs	3,604	3,215
Advertising and travel expenses	3,140	2,926
Base levies and other taxes	2,678	2,705
Services received from related parties	2,439	5,191
Rental and leasing	2,054	7,154
Research and development expenses	1,733	1,767
Occupational health and safety	1,102	411
Fleet	941	761
Insurance premiums	836	740
Fees and contributions	709	767
Low-value assets	307	208
Expenses from foreign currency translation	177	475
Losses from claims and onerous contracts	149	–1,333
Losses from the disposal of assets	23	49
Additions to allowances on receivables	–9	190
Miscellaneous other operating expenses	300	942
Other operating expenses	**47,616**	**61,921**

The decrease in other expenses mainly results from the decrease in legal and consulting fees incurred in connection with the IPO in the previous year due to the first-time application of IFRS 16 and resulting lower operating lease payments and lower distribution and administrative expenses.

The income within the claims and expenses for impending losses in the previous year was due to the release of provisions for onerous contracts in the amount of 1,348 kEUR.

In the financial year ended December 31, 2019 resp. 2018, PricewaterhouseCoopers GmbH ("PwC") was appointed as auditor for the group. The total fees of 313 kEUR (2018: 2,155 kEUR), which is included in the item legal and consulting costs, is divided into the following services:

in kEUR	2019	2018
Audits of financial statements	313	1,235
Other attestation services	0	687
Other services	0	233
Total	**313**	**2,155**

In the 2018 financial year, the auditor issued a comfort letter and audited pro forma financial information to other confirmation services as non-audit services and, as an other service, accompanied the conversion of the accounting to IFRS as auditor.

For details on related party services, please refer to section 5.5.1.

3.7 DEPRECIATION AND AMORTIZATION EXPENSES

in kEUR	2019	2018
Depreciation of property, plant and equipment	15,521	8,460
Amortization of intangible assets	4,058	3,643
Impairments	1,493	1,105
Depreciation and amortization expenses	**21,072**	**13,208**

Depreciation and amortization rose from 13,208 kEUR to 21,072 kEUR in the 2019 financial year, mainly due to the scheduled depreciation of the usage rights of use recognized for the first time under IFRS 16.

Please refer to Sections 4.1 and 4.2 for the recognized impairments.

3.8 FINANCIAL INCOME AND FINANCIAL EXPENSES

Financial income and financial expenses break down as follows:

in kEUR	2019	2018
Miscellaneous interest and similar income	83	89
Interest and similar income	**83**	**89**
Interest expense from banks/lenders	918	885
Interest expense from factoring	571	409
Interest expense discounting provisions	322	328
Interest expense from finance leases	1,439	30
Miscellaneous interest and similar expenses	277	450
Interest and similar expenses	**3,527**	**2,102**

The interest expenses from the discounting of provisions include interest expenses for pensions. The application of IFRS 16 to leases previously classified as operating leases in accordance with IAS 17 resulted in an increase in interest expense.

3.9 INCOME TAXES

Income taxes break down as follows:

in kEUR	2018	2017
Current income taxe expense	−2,449	−4,026
Deferred Tax expense (–) / income (+)	245	2,565
Tax expense (–) / income (+)	**−2,204**	**−1,461**

The following table shows the reconciliation of the tax rate from the expected tax expense to the respective reported tax expense in each financial year.

Based on the actual tax rate applicable to the group result in Germany taking into account the corporate tax rate of 15.0% (2018: 15.0%) plus the solidarity surcharge of 5.5% (2018: 5.5%) on the tax liability and trade income tax of 11.2% (2018: 11.2%) the total tax rate was 27.03% (2018: 27.03%).

in kEUR	2019	2018
Earnings before income taxes	**–9,920**	**–3,342**
Weighted average tax rate (in %)	27.03%	27.03%
Tax income at the weighted average tax rate	**2,681**	**902**
Tax rate differences and tax rate changes	–167	709
Valuation allowance/reversal of valuation allowance	–375	0
Usage of unrecognized loss carryforward	1	610
Effects from change in unrecognized deferred taxes on temporary differences and tax loss carryforwards	–3,883	–3,894
Other non tax-deductible expenses including witholding tax	–653	–607
Expenses for the capital increase recognizes directly in equity	0	366
Tax-exempt income	88	496
Additional payment of taxes and refunds from previous years	–4	0
Other effects	108	–43
Reported income tax expense (–)/income (+)	**–2,204**	**–1,461**

The applicable tax rates of the group companies were between 19.0% and 34.0% (2018: 19.0% and 34.0%).

3.10 EARNINGS PER SHARE

Earnings per share are as follows:

		2019	2018
Net income attributable to owners of STS Group AG	in kEUR	–12,124	–4,803
Weighted average number of ordinary shares to calculate earnings per share			
Undiluted	Number	5,960,261	3,996,731
Diluted	Number	5,960,261	3,996,731
Earnings per share			
Undiluted	in EUR	–2.03	–1.20
Diluted	in EUR	–2.03	–1.20

Since the share price-based success hurdle of potentially dilutive stock options (see section 5.6 share-based compensation) was never exceeded on any day in the reporting period, there were no dilutive effects in earnings per share.

4 — NOTES TO THE CONSOLIDATED BALANCE SHEET

4.1 INTANGIBLE ASSETS

The development of intangible assets was as follows:

in kEUR	Internally generated intangible rights and assets	Customer relationships	Production technologies	Patents, concessions, other rights including Software	Prepayments and intangible assets under development	Prepayments and intangible assets under development	Total
Historical cost							
Balance as of January 1, 2018	**182**	**11,590**	**11,600**	**3,284**	**0**	**190**	**26,846**
Additions	567	0	88	3,187	0	368	4,210
Reclassifications	749	0	0	−559	0	251	441
Disposals	0	0	−126	0	0	0	−126
Exchange rate differences	−7	170	−2	−1	0	−7	153
Balance as of December 31, 2018	**1,491**	**11,760**	**11,560**	**5,911**	**0**	**803**	**31,525**
Adjustments IFRS 16	**0**	**0**	**0**	**−1,813**	**1,816**	**−2**	**1**
Balance as of December 31, 2018	**1,491**	**11,760**	**11,560**	**4,098**	**1,816**	**801**	**31,526**
Additions	973	0	0	259	185	3,023	4,440
Reclassifications	−1,119	0	0	384	0	−1,097	−1,832
Disposals	0	0	0	−1	0	0	−1
Exchange rate differences	14	72	2	1	0	15	104
Balance as of December 31, 2019	**1,359**	**11,832**	**11,562**	**4,741**	2,001	**2,742**	**34,237**
Cumulative amortization and impairment							
Balance as of January 1, 2018	**−123**	**−949**	**−850**	**−356**	**0**	**0**	**−2,278**
Amortization	−163	−1,499	−1,297	−684	0	0	−3,644
Reclassifications	−41	0	0	37	0	0	−4
Disposals	0	0	126	0	0	0	126
Exchange rate differences	1	−41	2	−123	0	0	−161
Balance as of December 31, 2018	**−326**	**−2,489**	**−2,019**	**−1,127**	**0**	**0**	**−5,960**
Adjustments IFRS 16	**0**	**0**	**0**	**72**	**−72**	**0**	**0**
Balance as of December 31, 2018	**−326**	**−2,489**	**−2,019**	**−1,055**	**−72**	**0**	**−5,960**
Amortization	−235	−1,529	−1,298	−721	−275	0	−4,058
Impairments	0	0	0	−738	0	0	−738
Reclassifications	355	0	0	0	0	0	355
Disposals	0	0	0	1	0	0	1
Exchange rate differences	0	−16	0	−4	0	0	−20
Balance as of December 31, 2019	**−206**	**−4,034**	**−3,317**	**−2,517**	**−347**	**0**	**−10,421**
Net carrying amounts							
Balance as of December 31, 2018 before adjustments IFRS 16	1,166	9,271	9,541	4,784	0	803	25,565
Balance as of December 31, 2018 after adjustments IFRS 16	1,166	9,271	9,541	3,043	1,744	801	25,565
As of December 31, 2019	1,153	**7,797**	8,244	2,223	1,654	2,742	23,813

Amortization of intangible assets is reported under depreciation and amortization expenses in the consolidated income statement.

In the financial year ended December 31, 2019, an impairment loss of 738 kEUR (2018: EUR 0) was recorded for the reporting and consolidation tool, which was replaced by another system.

4.2 PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment was as follows:

in kEUR	Land and buildings	Right of use land and buildings	Technical equipment and machinery	Right of use technical equipment and machinery	Operating and office equipment	Right of use Operating and office equipment	Advance payments and assets under development	Total
Historical cost								
Balance as of January 1, 2018	**42,445**	**0**	**121,519**	**0**	**4,587**	**0**	**3,583**	**172,133**
Additions	512	0	4,955	0	503	0	4,401	10,371
Reclassifications	608	0	769	0	– 6	0	–1,813	– 442
Disposals	– 41	0	– 2,172	0	– 27	0	– 10	– 2,250
Exchange rate differences	– 276	0	– 376	0	–15	0	10	– 657
Balance as of December 31, 2018	**43,248**	**0**	**124,695**	**0**	**5,042**	**0**	**6,171**	**179,156**
Adjustments IFRS 16	**0**	**17,217**	**– 2,218**	**4,810**	**0**	**396**	**0**	**20,205**
Balance as of December 31, 2018 after IFRS 16	**43,248**	**17,217**	**122,477**	**4,810**	**5,042**	**396**	**6,171**	**199,361**
Additions	1,809	3,291	4,227	2,115	357	562	6,698	19,059
Reclassifications	571	0	4,047	0	409	0	– 3,194	1,833
Disposals	– 16	0	– 1,337	0	– 3	0	– 72	– 1,428
Exchange rate differences	55	– 19	– 30	– 9	– 6	0	24	15
Balance as of December 31, 2019	**45,667**	**20,489**	**129,384**	**6,916**	**5,799**	**958**	**9,627**	**218,839**
Cumulative amortization and impairment								
Balance as of January 1, 2018	**–1,951**	**0**	**– 88,210**	**0**	**– 2,921**	**0**	**0**	**– 93,084**
Amortization	–1,500	0	– 6,503	0	– 457	0	0	– 8,460
Impairments	0	0	–1,105	0	0	0	0	–1,105
Reclassifications	0	0	4	0	0	0	0	4
Disposals	12	0	2,112	0	11	0	0	2,134
Exchange rate differences	1	0	14	0	2	0	0	18
Balance as of December 31, 2018	**– 3,438**	**0**	**– 93,688**	**0**	**– 3,365**	**0**	**0**	**–100,492**
Adjustments IFRS 16	**0**	**0**	**516**	**– 516**	**0**	**0**	**0**	**0**
Balance as of December 31, 2018 after IFRS 16	**– 3,438**	**0**	**– 93,172**	**– 516**	**– 3,365**	**0**	**0**	**–100,492**
Amortization	– 2,746	– 3,259	– 6,966	–1,647	– 509	– 394	0	–15,521
Impairments	0	0	– 755	0	0	0	0	– 755
Reclassifications	0	0	8	0	– 363	0	0	– 355
Disposals	15	0	1,143	0	3	0	0	1,161
Exchange rate differences	12	9	17	4	6	1	0	49
Balance as of December 31, 2019	**– 6,157**	**– 3,250**	**– 99,725**	**– 2,159**	**– 4,228**	**– 393**	**0**	**–115,912**

CONTINUATION

in kEUR	Land and buildings	Right of use land and buildings	Technical equipment and machinery	Right of use technical equipment and machinery	Operating and office equipment	Right of use Operating and office equipment	Advance payments and assets under development	Total
Net carrying amounts								
Balance as of January 1, 2018	39,812	0	31,007	0	1,677	0	6,171	78,664
Balance as of January 1, 2018 after adjustments IFRS 16	39,812	17,217	29,305	4,294	1,677	396	6,171	98,869
Balance as of December 31, 2019	39,510	17,239	29,659	4,757	1,571	565	9,627	102,927

Depreciation is reported under depreciation and amortization epenses in the consolidated income statement.

Continued tense economic conditions required a review of the recoverable amount for several cash-generating units (CGUs) in the 2019 financial year. One of these CGUs is still an independent plant within the Acoustics segment. The review resulted in an impairment loss of 755 kEUR (2018: 1,105 kEUR), which was allocated to the technical systems and machines. The discount rate used to determine the value in use was 14.17% p.a. (2018: 13.4% p.a.). The value in use of the CGU was as of December 31, 2019 4,315 kEUR (December 31, 2018: 5,495 kEUR).

Impairment losses are assigned to the depreciation and amortization item of the consolidated income statement.

4.3 OTHER CURRENT AND NON-CURRENT FINANCIAL ASSETS

Other current and non-current financial assets are as follows:

	December 31, 2019		
in kEUR	Non-current	Current	Total
Supplier bonuses	0	405	405
Security deposits	261	0	261
Receivable from factorer	0	3,314	3,314
Miscellaneous other financial assets	38	0	38
Creditors with debit balances	0	107	107
Other financial assets	**299**	**3,826**	**4,125**

	December 31, 2018		
in kEUR	Non-current	Current	Total
Supplier bonuses	0	562	562
Security deposits	208	0	208
Receivable from factorer	0	680	680
Miscellaneous other financial assets	38	0	38
Other financial assets	**246**	**1,242**	1,488

For details on loans to affiliated companies, please refer to section 5.5.1.

As of December 31, 2019, respectively December 31, 2018, the claims against factoring companies primarily included security deposit of the sold receivables.

4.4 CURRENT AND NON-CURRENT INCOME TAX RECEIVABLES

Long-term income tax receivables amounted to 24 kEUR as of December 31, 2019 (December 31, 2018: 97 kEUR).

Current income tax receivables amounted to 22 kEUR as of December 31, 2019 (December 31, 2018: 1,162 kEUR).

4.5 OTHER CURRENT AND NON-CURRENT NON-FINANCIAL ASSETS

	December 31, 2019		
in kEUR	Non-current	Current	Total
VAT receivables	0	2,104	2,104
Other tax refund claims	2,548	1,579	4,127
Miscellaneous other non-financial assets	0	172	172
Prepaid expenses	0	1,439	1,439
Advance payments on salaries	3	0	3
Other non-financial assets	**2,551**	**5,294**	**7,845**

	December 31, 2018		
in kEUR	Non-current	Current	Total
VAT receivables	134	4,012	4,146
Other tax refund claims	2,835	1,266	4,101
Miscellaneous other non-financial assets	0	838	838
Prepaid expenses	0	533	533
Advance payments on salaries	39	0	39
Other non-financial assets	**3,008**	**6,649**	**9,657**

4.6 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities as of December 31, 2019 and December 31, 2018 are broken down as follows:

	December 31, 2019		December 31, 2018	
in kEUR	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	102	2,764	212	4,215
Property, plant and equipment	1,434	8,351	1,584	2,481
Other financial assets	2	0	0	20
Inventories	424	8	478	1
Non-current trade and other receivables and contract assets	0	9	0	23
Current trade and other receivables and contract assets	239	0	257	3,103
Current other non-financial assets	31	31	51	15
Pensions and similar obligations	3,622	0	2,881	0
Non-current other provisions and liabilities	2,342	65	492	196
Current other provisions and liabilities	4,627	184	4,272	532
Loss carryforwards	3,983	0	4,313	0
Deferred taxes before netting	**16,806**	**11,412**	**14,540**	**10,586**
Netting	– 9,972	– 9,972	– 6,587	– 6,587
Deferred taxes netted	**6,834**	**1,440**	**7,953**	**3,999**

In principle, for companies that have sufficient taxable income in future periods, deferred tax assets on deductible temporary differences as well as tax loss carryforwards must be formed in order to cover the tax benefits from temporary differences and loss carryforwards.

The netting refers to the offsetting of deferred tax assets and liabilities within individual companies or tax groups, insofar as they relate to the same tax authorities.

Of the total tax loss carry-forward in the amount of 85,916 kEUR (2018: 78,413 kEUR), an amount of 16,181 kEUR (2018: 17,384 kEUR) is expected to be usable within a reasonable period. Deferred tax assets in the amount of 3,983 kEUR (2018: 4,313 kEUR) were created in the amount of the expected tax loss carryforwards.

Loss carryforwards amounting to 14,267 kEUR will expire between 2020 and 2024 if they are not used.

As of December 31, 2019, deferred taxes amounting to 392 kEUR (2018: 192 kEUR) were offset against equity from the valuation of the defined benefit obligation in accordance with IAS 19. Deferred tax liabilities on differences of 40,940 kEUR (2018: 51,467 kEUR) of undistributed profits of the Group's subsidiaries were not reported due to the existing control in accordance with IAS 12.39.

4.7 INVENTORIES

Inventories are broken down as follows:

in kEUR	December 31, 2019	December 31, 2018
Raw materials, consumables and supplies	13,122	14,284
Work in progress	15,764	11,125
Finished goods and goods for resale	3,150	4,280
Prepayments for inventories	295	245
Inventories	**32,331**	**29,934**

The valuation of inventories takes into account marketability, age and all identifiable price, quality and storage risks.

The cost of individual inventories item is determined on the basis of weighted average costs.

Inventories recognized as expenses in the financial year 2019 amounted to 178,687 kEUR (2018: 199,973 kEUR) and are included in material expenses.

In the 2019 financial year, depreciation of inventories includes defective goods in the amount of 1,064 kEUR (2018: 1,061 kEUR) and are included in material expenses. On the other hand, reversals of impairments in material expenses amounted to 145 kEUR (2018: 147 kEUR), resulting from changes in economic circumstances and indicating an increase in net realizable values.

4.8 CONTRACT ASSETS AND CONTRACT LIABILITIES

The following table shows the closing balances of contract assets and contract liabilities from customer contracts:

in kEUR	December 31, 2019	December 31, 2018
Trade receivables from contracts with customers	55,839	80,403
Non-current contract assets	0	91
Current contract assets	5,198	5,014
Non-current contract liabilities	3,098	1,120
Current contract liabilities	5,653	4,669

No impairment losses were recorded on contract assets in accordance with IFRS 9 in the 2019 and 2018 financial years. The change in contract assets in the current period is essentially due to the changes in series production inventories, which meet the criteria for the period-related revenue recognition.

In the current reporting period, revenues from contracts with customers that were included in the contract liabilities at the beginning of the reporting period, were realized in the current reporting period in the amount of 3,170 kEUR (2018: 849 kEUR). A transaction price of 14,363 kEUR (2018: 12,383 kEUR) was allocated to the performance obligations that were not fully or partially fulfilled at the end of the reporting period. The Group anticipates that these performance obligations will be realized in the amount of 12,283 kEUR (2018: 8,596 kEUR) in the following period and in the amount of 2080 kEUR (2018: 3,787 kEUR) in the subsequent periods. The indicated transaction prices are essentially prices for first-series tools. In accordance with IFRS 15, the transaction price is not specified for performance obligations with a maximum term of one year.

4.9 TRADE RECEIVABLES AND OTHER RECEIVABLES

in kEUR	December 31, 2019	December 31, 2018
Trade and other receivables before risk allowances	57,193	82,652
Less risk allowances – bucket 2	– 75	– 87
Less risk allowances – bucket 3	–1,018	–1,515
Trade and other receivables	**56,100**	**81,050**

Trade receivables and other receivables are non-interest bearing and have a term of less than one year.

The Group recognizes impairment losses for general credit risks using the expected losses model in accordance with IFRS 9.5.5. They are initially recorded in allowance accounts, unless it can be assumed that the reason for the write-down arises that the claim will be partially or completely uncollectible. In such cases, the book value of the receivables is written off directly through profit or loss.

For the determination of the impairment loss, please refer to section 5.2.2.

Impairment losses of 989 kEUR (December 31, 2018: 998 kEUR) exist for trade receivables that are valued at fair value with no effect on income.

Developments in expected credit losses for trade receivables and other receivables

in kEUR	2019	2018
Balance as of January 1	**1,602**	**1,382**
Addition	71	314
Utilization	0	0
Reversal	–580	–167
Currency translation and other effects	0	73
Balance as of December 31	**1,093**	**1,602**

Assignment of trade receivables

The group sells trade receivables to factoring companies either on the basis of non-recourse or recourse factoring.

Selling receivables as non-recourse factoring

The group sold trade receivables with a book value of 30,931 kEUR (2018: 5,397 kEUR) to third parties on the basis of factoring agreements, for which no significant opportunities and risks for the group remain. These receivables were therefore de-recognized in accordance with IFRS 9.3.2.6 (a). The group showed the security deposit retained by the factoring company for the assigned receivables as other current financial assets as of December 31, 2019 in the amount of 3,314 kEUR (2018: 680 kEUR). Due to the short-term nature of the trade receivables sold and the advances received, the fair value corresponds approximately to the book value. In the event of a delay in payment by the customer, the group is exposed to a remaining payment risk of 21 kEUR (2018: 15 kEUR) to the factoring company. The amounts to be repaid to the factoring company should be regarded as short-term and represent the maximum risk of loss to the company.

Selling receivables as recourse factoring

The group sells trade receivables to factoring companies in return for rights of recourse. These trade receivables are not de-recognized from the balance sheet because the group retains essentially all risks and opportunities associated with ownership. This is primarily a credit risk. The amounts received from the sale of trade receivables are reported as a liability. Depending on the agreement with the respective factoring company, customers pay the corresponding open items directly to the group, which then forwards the amounts received to the factoring companies. The book value of the trade accounts receivable that were not de-recognized as of December 31, 2019, amounted to 14,325 kEUR (2018: 38,930 kEUR). The corresponding liabilities as of December 31, 2019, amounted to 12,072 kEUR (2018: 36,211 kEUR). Due to the short-term nature of the trade receivables sold and the associated liabilities, the fair value corresponds approximately to the book value. The resulting net position amounts to 2,253 kEUR (2018: 2,719 kEUR).

4.10 CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS

Credit balances with banks as of December 31, 2019, resp. December 31, 2018, were not pledged.

The restricted cash and cash equivalents in the 2018 financial year were a security deposit for a current account overdraft.

For information on credit risks, please refer to section 5.2.2 Financial risk management "Credit and default risk".

4.11 EQUITY

The individual components of equity and their development for the 2019 and 2018 financial years are shown in the consolidated statement of changes in equity.

Subscribed capital

The subscribed capital of STS Group AG as of December 31, 2019, resp. December 31, 2018, amounted to a total of 6,000 kEUR and consists of 6,000,000 (2018: 6,000,000) no-par value bearer shares with a notional interest in the company's share capital of 1.00 EUR each.

The subscribed capital of STS Group AG has been fully paid up.

Each share entitles to one vote in the General Meeting.

Authorized capital

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the company's share capital until May 2, 2023, by up to 2,500 kEUR once or several times by issuing up to 2,500,000 new bearer shares against cash and/or contributions in kind ("Authorized Capital 2018/I"). In principle, subscription rights shall be granted to existing shareholders. 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;
(ii) to the extent necessary to grant bearers, resp. creditors of bonds with conversion or option rights or with conversion or option obligations and which have been or will be issued by the company or a direct or indirect holding company, to grant a subscription right to new bearer shares in the company to the extent that they exercise after exercising the option or Conversion rights or after fulfillment of conversion or option obligations as a shareholder;
(iii) for the issue of shares in exchange for cash contributions if the issue price of the new shares is not significantly lower than the stock exchange price of the shares already listed in the sense of Section 203 (1) and (2), Section 186 (3) Sentence 4 AktG and which is based on the exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 AktG (German Stock Corporation Act), the proportionate amount of share capital no longer applicable does not exceed a total of 10% of the share capital.

(iv) to issue shares against contributions in kind, in particular – but not limited to – for the purpose of (also indirectly) acquiring parts of a company, participations in companies or other assets or for servicing bonds issued against contributions in kind.

Further details can be found in the authorization resolution and in Section 4 (5) of the statutes of STS Group AG.

Contingent capital

Contingent capital 2018/I

The share capital of the company is by resolution of the General Meeting on May 3, 2018, contingently increased by up to 2,000 kEUR by issuing up to 2,000,000 new bearer shares with a pro rata amount of the company's share capital of 1.00 EUR per share (Contingent Capital 2018/I). The Contingent Capital 2018/I serves to grant shares when exercising options or conversion rights or upon fulfillment of option or conversion obligations to the owner or creditors of on the basis of the authorization resolution of the general meeting of May 3, 2018, issued convertible bonds, bonds with warrants, profit participation rights and/or profit participation bonds (or any combination of these instruments). Further details can be found in the authorization resolution and in Section 4 (5) of the statutes of STS Group AG.

Contingent capital 2018/II

The share capital of the company is by resolution of the General Meeting on May 3, 2018 contingently increased by up to 500 kEUR by issuing up to 500,000 new bearer shares with a pro rata amount of the company's share capital of EUR 1,00 per share (Contingent Capital 2018/II). The Contingent Capital 2018/II will only be issued to the extent that subscription rights are issued under the 2018 stock option program in accordance with the resolution of the Annual General Meeting on May 3, 2018, the holders of the subscription rights exercise their right and the company does not grant any treasury shares to fulfill the subscription rights. The total volume of subscription rights is distributed among the entitled groups of persons as follows:

- Executive Board members receive a maximum of up to 200,000 subscription rights;
- Senior managers of affiliated companies may receive a maximum of 100,000 subscription rights;
- Company employees may receive a maximum of 150,000 subscription rights; and
- employees of affiliated companies may receive a maximum of 50,000 subscription rights.

Further details can be found in the authorization resolution and in Section 4 (5) of the statutes of STS Group AG.

Capital reserves

As of December 31, 2019, the capital reserves amounted to 22,267 kEUR (2018: 22,193 kEUR). The increase in capital reserves results from the recording of share-based payment. For more information on share-based payment, see section 5.6.

Retained earnings

As of December 31, 2019 retained earnings amounted 42,722 kEUR (2018: 55,266 kEUR). The decrease is mainly due to the consolidated result for the current reporting period. The company made no dividend payments in the 2019 and 2018 financial years.

Other equity components

The other equity components include the revaluation reserve for pension obligations and the reserve from foreign currency translation. The development in the financial year ended December 31, 2019 and 2018 is shown as a total total in the consolidated statement of changes in equity.

Acquisition of own shares

On November 21, 2018, the Executive Board decided with the approval of the Supervisory Board, to use the authorization of the General Meeting of May 3, 2018, to launch a share buyback program of up to 1,000 kEUR (excluding incidental acquisition costs) ("Share Buyback Program 2018/I"). The authorization provides that the Executive Board, with the approval of the Supervisory Board, may acquire the Company's own shares up to 10% of the respective outstanding share capital until May 2, 2023. The shares may be purchased through the stock exchange, by means of a public offer or by means of a public invitation to make sales offers. The authorization provides that the Executive Board may use the company's own shares for any permitted purpose.The Executive Board is also authorized to acquire the company's own shares using derivatives. In the 2018/I share buyback program up to a total of 50,000 own shares of the company were to be bought back during the period from November 22, 2018 to May 21, 2019.

The share buyback program 2018/1 served the following purposes:

- Reduction of the company's share capital by recall of shares
- Serving of acquisition obligations or acquisition rights on shares of the Company arising from and in connection with convertible or warrant bonds issued by the Company or one of its Group companies or profit-sharing rights with convertible or option rights, or
- Fulfillment of obligations to employees and members of the Executive Board of the Company and its affiliates under a company's stock option program.

In the reporting period from January 1, 2019 to December 31, 2019 (last acquisition on May 3, 2019) a total of 45,237 shares were acquired as part of the share buyback.

Date	Quantity	Average price
29.04.2019 – 03.05.2019	6,000	10.190
23.04.2019 – 26.04.2019	7,304	11.170
15.04.2019 – 18.04.2019	5,127	10.090
08.04.2019 – 12.04.2019	4,444	8.000
01.04.2019 – 05.04.2019	4,380	8.950
25.03.2019 – 29.03.2019	165	9.100
18.03.2019 – 22.03.2019	1,716	9.161
11.03.2019 – 15.03.2019	1,248	9.115
04.03.2019 – 08.03.2019	1,171	9.420
25.02.2019 – 01.03.2019	1,591	9,434
18.02.2019 – 22.02.2019	2,348	9.345
11.02.2019 – 15.02.2019	1,792	9.908
04.02.2019 – 08.02.2019	2,458	10.240
28.01.2019 – 01.02.2019	1,900	10.198
21.01.2019 – 25.01.2019	2,593	10.517
14.01.2019 – 18.01.2019	1,000	10.459

This corresponds to a nominal amount of 45 kEUR or 0.75% of the share capital. The shares were acquired at an average price of 9.86 EUR per share, in a range between 7.58 EUR and 11.65 EUR. As of May 3, 2019, a total of 50,000 own shares were bought back, ending the program on that day.

4.12 NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

The non-current and current financial liabilities are as follows:

	December 31, 2019			December 31, 2018		
in kEUR	Non-current	Current	Total	Non-current	Current	Total
Leasing liabilities	18,823	5,298	24,121	2,471	723	**3,194**
Liabilities to banks	2,952	9,488	12,440	4,901	9,040	**13,941**
Liabilities from factoring	0	12,072	12,072	0	36,211	**36,211**
Third party loans	5,832	1,869	7,701	5,733	3,222	**8,955**
Other financial liabilities	114	29	143	46	29	**75**
Total	**27,721**	**28,756**	**56,477**	**13,151**	**49,225**	**62,376**

Leasing liabilities

The leasing liabilities include leases that were accounted for under finance leases up to December 31, 2018 in accordance with IAS 17. As of December 31, 2018, the future minimum lease payments from finance lease contracts were 3,373 kEUR. The reconciliation of the minimum lease payment from finance lease contracts to the corresponding liabilities as of December 31, 2018 is shown in the following table:

RECONCILIATION OF MINIMUM LEASE PAYMENTS TO THE LIABILITIES FROM FINANCE LEASE AGREEMENTS

in kEUR	Minimum lease payments	Interest included in the minimum lease payments	Leasing liabilities from finance lease agreements as of December 31, 2018
Due date			
within one year	785	62	723
between one and five years	2,588	117	2,471
Total	**3,373**	**179**	**3,194**

The leasing liabilities as of December 31, 2019 include impacts from the first-time application of IFRS 16. Information on the adjustments can be found in in the notes to the consolidated financial statements, chapter 6.1 Changes in the accounting and valuation methods. The maturity of the leasing liabilities as of December 31, 2019 is shown in the following table:

in kEUR	Leasing liabilities as of December 31, 2019
Due date	
within one year	5,298
between one and five years	10,722
over five years	8,101
Total	**24,121**

Liabilities to banks

Due to the scheduled repayment, liabilities to banks decreased from 13,941 kEUR to 12,440 kEUR.

The company did not abide by a clause of a bank loan agreement with a book value of 1,884 kEUR (December 31, 2018: 2,668 kEUR) and a regular term until 2021. Since the outstanding amount could become due in the event of a breach of a clause of the credit agreement, the loan is recorded in full as a short-term liability. An agreement with the bank regarding a waiver that the breach of contract will not be sanctioned is not yet final at the time the consolidated financial statements are prepared.

Third party loans

Essentially, loans from third parties relate to fixed-interest loans from a former shareholder with interest rates between 1.0% and 5.0%.

Furthermore, as of December 31, 2019, a liability in the amount of 2,150 kEUR (December 31, 2018: 2,150 kEUR) with regards to subsidiary is included. This is an extension of the pre-financing of the tax credit by a third party, which has been in place since the last financial year. The interest rate is 1-month EURIBOR plus 3% for a term up to October 31, 2021.

The following amounts were pledged in relation to bank and third-party loans:

in kEUR	December 31, 2019	December 31, 2018
Property, plant and equipment	15,105	14,291
Inventories	2,711	2,830
Other non-financial assets	2,599	2,599
Restricted cash	0	2,000
Pledged assets	**20,415**	**21,720**

Liabilities from factoring

For information on liabilities from factoring, see section 4.9.

4.13 PROVISIONS

Provisions are composed as follows:

in kEUR	December 31, 2019	December 31, 2018
Pensions and similar obligations	20,485	19,020
Other provisions	1,305	2,242
Provisions	**21,790**	**21,262**

4.13.1 Pensions and similar obligations

Defined benefit plans

The provisions for pensions and similar obligations are based on country-specific legal obligations in Italy, France and Mexico. They are based primarily on the remuneration and length of service of the employees. In the case of France and Mexico, these are one-off payments when the employee retires. In the case of Italy, the obligation only applies to claims from years of service prior to 2007. From 2007, the pension plans were switched to an external plan due to a change in the law, after which they are defined contribution plans. For this reason, there are no further additions to the provision for Italy apart from those based on changes of interest rates and actuarial assumptions. The plans are categorized as defined benefit plans in all three countries. They are unfunded plans, and the company fulfills the obligations as soon as they become due.

The provision for pensions and similar obligations is calculated in accordance with IAS 19 using the projected unit credit method for defined benefit plans. The calculation is based on actuarial assessments as of December 31, 2019.

The following table shows the development of the defined benefit obligation (DBO) as of December 31, 2019.

in kEUR	2019	2018
DBO as of January 1	19,019	19,985
Service costs	585	129
current service costs	585	689
gains (–)/losses (+) from curtailments	0	– 560
Interest expenses	310	311
Actuarial gains (–)/losses (+)	1,507	– 682
from changes in experience assumptions	44	– 285
from changes in demographic assumptions	22	0
from changes in financial assumptions	1,441	– 397
Benefits paid	– 936	– 724
DBO as of December 31	**20,486**	**19,019**

Gains from the curtailment of the plan relate to employees who left the company before retirement and thereby lost their entitlement.

The amounts recorded in the consolidated income statement and other comprehensive income are as follows:

in kEUR	2019	2018
Service costs	585	129
gains (–)/losses (+) from plan amendments	585	689
gains (–)/losses (+) from curtailments	0	– 560
Interest expenses	310	311
Total amount recognized in the consolidated income statement	895	440
Actuarial gains (–)/losses (+)	1,507	– 682
Tax effects	– 392	192
Total amount recognized in the consolidated income statement of comprehensive income	**1,115**	**– 490**

Interest expenses are included in the expenses for discounting of provisions within financial expenses.

Actuarial assumptions

Pension obligations are valued on the basis of actuarial assumptions using the following key valuation parameters:

	Plans Italy		Plans France		Plans Mexico	
in %	2019	2018	2019	2018	2019	2018
Discount rate	0.74	1.42	1.01	1.75	7.00	9.50
Salary trend	n.a.	n.a.	2.00	2.00	4.50	4.50
Pension trend	2.00	2.63	n.a.	n.a.	3.50	n.a.

With regard to life expectancy, the generation tables 1948 ("RG48") are used in Italy, in France the tables of the Institut National de la Statistique et des Études Économiques ("INSEE") 2012 – 2014 and in Mexico the Experiencia Mexicana del Seguro Social para Activos ("EMSSA") 2009.

Sensitivity analysis

The following tables show the effects of changes in the main actuarial assumptions on the DBO. For each case, the impact of changes in one assumption on the DBO is shown, while the other assumptions remain unchanged compared to the original calculation. As a result, correlation effects between the assumptions are not taken into account. The change in DBO shown only applies to the specific size of the change in the individual assumptions. A linear impact on the defined benefit obligation cannot be assumed if the assumptions change by a different amount.

		Plans Italy		Plans France		Plans Mexico	
in kEUR		December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
DBO		6,726	7,134	13,618	11,811	142	74
Discount rate	+50bp	6,510	6,908	12,835	11,120	136	68
	−50bp	6,982	7,374	14,470	12,565	147	79
Salary trend	+50bp	n.a.	n.a.	14,457	12,559	151	78
	−50bp	n.a.	n.a.	12,839	11,119	133	69
Pension trend	+25bp	6,796	7,207	n.a.	n.a.	n.a.	n.a.
	−25bp	6,658	7,062	n.a.	n.a.	n.a.	n.a.
Life expectancy	+1 year	6,733	7,155	13,642	11,884	142	74
	−1 year	6,674	7,113	12,652	11,738	141	73

The same calculation method was used for calculating the effects on the defined benefit obligation as for the calculation of pension provisions as of December 31, 2019.

Expected pension payments

The following table shows the expected pension payments for the next five years:

in kEUR	2019	2018
within 1 year	934	796
between 1 and 2 years	893	972
between 2 and 3 years	1,148	905
between 3 and 4 years	1,153	1402
between 4 and 5 years	1,408	1,313

The average term of the pension obligation as of December 31, 2019 is 10.5 years (2018: 10.9 years).

Defined-contribution pension plans
For employees in Germany, France and Italy, there are also defined-contribution plans under statutory pension insurance schemes. The expenses in the consolidated income statement totaling 4,075 kEUR (2018: 3,764 kEUR) represent the Group's contributions due for these pension plans.

4.13.2 Other provisions

The following provisions are reported as other provisions in the balance sheet under provisions:

in kEUR	Jubilee benefits	Onerous contracts	Severance payments	Other	Total
Balance as of January 1, 2019	**1,113**	**1,120**	**1**	**8**	**2,242**
current	0	1,120	1	8	**1,129**
non-current	1,113	0	0	0	**1,113**
Additions	121	0	30	50	**201**
Utilization	– 79	0	0	– 9	**– 88**
Reversals	0	–1,050	0	0	**–1,050**
Balance as of December 31, 2019	**1,155**	**70**	**31**	**49**	**1,305**
current	0	70	31	0	**101**
non-current	1,155	0	0	49	**1,204**

The jubilee provision relates to France and is accumulated according to the employee's length of service and discounted at an interest rate of 1.01% (2018: 1.75%). The provision is established on the basis of the current number of employees and future entitlements to payments. As in 2018, the values determined are based on expert opinions, which, according to recognized actuarial principles, use the so-called projected unit credit method (PUC method), a fluctuation rate of 0.0% to 5.0% depending on age and as a biometric calculation basis use the mortality tables INSEE 2013 – 2015.

The provision for onerous contracts mainly consisted of contracts made by the Dolmen companies acquired in 2017. The reversal is based on improvements in production during the financial year.

4.14 INCOME TAX LIABILITIES

As of December 31, 2019, income tax liabilities amounted to 4,569 kEUR (December 31, 2018: 143 kEUR).

Income tax liabilities result mainly from the Chinese and French companies. The French companies form a tax group with STS Plastics SAS as the parent company. According to IFRIC 23 i.a., risk provisions are formed from the valuation of pension obligations in connection with the acquisition.

4.15 OTHER CURRENT LIABILITIES

in kEUR	December 31, 2019	December 31, 2018
Employee related liabilities	13,974	14,420
Social security	7,289	8,305
Other levies	1,066	960
Liabilities from payroll and church taxes	1,011	717
VAT liabilities	390	2,466
Miscellaneous other non-financial liabilities	366	261
Advance payments received on orders	0	6
Other non-financial liabilities	**24,096**	**27,135**

Liabilities to personnel essentially relate to variable remuneration, vacation provisions and provisions for overtime.

5 — OTHER NOTES

5.1 NOTES TO THE CASH FLOW STATEMENT

The development of financial liabilities, broken down into cash and non-cash components, is as follows:

in kEUR	
Balance as of January 1, 2018	**62,714**
Financing cash flow	
Proceeds from borrowings	12,112
Repayments of borrowings	–13,513
Proceeds from factoring (+)/disbursements for factoring (–)	– 421
Interest paid	–1,356
Interest received	–1,098
Changes from financing cash flows	**– 4,276**
Net interest expense	1,409
New finance leases	2,558
Other changes	– 29
Changes from non-cash items	**3,938**
Balance as of December 31, 2018	**62,376**
Financing cash flow	
Proceeds from borrowings	5,842
Repayments of borrowings	– 8,773
Repayments of finance lease liabilities	– 5,469
Proceeds from factoring (+)/disbursements for factoring (–)	– 24,140
Interest paid	– 2,617
Changes from financing cash flows	**– 35,157**
Net interest expense	3,027
New finance leases	26,265
Other changes	– 33
Changes from non-cash items	**29,259**
Balance as of December 31, 2019	**56,478**

In the reporting period, a large part of the sale of receivables (with recourse) was converted into a real sale of receivables (non-recourse factoring), which resulted in payments for factoring liabilities of 24,140 kEUR and was mainly responsible for the increase in changes from financing cash flows. The increase in non-cash changes compared to the previous year is mainly due to the introduction of lessee accounting in accordance with IFRS 16.

5.2 FURTHER DISCLOSURES ON FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

5.2.1 Financial instruments

A breakdown of financial assets or liabilities in accordance with the valuation categories of IFRS 9 as of December 31, 2019 and December 31, 2018 is as follows:

in kEUR	Category according to IFRS 9	Carrying amount December 31, 2019	Valuation according to IFRS 9 Amortized costs	Fair value OCI	Fair value PL	Valuation according to IFRS 16	Fair value December 31, 2019	Hierarchy
Financial assets by category								
Other non-current financial assets		299						
Security deposits	AC	261	261				261	Level 3
Securities	FVPL	38			38		38	Level 3
Trade and other receivables	AC	35,423	35,422				35,422	
Trade and other receivables	FVOCI	20,677		20,677			20,677	Level 2
Other current financial assets		3,826	1,257		2,569		3,826	
Creditors with debit balances	AC	107	107				107	
Receivables from factorer	FVPL	3,314			3,314		3,314	Level 2
Other financial assets	AC	405	1,150				1,150	
Cash and cash equivalents	AC	17,234	17,234				17,234	
Non-current financial liabilities								
Liabilities to banks	FLAC	2,952	2,952				3,130	Level 3
Third party loans	FLAC	5,832	5,832				6,764	Level 3
Liabilities from leases	FLAC	18,823				18,823		
Other financial liabilities		114						
Miscellaneous	FLAC	52	52				52	Level 3
Derivate instruments	FLFVPL	62			62		62	Level 2
Trade and other payables	FLAC	1,019	1,019				1,019	
Current financial liabilities								
Liabilities to banks	FLAC	9,488	9,488				9,574	Level 3
Liabilities from factoring	FLAC	12,072	12,072				12,072	
Third party loans	FLAC	1,869	1,869				2,047	Level 3
Liabilities from leases	FLAC	5,298				5,298		
Other financial liabilities	FLAC	29	29				29	
Trade and other payables	FLAC	69,708	69,708				69,708	

BOOKVALUE BY CATEGORY

in kEUR	Category	December 31, 2019
Financial assets through profit and loss	FVPL	3,352
Financial assets through OCI	FVOCI	20,677
Financial assets at cost	AC	53,430
Financial liabilites at cost	FLAC	127,142
Financial liabilities through profit and loss	FLFVPL	62

	Category according to IFRS 9	Book value	Category according to IFRS 9			Category according to IFRS 17	Fair value	
in kEUR		December 31, 2018	Amortized costs	Fair value OCI	Fair value PL		December 31, 2018	Hierarchy
Financial assets by category								
Other non-current financial assets		246						
Security deposits	AC	208	208				180	Level 3
Securities	FVPL	38			38		38	Level 3
Trade and other receivables	AC	59,423	59,423				59,423	
Trade and other receivables	FVOCI	21,627		21,627			21,627	Level 2
Other current financial assets	AC	1,242	1,242				1,242	
Cash and cash equivalents	AC	31,169	21,169				31,169	
Restricted cash	AC	2,000	2,000				2,000	
Non-current financial liabilities								
Liabilities to banks	FLAC	4,901	4,901				4,570	Level 3
Third party loans	FLAC	5,733	5,733				5,757	Level 3
Liabilities from leases	n.a.	2,471				2,471	2,455	
Other financial liabilities		46						
Miscellaneous	FLAC	31	31				31	Level 3
Derivate instruments	FLFVPL	15			15		15	Level 2
Trade and other payables	FLAC	768	768				768	
Current financial liabilities								
Liabilities to banks	FLAC	9,040	9,040				9,149	Level 3
Liabilities from factoring	FLAC	36,211	36,211				36,211	
Third party loans	FLAC	3,222	3,222				3,473	Level 3
Liabilities from leases	n.a.	723				723	723	
Other financial liabilities	FLAC	29	29				29	
Trade and other payables	FLAC	69,963	69,693				69,963	

BOOKVALUE BY CATEGORY

in kEUR	Category	December 31, 2018
Financial assets through profit and loss	FVPL	38
Financial assets through OCI	FVOCI	21,627
Financial assets at cost	AC	94,042
Financial liabilites at cost	FLAC	129,898
Financial liabilities through profit and loss	FLFVPL	15

The three stages for determining the fair value of financial instruments are described in section 6.2 Fair value valuation according to IFRS 13. The fair value of financial instruments is calculated based on current parameters such as interest and exchange rates as of the balance sheet date and by using accepted models such as the DCF method (discounted cash flow) and taking into account the credit risk. The market values for derivatives are determined on the basis of bank valuation models.

For short-term financial instruments, the book value represents an appropriate approximation of the fair value.

The net gains or losses of the individual categories in accordance with IFRS 7.20 are as follows:

BOOKVALUE BY CATEGORY

in kEUR	2019
From financial assets at fair value through profit or loss	0
From financial liabilities at fair value through profit or loss	– 47
From financial assets at amortized costs	– 86
From financial liabilities at amortized costs	– 621
From financial assets at fair value through OCI (debt instruments)	0
Total	**– 754**

BOOKVALUE BY CATEGORY

in kEUR	2018
From financial assets at fair value through profit or loss	– 20
From financial liabilities at fair value through profit or loss	– 15
From financial assets at amortized costs	52
From financial liabilities at amortized costs	– 885
From financial assets at fair value through OCI (debt instruments)	– 95
Total	**– 963**

Net gains and losses from financial instruments arise from changes in fair value for financial instruments recognized at fair value through profit or loss, expenses and income for expected credit losses, expenses for interest on financial liabilities that are valued at amortized cost and from expenses and income for expected credit losses for financial assets (debt instruments) not affecting net income and valued at fair value. The net loss in the 2019 financial year mainly relate to expenses for interest on financial liabilities in the amount of 621 kEUR.

The total interest income and expenses are as follows:

in kEUR	2019
Financial assets measured at amortized cost	19
Financial assets measured at fair value through OCI (without recycling)	–571
Financial liabilities not measured at fair value through profit or loss	–1,096

in kEUR	2018
Financial assets measured at amortized cost	62
Financial assets measured at fair value through OCI (without recycling)	–409
Financial liabilities not measured at fair value through profit or loss	–885

5.2.2 Financial risk management

The management of the Group monitors and controls the financial risks associated with the business areas of the Group using internal risk reporting, which analyzes risks by degree and extent. These risks include credit, liquidity and market price risks (currency and interest rate risks).

In a few cases, the Group minimizes the impact of these risks through the use of derivative financial instruments The use of derivative financial instruments is very limited as there are currently only very few currency and interest rate exposures. In addition, there are also guidelines in place for managing currency, interest rate and default risks. Furthermore, basic rules for the execution of derivative and non-derivative financial transactions as well as for the investment of excess liquidity were established. Compliance with the guidelines and risk limits is continuously monitored. The Group does not contract or trade financial instruments, including derivative financial instruments, for speculative purposes.

Credit and default risk

Credit risks exist in particular with regard to trade receivables and other receivables including financial investments. Credit risks are monitored, in particular in the area of trade receivables, through regular analysis of the receivables due and the collection of current information on individual creditworthiness of customers. A limitation of risks is achieved by setting limits and continuously monitoring the individual claims. There are no special credit risks of customers. Risks from the deterioration in solvency and creditworthiness of customers are already being actively countered and continuously monitored. There have been no major bad debts in the past. Details on the clustering of sales are contained in section 1 Segment reporting.

For the application of the expected credit loss model in accordance with IFRS 9.5.5, the Group applies the general approach for bank balances and financial assets and the simplified approach for trade receivables and contract assets. Probabilities of default are determined for individual customers or customer groups. These are based either on the individual rating information of the customers or the customer group, to which a corresponding probability of default is assigned. Due to the fact that these probabilities of default are related to the reporting date, no further future-related adjustments to these data are considered necessary. In addition to the probability of default, the loss in case of default is used to determine the expected credit losses. The Group usually records this at 100%, which in the experience of the Group corresponds to the default amount.

Based on the risk classifications, the gross book values per rating class are shown below:

GROSS BOOK VALUE OF FINANCIAL ASSETS BY RATING LEVEL AS OF DECEMBER 31, 2019

in kEUR	Trade and other receivables	Contract assets	Other financial assets	Cash and cash equivalents
Rating level				
Rating level I	21,645	4,512	0	2,967
Rating level II	34,092	582	4,125	14,264
Rating level III	363	104	0	0
Rating level IV	1,093	0	0	0
Total	**57,193**	**5,198**	**4,125**	**17,231**

GROSS BOOK VALUE OF FINANCIAL ASSETS BY RATING LEVEL AS OF DECEMBER 31, 2018

in kEUR	Trade and other receivables	Contract assets	Other financial assets	Cash and cash equivalents and restricted cash
Rating level				
Rating level I	34,962	4,601	0	5,142
Rating level II	45,462	193	1,488	28,027
Rating level III	714	311	0	0
Rating level IV	1,514	0	0	0
Total	**82,652**	**5,105**	**1,488**	**33,169**

The determination of rating levels are based on individually assigned probabilities of default as well as the determination of risk ratings for individual customer groups with a comparable risk structure. The following table shows the default probabilities within the individual rating levels, respectively rating classes:

	Default rates in %	Rating
Rating level		
Rating level I	0.0 – 0.0286	AAA – AA
Rating level II	0.0286 – 0.52	A – BBB
Rating level III	0.52 – 10	BB – B
Rating level IV	10 – 100	CCC – D

The value adjustments for trade receivables changed as follows:

in kEUR	Lifetime-ECL (Level 2) simplified model	Lifetime-ECL (Level 3) simplified model
Impairment as of January 1, 2019	**87**	**1,515**
Additions	9	62
Reversals	– 21	– 559
Impairment as of Dezember 31, 2019	**75**	**1,018**

Level 2 and 3 value adjustments were reversed due to receivables sold to factoring companies in the 2019 financial year.

in kEUR	Lifetime-ECL (Level 2) simplified model	Lifetime-ECL (Level 3) simplified model
Impairment as of January 1, 2018	**102**	**1,280**
Transfer to level 3	0	330
Currency translation and other changes	–15	–95
Impairment as of Dezember 31, 2018	**87**	**1,515**

The maximum default risk of the reported assets corresponds to their book value.

Liquidity and financing risk

The liquidity risk includes the following risks:

- Not being able to meet potential payment obligations at the due date.
- Not being able to raise sufficient liquidity at the expected conditions when the necessity arises (refinancing risk).
- Not being able to resolve, close out, or prolong transactions or only at a loss or excessive costs due to market-related shortcomings or market disruptions (market liquidity risk).

Prudent liquidity management includes maintaining a sufficient reserve of liquid funds and the possibility of financing through committed credit lines. Due to the dynamic nature of the business environment in which the Group operates, the Group's finance department aims to maintain the necessary flexibility in financing by maintaining sufficient unused credit lines and factoring facilities.

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

Measures include the adjustment of capacities, which essentially include short-time work, and measures to reduce costs. In order to ensure liquidity, the following action plans have been drawn up in particular:

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

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

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

The Group can only dispose of local means of payment in certain countries (for example: China and Brazil) for cross-border transactions if the applicable foreign exchange restrictions are observed. There are no other significant restrictions.

The risk from contractually agreed cash flows for financial liabilities is shown below:

	December 31, 2019				December 31, 2018			
in kEUR	Up to 1 year	1 – 5 years	More than 5 years	Total	Up to 1 year	1 – 5 years	More than 5 years	Total
Cash outflows from non-derivative financial liabilites	105,640	24,372	14,437	144,449	125,364	11,974	4,681	142,019
Cash outflows from derivative financial liabilites	25	59	16	99	27	64	23	114
Total	**105,665**	**24,431**	**14,453**	**144,549**	**125,391**	**12,038**	**4,704**	**142,133**

It should be noted that cash outflows from derivative liabilities amount to 99 kEUR (December 31, 2018: 114 kEUR) and cash inflows from derivatives with gross settlement amount to 1 kEUR (December 31, 2018: 3 kEUR).

Market price risk

The Group's activities expose it to minor financial risks from changes in exchange rates and interest rates. The Group selectively uses derivative financial instruments to manage its existing interest rate and exchange rate risks.

Currency Exchange Rate Risk

The Group's operating business is subject to minor exchange rate risks against the Euro and the US Dollar.

In the event of changes in exchange rates, the following effects on earnings before taxes would have resulted.

The effects of a change in the exchange rate against the Euro are as follows:

	10% increase of foreign currency		10% decrease of foreign currency	
in kEUR	2019	2018	2019	2019
USD	17	42	– 21	–51
PLN	14	1	–17	–1
CNY	40	129	– 49	–158
BRL	63	56	– 77	–69
Total	**135**	**228**	**–165**	**–279**

The effects of an exchange rate change against the US Dollar are as follows:

	10% increase of foreign currency		10% decrease of foreign currency	
in kEUR	2019	2018	2019	2018
MXN	66	100	−80	−122
CNY	−27	−47	33	57
Total	**39**	**53**	**−47**	**−65**

The existing risk positions are continuously monitored and reduced by opposing existing foreign currency cash flows. Due to the low currency exposure, there is currently no active currency risk management through the use of derivative financial instruments.

Interest rate change risk

The Group is exposed to both an interest rate risk from floating-rate loans and an interest rate risk from fixed-rate loans at the time of refinancing. The majority of the loans carry variable interest rates.

in kEUR	December 31, 2019	December 31, 2018
Book value fixed interest loans	11,992	12,233
Book value variable interest loans	8,149	10,663
Total	**20,141**	**22,896**

The loans with variable-interest rates are based on the 1-month, 3-month or 6-month EURIBOR.

The risk from variable-interest rate loans is partially hedged using appropriate interest rate swaps that match maturity and terms. The accounting rules for hedging operations as per IFRS 9 are not applied. In addition, management continuously monitors the development of interest rates and any expiring loans. Depending on the individual case, management may enter into transactions to reduce the risk position.

There is also an interest rate risk from the variable-interest liabilities from factoring.

In the event of changes in interest rates, the following effects on earnings before taxes would have occurred:

	2019		2018	
in kEUR	−100bp	+100bp	−100bp	+100bp
Effect on profit and loss before tax	365	−511	−16	−313

5.3 CAPITAL MANAGEMENT

The goals of the Group with regard to capital management are, on the one hand, to ensure the continuation of the company, in order to continue to provide income for the shareholders and to provide benefits to other interested parties they are entitled to, and, on the other hand, to maintain an optimal capital structure in order to reduce the cost of capital. To maintain or change the capital structure, the Group adjusts dividend payments to shareholders as required, makes capital repayments to shareholders, or sells assets to repay liabilities.

	December 31, 2019		December 31, 2018	
	in kEUR	in %	in kEUR	in %
Equity	68,603	35.0	82,409	38.3
Current financial liabilities	98,464	50.3	119,118	55.3
Non-current financial liabilities	28,740	14.7	13,919	6.5
Financial liabilities	127,204	65.0	133,037	61.7
Total equity and financial liabilities	**195,807**	**100.0**	**215,446**	**100.0**

5.4 CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

Contingent liabilities

In the event of a sale, transfer or other disposal of a Group company before July 2034, a liability of 1,700 kEUR could arise to the previous shareholder, for which the company and Mutares SE & Co. KGaA (formerly mutares AG) would be jointly and severally liable.

Other Obligations

The Group has leasing contracts for various real estate, motor vehicles and operating and office equipment. These leasing contracts have a term of between three and twenty years and usually do not contain any options for extension.

Since January 1, 2019, the Group recognized rights of use for these leases, with the exception of short-term leases and leases of low value (for more information, see section 6.1).

The previous year's figure for the total of future minimum lease payments from non-cancellable operating leases is:

in kEUR	December 31, 2018
Due date	
Up to 1 year	5,155
1 – 5 years	12,201
More than 5 years	3,341
Total	**20,697**

In the 2018 financial year, expenses from operating leases in the amount of 7,154 kEUR were recorded.

5.5 RELATIONSHIPS WITH RELATED PARTIES

According to IAS 24, related companies and people in the Group are:

- the parent company Mutares SE & Co. KGaA, Munich, and its subsidiaries as well as significant holdings outside the Group;
- other individuals or companies that can be influenced by the reporting company or who can influence the reporting company, such as
  - the members of the company's Executive Board and Supervisory Board
  - the members of the Executive Board and Supervisory Board of Mutares SE & Co. KGaA;
  - Holdings by members of the Executive Board or the Supervisory Board of the company or Mutares SE & Co. KGaA in companies outside the Group and the Mutares Group.

Balances and transactions between the company and its subsidiaries, which are related parties, were eliminated in the course of the consolidation and are not explained in these notes. Details of transactions between the Group and other related companies and individuals are provided below. The terms and conditions of these transactions were standard in the market.

5.5.1 Business relationships with Mutares SE & Co. KGaA and other subsidiaries and investments not belonging to the Group

As of December 31, 2019, companies in the Group carried out the following transactions with related parties that are not included in the scope of consolidation Transactions as of December 31, 2019 and 2018 are as follows:

in kEUR	2019	2018
Goods and services provided to		
Mutares SE & Co. KGaA	125	0
Subsidiaries and other investments of Mutares SE & Co. KGaA not belonging to the STS Group	0	0
of which: Income for management services rendered		
Mutares SE & Co. KGaA	125	0
Subsidiaries and other investments of Mutares SE & Co. KGaA not belonging to the STS Group	0	0
Goods and services received from		
Mutares SE & Co. KGaA	2,386	3,844
Subsidiaries and other investments of Mutares SE & Co. KGaA not belonging to the STS Group	53	1,348
of which: expenses for management services received		
Mutares SE & Co. KGaA	2,386	3,844
Subsidiaries and other investments of Mutares SE & Co. KGaA not belonging to the STS Group	53	1,348
Commitments to		
Mutares SE & Co. KGaA	125	3
Subsidiaries and other investments of Mutares SE & Co. KGaA		
Mutares SE & Co. KGaA	955	211
Subsidiaries and other investments of Mutares SE & Co. KGaA not belonging to the STS Group	31	58
Collateral received from		
Mutares SE & Co. KGaA – jointly and severally	1,700	1,700

Goods and services purchased from related companies essentially include other operating expenses of the group towards Mutares SE & Co. KGaA and mutares Holding 24 as well as in the previous year towards mutares France AGSAS, both subsidiaries of Mutares SE & Co. KGaA.

In the financial year 2019, goods and services purchased from Mutares SE & Co. KGaA amounted to 2,386 kEUR (2018: 3,844 kEUR) and from mutares Holding 24 53 kEUR (2018: 79 kEUR) and 0 EUR (2018: 1,269 kEUR) from mutares France AG SAS.

Goods and services purchased from Mutares SE & Co. KGaA in the amount of 2,386 kEUR (2018: 3,844 kEUR) mainly relate to management services for the provision of personnel at a daily rate, management fees and travel expenses.

Goods and services purchased from mutares Holding 24 in the amount of 53 kEUR (2018: 79 kEUR) relate mainly to software licenses. Goods and services purchased from mutares France AGSAS in the previous year in the amount of 1,269 kEUR mainly related to management and consulting services.

In the 2019 and 2018 financial years, no dividends were paid to Mutares SE & Co. KGaA.

Trade receivables from Mutares SE & Co. KGaA are recorded in the amount of 125 kEUR (December 31, 2018: 3 kEUR).

As of December 31, 2019, the Group's obligations relate exclusively to current trading obligations to Mutares SE & Co. KGaA and its subsidiaries mutares France SAS. The obligations are not secured and no guarantees have been given. Impairments for irrecoverable or doubtful receivables from related companies were not made in either the current or the previous year.

The Group has received a fixed-term joint and several security for Mutares SE & Co. KGaA of 1,700 kEUR as security against third party claims. This security remains unchanged as of December 31, 2019.

In the financial year 2018, Mutares SE & Co. KGaA had issued two fixed-term letters of comfort in favor of one of the Group's companies, which expired in March and December 2018.

5.5.2 Business relationships with and services to members of the Executive Board and the Supervisory Board

The following business relationships with members of the Executive Board existed for the reporting period and the comparative period:

COMPENSATION TO MEMBERS OF THE MANAGEMENT BOARD

in kEUR	2019	2018
Short-term benefits	1,358	2,386
Share-based payment	45	40
Total compensation	**1,403**	**2,426**

The short-term benefits in the amount of 1,358 kEUR relate to the compensation paid to the members of the Executive Board in the fiscal year ended December 31, 2019 (2018: 2,386 kEUR).

Dr. Ulrich Hauck received 28 kEUR for his consulting services before he was appointed to the Executive Board of STS Group AG on April 1, 2019 by the Supervisory Board. Stephan Vrublovsky resigned after his regular contract as member of the Executive Board expired on March 31, 2019. As of April 30, 2019 he left STS Group AG and received a compensation of 21 kEUR for his services in April 2019.

Parts of the benefits to the members of the Executive Board due in the near-term are provided by the majority shareholder Mutares SE & Co. KGaA and settled with the company.

OBLIGATIONS TO MEMBERS OF THE MANAGEMENT BOARD

in kEUR	December 31, 2019	December 31, 2018
Obligations to members of the Management Board	269	507

The obligations towards members of the Executive Board exist in connection with the bonus provision as of December 31, 2019 and December 31. 2018.

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

in kEUR	2019	2018
Short-term compensation		
Fixed compensation	960	787
Variable performance-related compensation	269	507
Total	**1,229**	**1,295**
Long-term compensation		
Long-term performance-related compensation	198	40
Total	**198**	**40**
Total compensation	**1,427**	**1,334**

Individualized information on the compensation of the Executive Board and the IPO "Participation Bonus" paid by Mutares SE & Co. KGaA in the previous year are shown in the combined management report in the chapter "Compensation Report".

Compensation of the Supervisory Board
The total emoluments of the Supervisory Board amounted to 225 kEUR (2018: 131 kEUR). In the previous year until the compensation system came into effect, the Supervisory Board was not compensated separately by the company. Two of the members of the Supervisory Board were delegated to the Board by the majority shareholder Mutares SE & Co. KGaA.

Individualized information on the compensation of the Supervisory Board is shown in the combined management report and there in the chapter "Compensation report".

There were no receivables from members of the Executive Board and the Supervisory Board as of December 31, 2019 and December 31, 2018.

The Group has neither granted nor received loans from members of the Executive Board and the Supervisory Board in the periods shown.

There are no pension obligations to members of the Executive Board and the Supervisory Board as of December 31, 2019 and December 31, 2018.

5.6 SHARE-BASED COMPENSATION

5.6.1 STS Long Term Incentive Bonus ("LTI")

In the financial year 2019, STS Group AG grants the Executive Board a remuneration component based on a multi-year variable component in accordance with a performance bonus plan (STS Long Term Incentive Bonus; "LTI"). Accordingly, the Executive Board receives variable compensation ("performance bonus") at the end of each financial year, the amount of which depends on the degree of target attainment. The target attainment of the LTI and its measurement depend on the development of the share price and the accomplishment of the strategic medium-term planning. The net amount of the LTI determined after the target attainment 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. In the 2019 financial year, no expense was recorded from the LTI program and no payment was made to the Executive Board.

5.6.2 Stock Option Plan 2018

STS Group AG has set up a stock option program for members of the company's Executive Board, members of the management of subsidiaries, employees of the company and employees of subsidiaries in the 2018 financial year. By resolution of the Annual General Meeting on May 3, 2018, the company's representatives were authorized to grant until May 2, 2023 a total of up to 500,000 options on a total of up to 500,000 shares in the company with full dividend entitlement for the financial year in which the option is exercised.

The options granted under the plan entitle the holder to purchase equity instruments. One option entitles the holder to purchase one share in the company. At the time of exercise, instead of servicing the obligations with the conditional capital created for this purpose, shares in the company that are acquired by the company or that the company holds as treasury shares can also be issued.

The maximum term of the individual options is seven years from the start of the respective allocation, with one-time allocations at the beginning of July of the options in a total of five tranches until 2022. A waiting period of four years from the time of granting before the first exercise is generally envisaged. In addition, the option holder must be in an active, non-terminated employment relationship with a company of the Group at the time of exercise.

Along with the goal of a long-term increase of the corporate value, the stock option plan stipulates as a performance target and additional exercise requirement that the closing price of the company in Xetra trading within a period of 12 months on a total of 60 trading days for the period from July 1, 2018 to June 30, 2019 exceeds by at least 20%, from July 1, 2019 to June 30, 2027 then always exceeds the issue price by at least 30%. If the performance target is not achieved in one year, it can be compensated for in the following year by the attainment of the performance target, otherwise that tranche of options expires.

As part of this stock option plan, 5,625 stock options were issued to the beneficiaries in the financial year as of December 31, 2019 and as of December 31, 2018 in a first tranche a total of 68,000 stock options at a price of 18.77 EUR. The exercise price corresponded to 80% of the average, volume-weighted stock exchange price of the share over the last 20 trading days before being granted. When beneficiaries left the Group in financial year 2019, the personal exercise requirements of the stock option plan no longer applied and 15,500 stock options expired.

SHARE OPTION PLAN

	2019
Number of options outstanding as of January 1, 2019	68,000
+ new options granted	0
– exercised options	0
– forfeited options	15,500
Number of options outstanding as of December 31, 2019	52,500
thereof exercisable	0

Fair value of the options granted in the financial year
The weighted average fair value of the outstanding stock options was 3.18 EUR at the time of grant. The value was determined on the basis of the described, relatively complex exercise conditions on the basis of the option price valuation model "Monte Carlo simulation", in which possible characteristics were randomly determined for all identifiable influencing variables of the option price from a previously determined plausible interval.

Taking into account an exercise price of 18.77 EUR, an expected volatility of 1.59%, an assumed average term of 5.8 years and a risk-free interest rate of 0.17%, the option price valuation model resulted in a fair value per option of 3.18 EUR.

Due to the short history as a listed company, assumptions were made regarding volatility based on historical sales and earnings trends as well as with reference to benchmark companies.

The stock option program was classified and shown as equity-settled in accordance with IFRS 2. In the financial year 2019, personnel expenses of 50 kEUR (2018: 27 kEUR) were recognized in profit or loss from the stock option plan.

5.6.3 Stock Option Plan 2016

The shareholder Mutares SE & Co. KGaA, by resolution of the general meeting on June 3, 2016 has set up the stock option plan 2016 of Mutares SE & Co. KGaA for employees, which also includes members of the management of their affiliated companies. The option plan of Mutares SE & Co. KGaA is dated October 13, 2016. Instead of a delivery and creation of new shares, the stock options can either be fulfilled by a corresponding number of treasury shares or in cash (difference between the exercise price and the comparison price). As of December 31, 2019 and December 31, 2018, there is no agreement under which the Group would have to compensate Mutares SE & Co. KGaA. The stock options have a term of six years. The options can be exercised after a vesting period of four years. Exercise is possible after the end of the vesting period at specified times within the following two years (exercise period).

The Executive Board of Mutares SE & Co. KGaA determines with the approval of the Supervisory Board, both the employees to which stock options are granted and the number of stock options to be granted to them.

There was only one option tranche of share-based payment agreements for members of the Company's Executive Board during the 2018 financial year and previous years.

On September 16, 2016 (grant date), a total of 60,000 options with an exercise price of 8.83 EUR and a fair value at the grant date of 1.28 EUR were granted to three members of the company's Executive Board.

Fair value of stock options granted during the reporting period
The weighted average of the fair value of the stock options granted in the 2016 financial year is 3.02 EUR. The options have been valued using a binomial option pricing model. Where relevant, the management's best estimate regarding the following influencing factors has been included in determining the expected option term: non-transferability, exercise restrictions (including the probability that market conditions linked to the option will be met) and assumptions about exercise behavior. The expected volatility is based on the development of share price volatility over the past six years. With regard to the time of exercise, it was assumed that the program participants would exercise the options on average at the end of the exercise period of two years, that is, six years after the grant date.

SHARE OPTION PLAN

	2016
Grant date	September 16
Grant price	12.60 EUR
Exercise price	8.83 EUR
Expected volatility	30%
Term of stock options	6 years
Dividend yield	4,5%
Risk-free interest rate	–0,4%

During the period under review, Stephan Vrublovsky's departure resulted in a change in the number of stock options. With Mr. Vrublovsky's departure on April 30, 2019, the personal exercise requirements of the stock option plan no longer apply and the option rights expire. There was no change in the weighted average exercise price.

SHARE OPTION PLAN

	2019
Number of options outstanding as of January 1, 2019	60,000
+ new options granted	0
– exercised options	0
– forfeited options	15,000
Number of options outstanding as of December 31, 2019	45,000
thereof exercisable	0

The stock granted options are not entitled to dividends and do not grant voting rights. Pursuant to IFRS 2, share-based payments are treated as share-based payments offset by equity instruments. The personnel expenses recorded in the 2019 financial year amounted to 24 kEUR (2018: 30 kEUR).

5.7 EXECUTIVE BOARD AND SUPERVISORY BOARD

Members of the Executive Board

Andreas Becker
Chairman
Chief Executive Officer (CEO)
Degree in business administration

Chairman of the Supervisory Board of:
STS Plastics SAS
STS Acoustics SpA

Chairman of the Executive Board of:
STS Real Estate Srl
STS Acoustics Poland Sp. z o.o.
STS Plastics Co., Ltd.

Member of the Management Board of:
STS Brazil Holding GmbH
STS Composites Germany GmbH

Dr. Ulrich Hauck
Chief Financial Officer (CFO) since April 1, 2019
Degree in business administration

Chairman of the Management Board of:
STS Brazil Holding GmbH
STS Composites Germany GmbH

Member of the Supervisory Board of:
STS Acoustics SpA

Member of the Supervisory Board of:
SBF AG

Stephan Vrublovsky
Chief Financial Officer (CFO) until March 31, 2019
Degree in economics

Member of the Supervisory Board of:
STS Acoustics SpA

Member of the Executive Board, respectively Management Board of:
STS Real Estate Srl
STS Acoustics Poland Sp. z o.o.
STS Composites Germany GmbH
STS Brazil Holding GmbH

Member of the Management Board of:
STS Plastics SAS
MUTARES ITALY S.R.L.

Patrick Oschust
Chief Operating Officer (COO)
Degree in engineering

Member of the Supervisory Board of:
STS Acoustics SpA

Member of the Executive Board of:
STS Real Estate Srl
STS Acoustics Poland Sp. z o.o.

Members of the Supervisory Board and their mandates

Robin Laik
Chairman
Degree in business administration
CEO Mutares SE & Co. KGaA

Chairman of the Supervisory Board of:
mutares Holding-19 AG

Member of the Supervisory Board of:
mutares Holding-02 AG
mutares Holding-11 AG i.L.
mutares Holding-13 AG i.L.
mutares Holding-20 AG i.L.
mutares Holding-21 AG

Dr. Kristian Schleede
CRO Mutares SE & Co. KGaA
Degree in engineering

Chairman of the Supervisory Board of:

mutares Holding-11 AG i.L.
mutares Holding-13 AG i.L.
mutares Holding-20 AG i.L.

Member of the Supervisory Board of:
mutares Holding-03 AG
mutares Holding-14 AG (formerly: GeesinkNorba Group AG)
mutares Holding-30 AG i.L.

Bernd Maierhofer
Degree in engineering

Member of the Supervisory Board of:
VOSS Automotive GmbH

5.8 ADDITIONAL MANDATORY DISCLOSURES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

Declaration of Compliance

The Executive Board and the Supervisory Board of STS Group AG have made the required declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it available to shareholders on the STS Group website. The full text of the declaration of compliance is available on the STS Group website at https://www.sts.group/investor-relations/corporate-governance.

Group affiliation

The Group is included in the consolidated financial statements of Mutares SE & Co. KGaA, Munich, which prepares the consolidated financial statements for the smallest and largest group of companies. The consolidated financial statements of Mutares SE & Co. KGaA are available from the company's headquarters in Munich and are published in the electronic Federal Gazette.

6 — ACCOUNTING AND VALUATION METHODS

6.1 CHANGES IN ACCOUNTING AND VALUATION METHODS

6.1.1 New standards and interpretations to be applied for the first time

In the financial year ended December 31, 2019, the following standards and changes had to be applied by the Group for the first time:

Standard/ Interpretation		Endorsement by EU	Mandatory application	Impacts
IFRS 16	Leases	31.10.17	01.01.19	significant impacts
Amendments to IFRS 9	Features with Negative Compensation	22.03.18	01.01.19	no material impacts
Amendments to IAS 19	Plan Amandment, Curtailment or Settlement	14.03.19	01.01.19	no material impacts
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	08.02.19	01.01.19	no impacts
IFRIC 23	Uncertainty over Income Tax Treatments	23.10.18	01.01.19	no material impacts
	Annual Improvements to IFRS Standards 2015 – 2017 Cycle	14.03.19	01.01.19	no material impacts

IFRS 16 Leases

In January 2016, the IASB published the standard IFRS 16 "Leases". This standard replaces the provisions of IAS 17 and the associated interpretations. Since January 1, 2019, the group applied IFRS 16 for the first time.

IFRS 16 introduced a comprehensive model for the identification of leasing agreements, according to which leases have to be recorded in the lessee's balance sheet. Lessees activate the right of use (so-called "Right-of-use asset" or RoU asset) on the leased object and record the payment obligation from the leasing contract as a liability. The only exceptions to this are for short-term leases with a term of up to twelve months and leases for assets of low value. For the accounting of leases with the lessor, the new standard basically takes over the provisions of IAS 17 and maintains the distinction between finance and rental leases.

For the transition to IFRS 16, the group uses the modified, retrospective approach. The values of the comparative periods are based on the accounting principles of IAS 17 and are not shown adjusted. Adjustments from the initial application are shown in the opening balance sheet values as of January 1, 2019.

At the time when IFRS 16 was applied for the first time, the group valued its lease liabilities at the present value of the lease payments not yet made, using marginal borrowing rates equivalent to the term for discounting. The right of use recorded at the time of first-time application is recorded at the value of the corresponding lease liability. As part of the IFRS 16 changeover, renewal and termination options were assessed based on current information. They are reported within intangible assets and property, plant and equipment. Depreciation is linear.

In addition, leases that were not classified as leases in accordance with IAS 17 in conjunction with IFRIC 4 are not reviewed again according to the definition of a lease in accordance with IFRS 16. For leases that were previously classified as finance leases in accordance with IAS 17, the right of use and the corresponding lease liability are recorded at the previous book values that result from the valuation of the leased asset in accordance with IAS 17 immediately before the first-time application of IFRS 16.

The Group avails itself of the facilitation options for leases with a term of up to twelve months (short-term leases) and for leases for low-value assets. The lease payments associated with these leases continue to be recognized directly in expenses.

The weighted average marginal borrowing rate for leases recorded for the first time at the time of first application was in a range of 1.2 – 29.7%, which the group used for discounting as of January 1, 2019. Due to the first-time application of IFRS 16, rights of use were capitalized in the amount of 20,205 kEUR as of January 1, 2019 and leasing liabilities in the amount of 20,205 kEUR were recorded at the same time. These are attributable to long-term leasing liabilities in the amount of 17,131 kEUR and short-term leasing liabilities in the amount of 3,354 kEUR.

The adjustments made as a result of the first-time application of IFRS 16 in the consolidated balance sheet are as follows:

in kEUR	Book value in accordance with IFRS 16 January 1, 2019	Effects of IFRS 16	Book value in accordance with IAS 17 December 31, 2018
ASSETS			
Non-current assets			
Intangible assets	25,565	0	25,565
Property, plant and equipment	98,869	20,205	78,664
EQUITY AND LIABILITIES			
Non-current liabilities			
Leasing liabilities	19,602	16,897	2,471
Current liabilities			
Leasing liabilities	4,077	3,308	723

The above overview only includes the balance sheet items affected by the changes resulting from the first-time application of IFRS 16.

Significant items in connection with the transfer of operating lease obligations as of December 31, 2018 and January 1, 2019 are the leasing liabilities of 20,205 kEUR discounted for the first time at the marginal borrowing rate and the liabilities from finance leases previously recognized in accordance with IAS 17 of 3,194 kEUR. Lease expenses are also recorded, for which the Group avails itself of the facilitation options when transitioning to the new standard for short-term leases and leases of low-value assets.

The following table shows the composition of the rights of use, which from January 1, 2019 have to be capitalized. The rights of use include assets that as of December 31, 2018 were recorded in property, plant and equipment under finance leases.

in kEUR	Intangible assets	Land and buildings	Vehicle fleet	Technical equipment and machinery	Total
Balance at January 1, 2019	**1,816**	**17,217**	**396**	**4,810**	**24,239**
Depreciation charge for the year	– 275	– 3,259	– 394	–1,647	**– 5,575**
Additions to right of use assets	185	3,291	562	2,115	**6,153**
Reclassifications of right of use assets	– 72	0	0	– 516	**– 588**
Currency Translation	0	–10	1	– 5	–14
Balance at December 31, 2019	**1,653**	**17,239**	**565**	**4,757**	**24,214**

Amounts recorded in the consolidated cash flow statement for the financial year ended December 31, 2019:

in kEUR	
2019 – Leases under IFRS 16	
Interest on lease liabilities	1,439
Expenses relating to short term leases	230
Expenses relating to leases of low value assets, excluding short term leases of low value assets	662
2018 – Operating leases under IAS 17	
Lease expense	**7,154**

Amounts recorded in the consolidated cash flow statement for the financial year ended December 31, 2019:

in kEUR	
Total cash outflows for leases	5,469

6.1.2 New standards and interpretations to be applied in the future

The following new or revised standards and interpretations have already been adopted by the IASB, but have not yet come into force or have not yet been adopted into European law. The group did not apply the rules prematurely:

Standard/ Interpretation		Issued by IASB	Endorsement by EU	Mandatory application	Impacts
IFRS 17	Insurance contracts	18.05.17	no	01.01.22	no impacts
Amendments to IFRS 3	Business Combinations	22.10.18	no	01.01.20	no material impacts
Amendments to IAS 1 and IAS 8	Definition of materiality	31.10.18	29.11.19	01.01.20	no material impacts
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	11.09.14	no	01.01.20	no impacts
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	26.09.19	no	01.01.20	no material impacts
Amendments to IAS 1	Presentation of Financial Statements	23.01.20	no	01.01.22	no material impacts
	Changes in Conceptual Framework in IFRS Standards	29.03.18	29.11.19	01.01.20	no material impacts

IFRS 3 “Business combinations”

In October 2018, the IASB published amendments to IFRS 3 “Business Combinations”. The changes aim to solve the problems that arise when a company determines whether it has acquired a business or a group of assets. The amendments to IFRS 3 are to be applied for the first time for financial years that begin on or after January 1, 2020. The amendments to IFRS 3 may have an impact on the consolidated financial statements if corresponding transactions are carried out in the future.

In addition, other standards and interpretations were adopted which, as expected, will have no significant impact on the consolidated financial statements.

6.2 FAIR VALUE MEASUREMENTS IN ACCORDANCE WITH IFRS 13

The fair value is the price that would be received for the sale of an asset or would be paid for the transfer of a liability in an orderly transaction on a main market on the evaluation date under current market conditions (e. g. a transaction price), regardless of whether the price is directly observable or is estimated using another valuation method.

A valuation hierarchy (fair value hierarchy) has been established in compliance with IFRS 13 "Fair Value Measurement". The valuation hierarchy categorizes the input factors used in the valuation techniques to evaluate the fair value into three levels:

- Level 1: Input parameters are quoted prices (unadjusted) in active markets for identical assets or liabilities, which can be accessed on the valuation date.
- Level 2: Input parameters are different from the prices listed in level 1, which are either directly observable for the asset or the liability or can be derived indirectly.
- Level 3: Input parameters are unobservable parameters for the asset or liability.

In this context, the group determines whether transfers between the hierarchy levels occurred at the end of the respective reporting period. Share-based remuneration components are measured at fair value, but do not fall within the scope of IFRS 13.

6.3 INTANGIBLE ASSETS

Acquired intangible assets, including software and licenses, are capitalized at cost, internally generated intangible assets are capitalized at cost.

Research and development expenses must be separated to determine whether internally generated intangible assets can be capitalized. Expenses for research activities with the prospect of gaining new scientific or technical knowledge are recorded as expenses in the period in which they are incurred. The assessment of internally generated intangible assets presupposes the cumulative fulfillment of the activation criteria of IAS 38: The technical feasibility of the development project and a future economic benefit from the development project must be demonstrated and the company must intend and be able to complete the intangible asset and to use or sell it. Adequate technical, financial and other resources must also be available and the expenditure attributable to the intangible asset during its development must be reliably determined.

The capitalized production costs include the costs directly attributable to the development process as well as development-related overhead costs. Borrowing costs that can be directly attributed to the acquisition, construction or production of a so-called qualified asset are to be capitalized as part of the acquisition or production costs in accordance with IFRS. No qualifying assets for which capitalization of borrowing costs would have been necessary were acquired or manufactured in the reporting period or in the comparative period.

If a useful life can be determined, these intangible assets are amortized on a straight-line basis over their respective economic useful lives. Scheduled depreciation is made on the basis of the following useful lives:

INTANGIBLE ASSETS

	Useful life in years
Internally generated intangible rights and assets	1–10
Customer relationships	5–11
Production technologies	3–10
Patents, concessions, other rights including software	3–50

The Group currently has no intangible assets with an indefinite useful life.

6.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at acquisition or production cost less accumulated depreciation, provided that the assets are depreciable, as well as impairments.

The costs of property, plant and equipment include all costs directly attributable to the acquisition of the asset. Repairs and maintenance are recorded as expenses in the consolidated income statement in the period in which they were incurred. Internally generated assets are valued for the first time at the directly attributable manufacturing costs as well as production-related overhead costs.

Scheduled depreciation is recorded in the consolidated income statement on a straight-line basis over the estimated useful life of the asset.

The following useful lives are mainly used:

FIXED ASSETS

	Useful life in years
Land and buildings	10–40
Technical equipment and machinery	3–14
Operating and office equipment	3–13

Assets leased under finance leases are amortized over the shorter of the two periods, lease term or useful life. Land is not depreciated.

Insofar as significant parts of property, plant and equipment contain components with significantly different lifetimes, these are recorded separately and depreciated over their respective useful lives.

Borrowing costs that can be directly attributed to the acquisition, construction or production of a so-called qualified asset are to be capitalized as part of the acquisition or production costs in accordance with IFRS. No qualifying assets for which capitalization of borrowing costs would have been necessary were acquired or manufactured in the reporting period or in the comparative period.

The residual values and economic useful lives are reviewed on each balance sheet date and adjusted if necessary. The economic useful lives are based on assessments and are largely based on experience with historical use and technical development.

Gains and losses from the disposal of assets are determined as the difference between the net sales proceeds and the book value of the asset and recorded in profit or loss.

If there are indications of impairment and the book value of property, plant and equipment exceeds the recoverable amount, impairment losses are recognized. The recoverable amount is the higher of fair value less costs to sell and the value in use. If the reason for a write-down that has already occurred no longer applies, a write-up to the amortized cost is made.

6.5 IMPAIRMENTS

In accordance with IAS 36, assets with a certain useful life are checked on every balance sheet date to determine whether there are any indications of possible impairment, e. g. special events or market developments that indicate a possible decline in value. There were no indications of impairment of the intangible assets to be amortized in the reporting period. When the recoverable amount of a CGU was checked, there were indications in the financial year that led to an impairment loss on property, plant and equipment (see section 4.2 Property, plant and equipment).

Intangible assets with an indefinite useful life as well as internally generated assets under construction must also be examined for impairment at every reporting date. There were no intangible assets with an indefinite useful life in the reporting period.

If there are indications or at the mandatory annual impairment test for intangible assets with an indefinite useful life, the recoverable amount of the asset is determined. The recoverable amount of an asset is the higher of the two amounts from the fair value of an asset or a CGU less costs to sell and the value in use. The recoverable amount must be determined for each individual asset, unless an asset does not generate cash inflows that are largely independent of those of other assets or groups of assets. In the latter case, the recoverable amount is to be determined on the basis of a CGU to which assets or groups of assets are allocated until they collectively generate largely independent cash inflows. This also applies to goodwill. If this results from a business combination, it is allocated from the acquisition date to the CGU or group of CGUs that can benefit from the synergies of the business combination and at which level the goodwill is monitored for internal management purposes. Due to general conditions as well as the completed integration and the associated higher-level allocation of resources, use of capacities and thus also combined offers to customers (composites and injection molding), it was necessary to combine two CGUs. The group thus has six (2018: seven) CGUs, two of them within the Acoustics segment, two (2018: three) within the Plastics segment, the China segment and the Materials segment each represent a separate CGU.

To determine the value in use, the expected future cash flows are generally discounted to their present value using a pre-tax discount rate that reflects current market expectations regarding the interest effect and the specific risks of the asset. When determining the value in use, the current and future expected level of earnings as well as technological, economic and general development trends are taken into account on the basis of approved financial plans. To determine the fair value less costs to sell, recent market transactions, if any, are taken into account.

If the book value exceeds the recoverable amount of the asset or the CGU, an impairment loss in the amount of the book value exceeding the recoverable amount is recognized in profit or loss.

If the impairment requirement for a goodwill is higher than the carrying amount of the CGU carrying goodwill, the goodwill is initially written off completely and the remaining impairment requirement is allocated to the other assets of the CGU. The necessary impairments on individual assets of this CGU are taken into account in the advance of the impairment test for goodwill. There is currently no goodwill.

Write-ups are made to the new recoverable amount, except for goodwill if the reasons for impairment from previous years no longer apply. The upper limit for write-ups is the amortized cost that would result if no impairment had been recognized in previous years. Write-ups to intangible assets or property, plant and equipment were not recorded in the reporting period and in the comparative period.

6.6 ACCOUNTING OF LEASING CONTRACTS

The Group applied IFRS 16 according to the modified retrospective approach and therefore did not adjust the comparative information but continued to present it in accordance with IAS 17 and IFRIC 4.

Method applied from January 1, 2019.

At the start of a contract, an assessment is made as to whether the contract establishes or includes a lease. This is the case if the contract entitles to control the use of an identified asset against payment of a fee for a certain period of time. In order to assess whether a contract includes the right to control an identified asset, the definition of a lease in accordance with IFRS 16 was used.

This method is applied to contracts signed on or after the January 1, 2019. Previously concluded contracts have also been valued according to IFRS 16 since January 1, 2019.

On the availability date or in the event of a change to a contract that contains a leasing component, the contractually agreed fee is divided on the basis of the relative individual selling prices. The Group has decided not to separate the non-leasing components and instead to recognize leasing and non-leasing components as a single leasing component.

On the availability date, the group records an asset for the granted right of use and a lease liability. The right of use is valued for the first time at acquisition cost, which corresponds at the initial valuation to the present value, adjusted for payments made on or before the date of availability, plus any initial direct costs and the estimated costs for dismantling or removing the underlying asset or for restoring the underlying asset respectively. the location where it is located, less any leasing incentives received.

The right of use is then amortized on a straight-line basis from the availability date to the end of the leasing period, unless ownership of the underlying asset passes to the Group at the end of the lease term or the cost of the right of use takes into account that the Group will exercise a purchase option. In this case, the right of use is amortized over the useful life of the underlying asset, which is determined according to the regulations for property, plant and equipment. In addition, the right of use is continuously corrected for impairments, if necessary, and adjusted for certain revaluations of the leasing liability.

For the first time, the lease liability is recorded at the present value of the lease payments not yet made on the date of availability, discounted at the interest rate on which the lease is based on, or, if this cannot be determined easily, at the marginal borrowing rate of the Group or the countries of the subsidiaries. Typically, the group uses marginal borrowing rates as discounting rates.

To determine marginal borrowing rates, the group obtains interest rates from various external sources and makes certain adjustments to take into account leasing terms.

The lease payments included in the valuation of the lease liability include:

- fixed payments, including de facto fixed payments
- variable lease payments that are linked to an index or interest rate are valued for the first time on the basis of the index or interest rate valid on the availability date.
- Amounts that are expected to be payable under a residual value guarantee, and
- the exercise price of a call option if the group is reasonably certain to exercise it, lease payments for an extension option if the group is reasonably certain to exercise it, and fines for early termination of the lease unless the group is reasonably certain not to terminate early.

The leasing liability is valued at the present value of the remaining lease payment, discounted at the lessee's marginal borrowing rate. It is revalued if the future lease payments change due to a change in the index or interest rate, if the group adjusts its estimate to the expected payments under a residual value guarantee, if the group changes its assessment of the exercise of a purchase, or extension, or termination option changes or a de facto fixed lease payment changes.

With such a revaluation of the lease liability, the book value of the right of use is adjusted accordingly or reflected in the income statement if the book value of the right of use has decreased to zero.

Short-term leases and leases based on low-value assets

The Group has decided not to record rights of use and lease liabilities for leases based on low-value assets and for short-term leases, including IT equipment. The Group records lease payments associated with these leases as an expense over the term of the lease.

Method applied before January 1, 2019.

Leases are classified as finance leases if the lease terms essentially transfer all risks and opportunities associated with ownership to the lessee. Fixed assets that are rented or leased and whose beneficial ownership were held by the respective Group company ("finance lease"), were capitalized at the beginning of the contract in the amount of the fair value or the lower present value of future lease payments. Correspondingly, liabilities to the lessor were recorded in the same amount in the balance sheet under the item "financial liabilities". The interest rate underlying the agreement or – if not available – the marginal refinancing rate was used to determine the present value. These assets were written down and the liability was released over the term of the contract. If the useful life of the asset was shorter than the contract period, this was relevant for determining the amortization period. While the leasing object was subject to linear depreciation over the term of the leasing contract, the associated leasing liability was amortized progressively using the effective interest method. This resulted in a difference between the leasing obligation and the book value of the leased property during the term of the leasing contract.

Lease payments within an operating lease were recorded as an expense in the income statement on a straight-line basis over the term of the lease unless another systematic basis was more in line with the timing of the benefits for the lessee.

Operating leasing contracts existed in particular for buildings, offices, technical systems and machinery, office equipment as well as for vehicles and hardware.

6.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, immediately available bank balances and short-term deposits with banks, all of which have an original term of less than three months. Utilized overdraft lines are shown under short-term financial debts.

6.8 FINANCIAL INSTRUMENTS

According to IAS 32, a financial instrument is a contract that results in a financial asset at one company and a financial liability or equity instrument at another company. According to IFRS 9, they can include non-derivative financial instruments, such as trade receivables and payables, and derivative financial instruments.

Financial assets and financial liabilities are initially valued at their fair value, which usually corresponds to the transaction price. Transaction costs that are directly attributable to the acquisition or issue of the financial instrument are recorded at book value only if the financial instrument is not valued at fair value through profit or loss. In case of trade receivables without a significant financing component, the transaction price, which is determined in accordance with IFRS 15, must always be used. The subsequent valuation depends on the classification of the financial instruments.

Standard purchases or sales of financial assets and liabilities are generally recorded on the trading day. Financial assets and liabilities are only netted if the amounts are currently legally enforceable and there is also the intention to actually offset them. These requirements are not met. There are also no global netting agreements or similar agreements, so that the STS Group does not have any offsetting in the balance sheet nor can circumstances arise in which offsetting could occur.

6.8.1 Financial assets

Financial assets include in particular:
- Trade receivables and other receivables,
- other financial assets as well as
- cash and cash equivalents

Financial assets with a term of more than twelve months are reported under non-current financial assets.

Financial assets are classified depending on the underlying business model and the cash flow criterion, according to which the contractual cash flows of a financial asset may consist solely of interest and repayment on the outstanding capital amount of the financial instrument. The cash flow criterion is always examined at the level of the individual financial instrument. The assessment of the business model relates to the question of how financial assets are managed to generate cash flows. The management can target either hold, sell, or a combination of both.

The Company divides financial assets into one of the following categories:
- Financial assets valued at amortized cost (debt instruments)
- Financial assets valued at fair value with recycling and no effect on income (debt instruments)
- Financial Assets at fair value through income
- Financial assets at fair value through income without recycling (equity instruments)

Financial assets valued at amortized cost (debt instruments)
The most significant category of financial assets for the Group is the category of assets valued at amortized cost in relation to debt instruments. The valuation at amortized cost is chosen if the following two criteria are met:
- The business model used to manage these financial instruments is designed to hold them in order to achieve the underlying contractual cash flows and
- the resulting contractual cash flows consist exclusively of interest and repayment on the outstanding principal.

The subsequent valuation of these financial assets is carried out using the effective interest method and is subject to the provisions for impairment in accordance with IFRS 9.5.5 et seq. In the Group, essentially trade receivables, other assets and bank deposits fall into this category. For further details, please refer to section 5.2.1 “Financial instruments”.

Trade receivables that are sold under a factoring agreement without the receivables being sold being disposed of are still assigned by the Group to the “hold” business model and thus to the “amortized cost” category. Within the framework of the business model criterion, the Group defines a sale as an actual sale, which also leads to a disposal in the balance sheet. According to the Group’s interpretation, the purely legal sale without disposal does not constitute a selling business model within the meaning of IFRS 9. Portfolios of receivables that are fundamentally subject to factoring with the disposal of the corresponding receivables are assigned to the “hold and sell” category and are valued at fair value with no effect on income (FVOCI).

Financial assets valued at fair value with recycling and no effect on income (debt instruments)
The valuation with no effect on income with recycling at fair value for debt instruments is carried out if the following two criteria are met:
- The business model for managing these financial instruments is based on holding them in order to achieve the underlying contractual cash flows and also on selling them.
- The resulting contractual cash flows consist exclusively of interest and repayment on the outstanding principal.

For these financial assets, interest, effects of foreign currency valuation and expenses and income in connection with impairments are recorded in the income statement. The remaining changes are recorded directly in other comprehensive income in accordance with the requirements of IFRS 9 and reclassified to income upon disposal (recycling).

Within the Group, receivables that are related to a factoring agreement upon the disposal of the corresponding receivables are essentially subject to this valuation.

Financial Assets valued at fair value through income

The category includes financial assets that are held for trading, financial instruments using the fair value option, financial assets that are subject to mandatory fair value valuation and equity instruments that are not valued at fair value through income. A trading intention exists if a short-term purchase or sale is planned. Derivatives that are not part of a hedging relationship are always held for trading purposes. Financial assets that do not meet the cash flow criterion are always valued at fair value through income, regardless of the underlying business model. The same valuation applies for financial instruments that are subject to a "selling" business model.

The fair value option for financial assets is not used.

Any changes in the fair value of these instruments are recorded in income.

Financial assets at fair value through income without recycling (equity instruments)

When an equity instrument is recorded for the first time, the group has the irrevocable option to value at fair value with no effect on income. The prerequisite is that it is an equity instrument in accordance with IAS 32 that is not held for trading purposes and that it is not a contingent consideration in the sense of IFRS 3. The option is exercised separately for each equity instrument.

Gains or losses from such a financial asset are not reclassified to income upon disposal (no recycling). Dividends from such instruments are recorded in the income statement. Equity instruments that are valued at fair value with no effect on income are not subject to the provisions for impairment.

6.8.2 Impairment of financial assets

Financial assets, with the exception of financial assets valued at fair value through income, contractual assets in accordance with IFRS 15, leasing receivables, loan commitments and financial guarantees are subject to the impairment model in the sense of IFRS 9.5.5. The group then recognizes an impairment for these assets based on expected credit losses. Expected credit losses result from the difference between the contractually agreed cash flows and the expected cash flows, valued at the present value at the original effective interest rate. The expected cash flows also include proceeds from hedging sales and other loan collateral, which are an integral part of the respective contract.

Expected credit losses are recorded in three stages. For financial assets for which there has been no significant increase in the risk of default since initial recording, the value adjustment is set in the amount of the expected 12-month loan loss (level 1). In the event of a significant increase of the credit risk, the expected credit loss for the remaining term of the asset is determined (level 2). The Group generally assumes that there is a significant increase in credit risk if there is a 30-day overdue. This principle can be refuted if reliable and justifiable information in individual cases indicate that the credit risk has not increased. If there is objective evidence of impairment, the underlying assets are to be assigned to level 3. Objective indications of impairment are assumed in the event of an overdue over 90 days, unless there is reliable and justifiable information in individual cases that a longer backlog is more suitable. In addition, refusal of payment and similar are considered as an objective indication.

The class of assets for the application of the impairment model, relevant for the Group, are trade receivables and contract assets. For these, the Group applies the simplified approach in accordance with IFRS 9.5.15. Accordingly, the value adjustment is always determined in the amount of the expected credit losses over the term. For further details on determining the impairment, see section 5.2.1 “Financial instruments”.

For financial assets that are valued as a debt instrument at fair value with no effect on income, the Group considers all reasonable and reliable information that is available without undue cost and time expenditure in order to review a potentially significantly increased expected credit risk. For this purpose, mainly the associated probability of default is used. Rating information is used to determine the probability of default. The Group only holds instruments for which there is a low risk of default.

For the other assets that are within the scope of the revised impairment model of IFRS 9 and that are subject to the general approach, financial assets are summarized accordingly on the basis of common credit risk characteristics in order to evaluate the expected losses, respectively individual default information is used. The basis of calculation is in principle the current default probabilities on the respective reference date.

The Group generally assumes a default if the contractual payments are overdue by more than 90 days. In addition, internal or external information is used in individual cases, which indicate that the contractual payments cannot be made in full. Financial assets are de-recognized out if there is no reasonable expectation of future payment.

6.8.3 Financial liabilities

Financial liabilities constitute an obligation of repayment in cash and cash equivalents or another financial asset. These include in particular bonds and other securitized liabilities, trade payables, liabilities to banks and derivative financial instruments.

For the valuation of financial liabilities, we refer to the description of the financial assets. Financial liabilities are generally valued at amortized acquisition cost using the effective interest method (financial liabilities through amortized cost, FLAC). All financial liabilities held for trading are classified as financial liabilities at fair value through profit or loss (financial liabilities through profit or loss, FLtPL). This includes derivatives that are not part of a hedging relationship as well as financial instruments for which the fair value option was exercised.

Financial liabilities are classified as current unless the Group has the unconditional right to postpone the repayment of the liability until at least twelve months after the balance sheet date.

The fair value option for debt instruments in accordance with IFRS 9 is not used.

6.8.4 De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to payments have expired or have been transferred and the Group essentially transfers all risks and opportunities associated with ownership.

Financial liabilities are de-recognized when the liability has been settled, i.e. the contractual obligation has been fulfilled, canceled or has expired.

6.8.5 Derivative financial instruments

Derivative financial instruments are used within the Group to manage risks from in-terest rate fluctuations. Derivative financial instruments are initially recorded as fi-nancial assets or liabilities at their fair value in the category of financial assets that are valued at fair value through profit or loss or financial liabilities that are meas-ured at fair value through profit or loss. Attributable transaction costs are recorded in profit or loss in the period in which they are incurred. With the exception of deriva-tives, which have been designated as a hedging instrument to hedge cash flows in the context of cash flow hedges, all derivatives are measured at fair value through profit or loss. They are shown in the consolidated balance sheet under the items “other financial assets” or “other financial liabilities”.

The group currently does not include hedging operations in accounting.

6.9 INVENTORIES

Inventories are valued at the lower of acquisition or production cost and net realizable value. Acquisition costs for raw materials, consumables and supplies are determined using the moving average. Additional incidental acquisition costs are taken into account. Unfinished as well as finished products made by the Group are valued at production costs. In addition to the material, manufacturing and special direct costs of production, the manufacturing costs also include appropriate parts of the overheads attributable to production as well as production-related depreciation.

Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs until completion and the estimated necessary distribution costs.

6.10 CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets arise from the application of revenue recognition over a period of time. This is particularly the case for the Group if the products have no alternative use due to their specifications and if there is an enforceable payment claim against the customer at least in the amount of a reimbursement of the costs incurred by the services already provided, including a reasonable profit margin. In these cases, the Group realizes revenues based on the input-oriented cost-to-cost method (applied for customer tools) or an output method (applied for series production). A contract asset is capitalized because revenues are recorded before the group has an unconditional right to receive the consideration. If the group is unable to determine the amount of the profit margin with sufficient certainty, the revenues are recorded using the zero profit margin method. The profit margin is then only recorded at the end of the project.

Contract liabilities essentially result from advance payments received from customers if they are related to a customer order and the products have not yet been delivered or the service has not yet been performed.

Contract assets and contract liabilities are netted at contract level. Depending on the remaining term, they are shown as current or non-current.

The impairment provisions of IFRS 9 are applied to contract assets.

6.11 PENSIONS AND SIMILAR OBLIGATIONS

The group has pension obligations from defined benefit plans. In accordance with IAS 19, pension obligations are valued using the projected unit credit method based on actuarial reports. This not only takes into account the pensions and vested benefits known on the balance sheet date, but also expected increases in pensions and salaries in the future.

The net interest expense for the reporting period is determined by multiplying the net obligation by the discounting rate used.

Actuarial gains and losses from the valuation of the gross defined benefit obligation are recorded in other income and shown separately in the statement of comprehensive income. Expenses from compounding the benefit obligations are shown in the financial result. Costs for the time of service are taken into account in personnel expenses, whereby past service costs resulting from changes in plans are immediately recognized in the income statement.

6.12 OTHER PROVISIONS

A provision is created if the Group has a current (legal or factual) obligation due to a past event, an outflow of resources with economic benefits to meet the obligation is likely and a reliable estimate of the amount of the obligation is possible (see IAS 37.14).

The provisions are recognized at the expected settlement amount. Long-term provisions are discounted based on the corresponding market interest rates on the balance sheet date.

6.13 REALISATION OF INCOME AND EXPENSES

Revenues are reported as revenues and recorded at the fair value of the consideration received or to be claimed, less returns as well as discounts and volume discounts.

6.13.1 Sale of goods

The Group realizes revenues when the power of disposition over definable goods or services is transferred to the customer. The customer must therefore have the ability to determine usage and essentially derive the remaining benefit from it. The basis for this is a contract between the Group and the customer. The parties must have agreed to the contract and the agreements contained therein, the individual obligations of the parties and the terms of payment must be determinable, the contract must have economic substance and the group is likely to receive the consideration for the service rendered. Enforceable rights and obligations must therefore exist. The transaction price usually corresponds to the revenue. If the contract contains more than one definable performance obligation, the transaction price is divided between the individual performance obligations based on the relative individual selling prices. If no stand-alone selling prices are observable, the Group estimates them. The individual identified performance obligations are either realized over a certain period of time or at a certain point in time.

Customer tools
The Group develops and produces first-series tools for some of its customers. According to IFRS 15, this constitutes a separate performance obligation towards the customer. The projects have an average duration of 6 to 24 months. As a rule, the Group receives down payments from customers for these performance obligations on the basis of an agreed down payment plan over the term of the project. Due to the term, the Group currently does not include a significant financing component that is to be accounted for separately. If the Group for which customer tools have no alternative use due to their specifications and has an enforceable payment claim against the customer at least in the amount of a reimbursement of the costs incurred by the services already provided, including a reasonable profit margin, the revenue is recognized over a period of time. However, due to the uncertainty regarding the profit margin to be realized, the zero profit margin method is used. If there is no enforceable payment claim including a reasonable profit margin, the revenue is recognized at the time of transfer of power of disposition to the customer through the acceptance.

Customer-specific products
Customer-specific products are subject to a period-related revenue recognition if the products have no alternative use due to their specifications and the Group has an enforceable payment claim against the customer at least in the amount of a reimbursement of the costs incurred through the services already performed, including a reasonable profit margin. For the Group, this concerns large parts of the series production of customer-specific parts. Payments are usually due no later than 90 days after acceptance by the customer.

Other goods
Revenues from the sale of other goods are recorded when the power of disposition has been transferred to the buyer. Depending on the respective customer contract and the respective order, the point in time of revenue recognition usually coincides with the point in time of delivery or acceptance. Payments are usually due no later than 90 days after acceptance by the customer.

6.13.2 Other income and expenses

Interest is accrued on an accrual basis using the effective interest method as an expense or earnings. Interest income and interest expenses arise primarily from bank balances, loans and leasing and factoring agreements. Dividend income is recognized at the date on which the right to receipt of payment is created.

Expenses are recorded when the service is used or at the time when they occur.

Research expenses are recorded in profit or loss in the period in which they are incurred. Development expenses are recognized in profit or loss at the time they arise, provided they are not development costs that must be capitalized as an intangible asset in accordance with IAS 38 if the relevant conditions are met.

6.14 INCOME TAXES

Income tax expense represents the total of current tax expense and deferred taxes.

6.14.1 Current taxes

The current tax expense is calculated on the basis of the taxable income for the year. Taxable income differs from the net income from the consolidated statement of comprehensive income due to expenses and income that are taxable in later years or never or are tax deductible. The Group's liabilities for current taxes are calculated on the basis of the applicable or soon to be applicable tax rates from the perspective of the balance sheet date.

6.14.2 Deferred taxes

Deferred taxes are determined in accordance with IAS 12 on the basis of the internationally customary balance sheet-based liability method (liability method). Deferred tax items are then formed for all temporary differences between the tax valuations and the valuations in the consolidated balance sheet as well as for tax loss carryforwards.

Deferred taxes on these calculated differences are always recorded if they lead to deferred tax liabilities. Deferred tax assets are only taken into account if it is probable that the corresponding tax benefits will be realized. Deferred tax assets and deferred tax liabilities are also recognized on temporary differences that arise in connection with company acquisitions, with the exception of temporary differences on goodwill, provided these are not taken into account for tax purposes.

The tax rates of future years are used to calculate deferred taxes insofar as they are already laid down by law or the legislative process is essentially complete. Changes in deferred taxes in the balance sheet generally lead to deferred tax expenses or credits. Insofar as certain circumstances that result in a change in deferred taxes are booked directly against equity, the change in deferred taxes is also taken into account directly in equity.

6.15 GRANTS OF PUBLIC SECTOR

Grants from the public sector, including non-monetary grants at fair value, are only recorded if there is reasonable assurance that:
a) the company will meet the associated conditions, and that
b) the grants are granted.

The grants are recorded as income over the periods in which the corresponding expenses to be compensated are incurred. Grants received to compensate for expenses that have already occurred are recorded in the income statement of the period in which expenses occur.

Grants from the public sector in connection with STS MCR SAS, France in the amount of 89 kEUR in the financial year ended December 31, 2019 (2018: 93 kEUR) reduced the acquisition costs of the underlying building and are realized as reduced depreciation over the useful life of the underlying building.

6.16 CRITICAL ESTIMATES AND EXERCISE OF DISCRETION

When applying the accounting and valuation methods, the Group Executive Board has exercised discretion that has a significant impact on the amounts in the consolidated financial statements. Accordingly, assumptions and estimates have to be made to a certain extent when preparing the consolidated financial statements, which affect the amount and presentation of the assets and liabilities, income and expenses as well as the contingent liabilities of the reporting period. They essentially relate to the assessment of the recoverability of assets, the group-wide determination of economic useful lives for property, plant and equipment, and the accounting and valuation of provisions.

The assumptions and estimates are based on premises that are based on the currently available knowledge. In particular, with regard to the expected future business development, the circumstances at the time the consolidated financial statements were prepared as well as the realistic future development of the environment were taken as a basis. As a result of developments in these framework conditions that deviate from the assumptions and are outside the sphere of influence of management, the amounts actually achieved can deviate from the originally expected estimates.

The most important forward-looking assumptions and other significant sources of estimation uncertainties existing on the reporting date, which pose a significant risk that an adjustment of the book values of assets and liabilities may be necessary within the next reporting periods, are explained below.

6.16.1 Estimates by way of purchase price allocation

In the context of company acquisitions, estimates are generally made to determine the fair value of the assets and liabilities acquired. Land, buildings and technical systems and machines are usually valued by an independent expert, while marketable securities are valued at their market value. Expert opinions on the market values of property, plant and equipment are subject to uncertainties due to the use of necessary assumptions. For intangible assets, the fair value is determined using suitable valuation methods, which are generally based on a forecast of all future cash flows. Depending on the type of asset and the availability of information, different valuation techniques are used, which can be differentiated according to cost, market price and net present value-based methods. The capital-value based method should be emphasized due to its special importance in the valuation of intangible assets. Thus, e.g. for the valuation of licenses, the so-called relief-from-royalty method is used, which i.a. estimates cost savings resulting from the fact that the company holds the licenses itself and does not have to pay fees to a licensor. The savings from this after discounting result in the value to be recognized for the intangible asset. Appraisals of intangible assets require estimates of the economic useful lives, which are subject to uncertainties due to the use of assumptions. Also, when appraising the fair value of contingent liabilities, assumptions must be made about their likely occurrence. Due to their nature, these assumptions are also subject to uncertainties.

6.16.2 Determination of the useful life of property, plant and equipment as well as software and licenses

When estimating the useful life of assets, the company is guided by past experience. However, due to the accelerated technical progress, there is the possibility that faster depreciation may be necessary.

6.16.3 Expected credit losses

For a description of the estimates and assumptions on which the expected credit losses are based, see section 5.2.2 Financial risk management, subsection credit and default risk.

6.16.4 Recognition of deferred tax assets and deductible temporary differences

Deferred tax assets are recognized for tax loss carryforwards and deductible temporary differences, provided that the realization of the associated tax advantage through future taxable profits based on the management's profit forecast for the Group companies is considered probable.

6.16.5 Provisions

Provisions differ from other liabilities in terms of uncertainties regarding the timing or amount of necessary future expenditure. A provision is recognized if the company has a current (legal or factual) obligation from an event in the past, the outflow of resources with economic benefits to fulfill this obligation is likely and a reliable estimate of the amount of the obligation is possible (cf. IAS 37.14).

Due to different economic and legal assessments and the difficulties in determining the probability of occurrence, there are significant uncertainties in recognition and valuation.

Actuarial assumptions must be made to value pension provisions. These assumptions depend on the individual assessments of the management.

6.16.6 Revenue recognition

The determination of the amount and timing of revenues from contracts with customers is subject to the discretion of the company in accordance with IFRS 15. For contracts on first-series tools that are fulfilled over a period of time, the input method cost-to-cost is generally used, since the company believes that the costs incurred within the project convey a true picture of the service provision. Contracts for series products that meet the criteria of period-related revenue recognition, however, are usually valued according to the output method, since in these cases the units created or delivered convey a true picture of the service provision. For period-related services, the service fulfillment is achieved when the service is rendered. In case of contracts that are fulfilled at a certain point in time, the transfer of power of disposition over the goods is taken into account. As a rule, the assessment of the transfer of power of disposition is based on the agreed Incoterms.

Events after the balance sheet date

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

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

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

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

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

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

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

Hallbergmoos, April 6, 2020

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

5 — FURTHER NOTES

AFFIRMATION BY THE LEGALLY AUTHORIZED REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Hallbergmoos, April 6, 2020

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

„INDEPENDENT AUDITOR'S REPORT

To STS Group AG, Hallbergmoos

NOTE ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of STS Group AG, Hallbergmoos and its subsidiaries (the Group), consisting of the consolidated statement of financial position as of December 31, 2019, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of change in equity and the consolidated statement of cash flow for the financial year from January 1, 2019 to December 31, 2019 as well as the notes to consolidated financial statements, including a summary of important accounting and assessment methods. In addition, we examined the management report of STS Group AG, which is combined with the group management report, for the financial year from January 1, 2019 to December 31, 2019. We have not audited the content of the parts of the combined management report mentioned in the "Other Information" section of our auditor's report in accordance with German statutory provisions.

In our opinion, based on the findings of our audit,

- the attached consolidated financial statements comply in all essential respects with the IFRS, as they are to be applied in the EU, and with the additional German legal regulations to be applied according to Section 315e (1) HGB and, taking these regulations into account, gives a true and fair view of the financial position of the group as of December 31, 2019 and its earnings situation for the financial year from January 1, 2019 to December 31, 2019.
- the accompanying combined management report provides an overall true picture of the state of the company. In all material respects, this management report is consistent with the consolidated financial statements, complies with German statutory provisions and accurately represents the opportunities and risks of future development. Our opinion on the management report does not extend to the content of the components of the management report mentioned in the "Other information" section.

According to Section 322 (3) Sentence 1 of the German Commercial Code (HGB), we hereby declare that our audit has not led us to any adverse findings concerning the proper preparation of the consolidated financial statement and combined management report.

BASIS FOR THE AUDITOR'S OPINIONS

We have audited the consolidated financial statements and combined management report in accordance with Section 317 HGB and the EU auditor regulation (no. 537/2014; hereinafter referred to as "EU-APrVO"), taking into account the German principles of orderly auditing as determined by the Institute of Auditors (IDW). Our responsibilities under these rules and policies are further described in the section entitled "Auditors' Responsibility when Auditing Consolidated Financial Statements and Group Management Report" of our Auditor's Report. We are independent of the company in accordance with the German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, in accordance with Article 10 (2) f) EU-APrVO, we declare that we have not provided any prohibited non-audit services as defined in Art. 5 (1) EU-APrVO. We believe that the audit verifications we have obtained are sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the combined management report.

SIGNIFICANT UNCERTAINTY IN CONNECTION WITH THE CONTINUATION OF BUSINESS ACTIVITY

We refer to the information in section 5.2.2 Financial risk management and there in the subsection Liquidity and financing risk in the notes and the information in the Opportunities and risk report and there in the subsection "Other risk areas and key opportunities and individual risks" in the combined management and group management report, in which the legal representatives describe that in connection with the effects the global spread of the corona virus, the continued existence of the company depends on the successful implementation of measures to secure liquidity. As set out in Section 5.2.2 and in the Opportunities and Risk Report in the Group Management Report, these events and circumstances indicate the existence of significant uncertainty, which can raise significant doubts about the ability of the company to continue operating and which could pose a risk to the existence of the company within the meaning of Section 322 (2) Sentence 3 HGB. As part of our audit, we assessed, among other things, the group-wide corporate and liquidity planning drawn up by the company. In this context, we also assessed the appropriateness of the assumptions underlying the corporate and liquidity planning and understood whether the corporate and liquidity planning was properly derived on the basis of these assumptions. This has not affected our audit opinions.

PARTICULARLY IMPORTANT ISSUES IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Particularly important issues in the audit are those matters that, in our best judgement, were most significant in our audit of the consolidated financial statements for the financial year from January 1, 2019 to 31 December 2019. These issues have been taken into account in the context of our audit of the consolidated financial statements as a whole and in the formation of our audit opinion; we are not offering a separate opinion on these matters. In addition to the matter described in the section "Significant uncertainty in connection with the continuation of business", we have determined the issue described below as the particularly important audit matter, which is to be reported in our auditor's report.

In our view, the following was the most significant in our review:
❶ Impairment of fixed assets
❷ Effects of first-time adoption of IFRS 16 on lease accounting

We structure our presentation of these particularly important audit matters as follows:
① Circumstances and issues
② Auditing procedure and findings
③ Reference to further information

Below we present the most important facts from the audit:

❶ Valuation of fixed assets

① In the consolidated financial statement of the company, fixed assets totaling 136,448 kEUR (53.2% of total assets or 199.9% of equity) are recorded. Fixed assets are subjected to an impairment test by the company on an ad hoc basis in order to determine a possible need for depreciation. The impairment test is carried out at the level of the groups of cash-generating units. As part of the impairment test, the book value of the respective cash-generating units is compared to the corresponding recoverable amount (higher amount from the value in use and the fair value less costs of disposal). The basis of the valuation is regularly the present value of future cash flows of the respective group of cash-generating units. The present values are determined using discounted cash flow models. The Group's medium-term planning adopted forms the starting point, which is continued with assumptions about long-term growth rates. Expectations about future market developments and assumptions about the development of macroeconomic factors are also taken into account. Discounting is carried out using the weighted average cost of capital of the respective group of cash-generating units. As a result of the impairment test, there was a total impairment loss of 755 kEUR after taking into account the fair value less costs to sell the Brazil cash-generating unit.

The result of this evaluation depends to a large extent on the legal representatives' assessment of the future cash inflows of the respective group of cash-generating units, the discount rate used, the growth rate and other assumptions and is therefore subject to considerable uncertainty. Therefore, the complexity of valuation was of particular importance to our audit.

② As part of our audit, we reviewed, among other things, the methodological procedure for carrying out the impairment test. After comparing the future cash inflows used in the calculation with the Group's mid-term planning, we assessed the appropriateness of the calculation, in particular by coordinating with general and industry-specific market expectations. Additional adjustments of the medium-term planning for the purposes of the impairment test were discussed and followed up with the responsible departments and employees of the company. We also assessed the proper consideration of the costs of corporate functions. With the knowledge that even relatively small changes in the discount rate used can have a significant impact on the amount of the company value determined in this way, we have worked intensively with the parameters used to determine the discount rate used and reproduced the calculation method. In order to take account of the existing forecast uncertainties, we have reproduced the sensitivity analyzes prepared by the company and carried out our own sensitivity analyzes for the groups of cash-generating units with little excess coverage (book value compared to the recoverable amount). For groups of cash-generating units where a change in an assumption that is considered possible would result in a recoverable amount below the carrying amount of the cash-generating units, we have ensured that the required disclosures have been made.

The assessment parameters and assumptions used by the legal representatives are generally in line with our expectations and are also within what we believe to be reasonable ranges.

③ The company's disclosures on the balance sheet item "Property, plant and equipment" are contained in sections 4.2, 6.4 and 6.5 of the notes to the consolidated financial statements.

❷ Effects of first-time adoption of IFRS 16 on lease accounting

① As of the balance sheet date, the company's consolidated financial statements include rights of use amounting to 24.2 mEUR and leasing liabilities of 24.1 mEUR. The lease liabilities therefore represent 9.4% of total assets.

In the financial year, the first-time application of the new accounting standard for leases (IFRS 16) had a significant impact on the opening balance sheet values and their updating in the financial year. The changeover to IFRS 16 was carried out following the modified retrospective approach. The comparative figures of previous years have not been adjusted. In addition, the first application required the implementation of a central IT system to map the leases. The new accounting standard IFRS 16 requires estimates and discretionary decisions by the legal representatives for certain areas, the appropriateness of which had to be assessed in the context of our audit. Our examination focused above all on the assessment of the completeness and correctness of the input parameters, with a special focus on the appropriateness of the chosen discount rate. Against this background, and due to the complexity of the new requirements of IFRS 16, accounting for leases was of particular importance in our audit.

② In the course of our audit, with the support of our internal specialists, we assessed, among other things, the adequacy and effectiveness of the processes set up by the Group to record leases. This also applies to the implementation of the central IT system for mapping the leases and for the necessary adjustments to the existing systems for processing the transactions. In addition, during our audit, with the support of our internal specialists, we assessed the effects of the first-time application of IFRS 16. Together we reviewed the implementation work and assessed the design of the processes set up to map the transactions in accordance with IFRS 16 and the IT systems to support the implementation of the new requirements. In doing so, we took a random look at leasing contracts, tracked the identification of performance obligations and assessed whether they were fully and correctly recorded in the newly implemented central system for mapping leasing relationships. Our examination focused above all on the evaluation of the completeness and correctness of the input parameters, with a special focus on the appropriateness of the chosen discount rate. We were able to convince ourselves that the systems and processes set up and adapted to IFRS 16 are appropriate. Furthermore, we were able to understand that the assessments and assumptions made by the legal representatives are sufficiently documented and justified to ensure that leases are properly accounted for using IFRS 16 for the first time.

③ The company's disclosures on accounting for leases and the effects of the first-time application of IFRS 16 are contained in paragraphs 4.1, 4.2, 4.12, 6.1.1 and 6.6 of the notes to the consolidated financial statements.

OTHER INFORMATION

The legal representatives are responsible for other information. Other information include the following parts of the group management report that have not been audited for content:

- the declaration on Corporate Governance contained in section "Corporate Governance" of the combined group management report in accordance with Sections 289f HGB and 315d HGB
- the Corporate Governance report according to no. 3.10 of the German Corporate Governance Code
- the separate non-financial report in accordance with Section 289b (3) HGB and Section 315b (3) HGB

The other information also include the remaining parts of the annual report – without further cross-references to external information – with the exception of the audited consolidated annual financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated annual financial statements and the combined group management report do not extend to the other information, and accordingly, we provide neither an opinion nor any other form of audit conclusion.

In connection with our audit, we have the responsibility to read the other information and to evaluate whether the other information

- contain material inconsistencies with the annual financial statements, the management report, or knowledge we obtained during our audit or
- may otherwise appear significantly misrepresented.

THE LEGAL REPRESENTATIVES AND SUPERVISORY BOARD´S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with the IFRS, as they are to be applied in the EU, and the supplementary German legal regulations to be applied in accordance with Section 315e (1) HGB, and for ensuring that the consolidated financial statements are in compliance with these regulations and give a true and fair view of the Group's net assets, financial position and results of operations.In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with generally accepted accounting principles in order to facilitate preparation of consolidated financial statements that are free from material misstatement, whether intentional or unintentional.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing matters relating to the company's ability to continue doing business as a company, where relevant. In addition, they are responsible to prepare the financial statements on the basis of the accounting policy of the company's ability to continue as a going concern, insofar as this does not conflict with actual or legal circumstances.

In addition, the legal representatives are responsible for the preparation of the management report, which as a whole conveys a true picture of the company's position, is in all material respects consistent with the consolidated financial statements, complies with German legal requirements and accurately reflects the opportunities and risks of future development. Furthermore, the legal representatives are responsible for precautions and measures (systems) that they deemed necessary to enable the preparation of a management report in accordance with the applicable German statutory provisions and to provide sufficient suitable evidence for the statements in the group management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for preparing the consolidated financial statements and the group management report.

THE AUDITOR'S RESPONSIBILITY FOR AUDITING THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether intentional or unintentional, and whether the group management report gives a true and fair view of the condition of the company and in all material respects is consistent with the consolidated financial statements and with the findings of the audit, that it complies with German legal requirements, accurately reflects the opportunities and risks of future development, and that it issues an auditor's report that includes our audit opinions on the consolidated financial statements and group management report.

Reasonable certainty means a high degree of certainty, but there is no guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code (HGB) and the EU-APrVO and in compliance with the German generally accepted principles for the audit of financial statements promulgated by the Institute of Public Auditors (Institut der Wirtschaftsprüfer-IDW) will always discover a material misstatement. Misrepresentations may result from infractions\ or inaccuracies, and are considered material if they could reasonably be expected to influence, individually or collectively, the economic decisions of a target audience made on the basis of these consolidated financial statements and group management report.

During the audit, we exercise due discretion and maintain a critical attitude. Furthermore,

- we identify and assess the risks of material misstatement, whether intentional or unintentional, in the consolidated financial statements and the group management report, we plan and perform procedures in response to those risks, and obtain audit evidence sufficient and appropriate to form the basis of our opinion. The risk that material misstatements will not be detected is greater for infractions than for misstatements because infractions may involve fraudulent interactions, falsification, intentional omissions, misrepresentations, or the disabling of internal controls.
- we obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of company systems.
- we assess the appropriateness of the accounting methods used by the legal representatives and evaluate whether the estimated values and related information are reasonable as presented by the legal representatives;
- we draw conclusions regarding the appropriateness of the accounting policy used by the legal representatives with respect to the company's ability to continue as a going concern, and, on the basis of the audit evidence obtained, whether there is material uncertainty surrounding events or circumstances that indicate significant doubts as to the Company's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual financial statements and group management report or, if such disclosures are inappropriate, to modify our audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances may, however, result in the company no longer being able to continue as a going concern.
- we assess the overall presentation, structure and content of the consolidated financial statements, including the information, and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements comply with IFRS, as they are to be applied in the EU, and also in accordance with Section 315e (1) of the German Commercial Code (HGB) provides a true and fair view of the Group's net assets, financial position and results of operations.we assess the consistency of the management report with the annual financial statements, its legislation and the image it conveys of the state of the company;
- we obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to enable us to express an opinion on the consolidated financial statements and the Group management report. We are responsible for instructing, monitoring and performing the audit of the consolidated financial statements.
- we assess the consistency of the Group management report with the consolidated financial statements, its legal correspondence and the picture it conveys of the Group's situation.
- we perform audit procedures on the future-oriented statements made by the Company's legal representatives in the group management report. On the basis of adequately appropriate audit evidence, we in particular examine the significant assumptions underlying the forward-looking statements made by the Company's legal representatives and assess the proper derivation of the forward-looking statements from said assumptions. We do not express an independent audit opinion on the future-oriented statements and the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with the supervisors the planned scope and timing of the audit, as well as significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We make a statement to the parties responsible for governance that we have complied with the relevant requirement of independence, and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and related safeguards.

From the issues we have discussed with the people responsible for governance, we identify the issues that were most significant in the audit of the consolidated annual financial statements for the current period and are therefore the key audit issues. We describe these issues in the Auditor's Report, unless laws or other regulations preclude the public statement of the issue.

OTHER LEGAL AND REGULATORY REQUIREMENT

OTHER INFORMATION ACCORDING TO ART. 10 EU-APRVO

We were elected by the Annual General Meeting on May 17, 2019 as auditor. We were commissioned on by the Supervisory Board on December 6, 2019. We have been the auditor of STS Group AG, Hallbergmoos, continuously since the 2018 financial year.

We declare that the audit opinions contained in this Auditor's Report are consistent with the additional report to the audit committee pursuant to Art. 11 EU-APrVO (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Dietmar Eglauer."

Munich, April 6, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer Auditor	Christoph Tübbing Auditor

IMPRINT

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