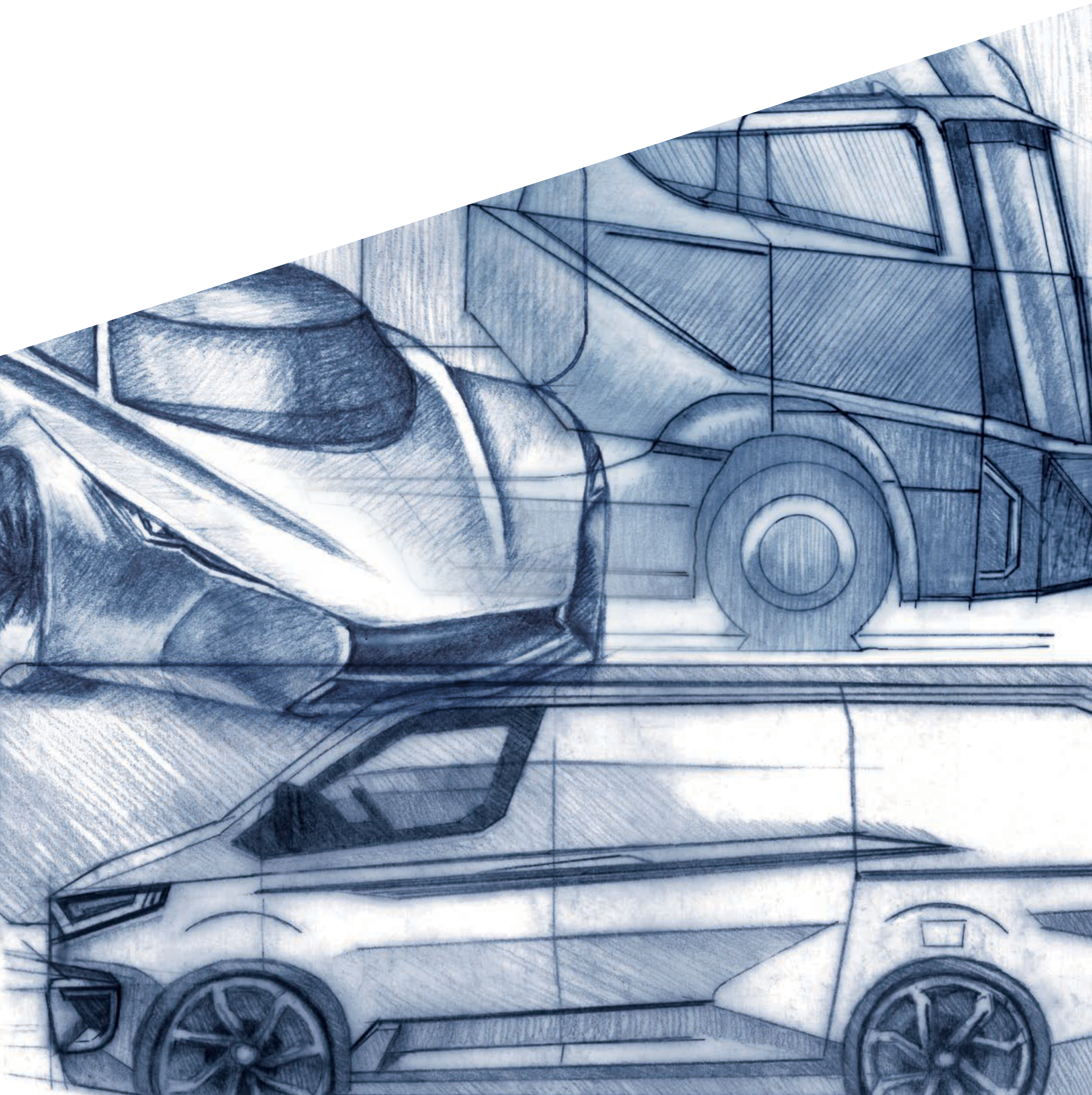
STS Group

Annual Report 2018



AT A GLANCE

RESULTS OF OPERATIONS

in kEUR	January 1 – December 31, 2018	January 1 – December 31, 2017
Revenues	401,228	309,993
Segment Acoustics	124,384	132,636
Segment Plastics	198,582	137,681
Segment China	48,631	25,298
Segment Materials	40,008	19,991
Corporate/consolidation	–10,377	–5,612
EBITDA	11,879	55,037
Adjusted EBITDA	23,677	14,167

Reconciliation to Adjusted EBITDA		
EBITDA	**11,879**	**55,037**
Adjusted for non-recurring effects	11,798	40,870
Adjusted EBITDA	**23,677**	**14,167**
Equity	82,409	60,666
Capital ratio	30,1%	22,1%
Total assets	273,844	274,953
Cash and cash equivalents (unrestricted)	31,169	15,836

In the financial year 2018, the Group generated revenue growth of 29.4% compared to the prior year. Revenue amounted to 401.2 mEUR as of December 31, 2018. Virtually all segments contributed to this increase, which was highest in the Plastics segment with growth of 60.9 mEUR to 198.6 mEUR. The considerable revenue increase due to inorganic growth underscores the positive development for the achievement of the Group's growth targets. In addition, the new orders won in North America and China in the reporting year also support the pursued growth strategy.

Adjusted EBITDA increased by 9.5 mEUR against financial year 2017. Adjusted EBITDA is derived from EBITDA. In the financial year 2017, as a result of the extraordinary income from acquisitions EBITDA amounted to 55.0 mEUR and declined to 11.9 mEUR as of December 31, 2018. EBITDA as of December 31, 2018, is adjusted for the extraordinary items of the IPO and legal and consulting costs, severance costs and TSA costs ("transition services agreements" or "TSA"). This resulted in an Adjusted EBITDA of 23.7 mEUR in financial year 2018.

COMPANY PROFILE

The STS Group AG,
www.sts.group (ISIN: DE000A1TNU68), is a globally leading supplier of components and systems for the commercial vehicle and automotive industry. The Group, with its tradition and expertise dating back to 1934, has more than 2,500 employees around the world and generated revenue of over 401.2 mEUR in 2018. The STS Group ("STS") has a strong geographical footprint with a total of 17 plants and four development centers in France, Italy, Germany, Poland, Mexico, Brazil and China. STS produces paneling and acoustic components, which enhance the design of the vehicle both inside and out, offer comfortable storage features in the interior and guarantee a pleasent soundscape. STS components also make an essential contribution to reducing weight and win plaudits through their impressive durability. STS leads the field in manufacturing plastic injection molding parts, special acoustic products and composite (Sheet Molding Compound, SMC) components.

EMPLOYEES

>2,500

DEVELOPMENT CENTERS

4 worldwide

REVENUE 2018

>401.2 mEUR

BUSINESS SEGMENTS

Clear competencies

Due to its high vertical integration, STS Group has a clear competitive advantage. It is able to map the complete manufacturing process from the idea to the finished product. In this way, high-quality, innovative and tailor-made components are always created in dialogue with the customer.

Business activities are divided into four segments:

Acoustics, Plastics, China and Materials

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 IN MOTION

We are witnessing the dawning of a new era: The way in which we move ourselves and our goods is on the verge of an evolutionary leap. Drives and technology are undergoing fundamental changes, as are the various forms of our increasingly networked, intelligent, automated mobility. During this period of transition, those who remain successful will be the ones who not only think ahead to the future, but who can also make it happen through their innovations.

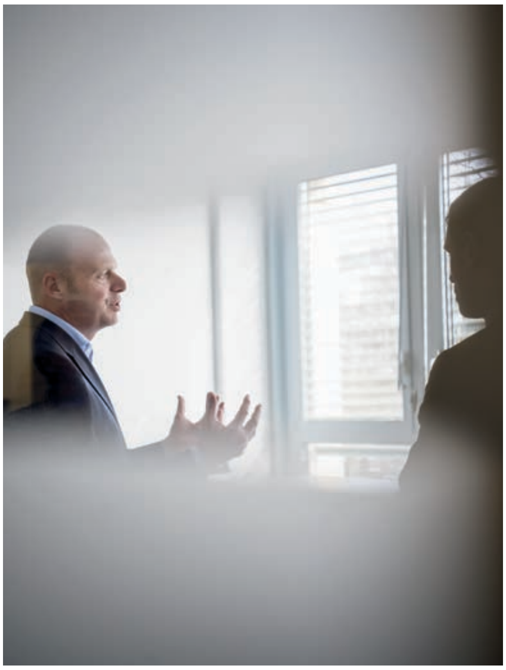
We are now a leading systems supplier for the commercial vehicle- and automotive industry because we consistently invest in possibilities and have successfully generated new growth opportunities for us and our customers.

This annual report is proof of this. We have been a listed company since June 2018. We have reorganized our business areas and expanded our equity holdings. We now conduct production and research operations in seven countries worldwide. The aim of our "ONE STS Group" is for us to remain an essential player on the global commercial vehicle and automotive market in the future.

We will keep moving.
Because that's exactly what you expect from us.

"WE ARE A STRONG AND DYNAMIC GROUP."

Together with his team, Andreas Becker, Chief Executive Officer (CEO) of STS Group AG, has formed a globally leading manufacturer of components for the automotive and commercial vehicle industry within a very short space of time. He explains in an interview why the Company's IPO was so important, which strategic targets STS is pursuing, and why a fender is more than just a fender.



In the interview, STS Group AG CEO Andreas Becker looks back on a successful and eventful business year.

Mr. Becker, STS Group AG has been publicly listed since June 2018. How does it feel to be working for this young company as its CEO?

ANDREAS BECKER: We are a strong team and the STS Group is gaining a great deal of momentum in its present form. It feels good to be a part of it, of course. Following our successful IPO, we are focusing all our efforts on our operating business and enlarging our global footprint. When you consider its history, it must be noted that STS isn't really all that young. We can look back on a tradition and expertise dating back to 1934. The Group, as it exists today, originally arose from the acquisition of the commercial vehicle business of the Swiss-based Autoneum Group, which was acquired in 2013 by our majority shareholder, Mutares AG. A lot has happened since then.

Just five years passed between the launch of the independent STS Group and its IPO in 2018. How did you manage to develop the Group in this form? What happened during this time?

AB: The vision was already clear back then: We wanted to form a globally leading supplier of components and systems for the automotive and commercial vehicle industry. We have succeeded in expanding the STS Group to create a global corporation through ongoing strategic acquisitions of local suppliers with a handful of customers. In this sense, our focus from the beginning has been on becoming a system supplier with a wide range of products and services, that can offer customers everything they need from a single source. Within the space of four years, the Company has grown to more than three times its original size.

A strong team (from left to right): Monika Baur (Head of Group Accounting, Taxes + Risk Management) Jessica Smolny (Executive Assistant), Andreas Becker (CEO) and Stefan Marc Hummel (Head of Investor Relations) in conversation.

And then along came the IPO in June 2018. Mr. Becker, be honest now – did the stock exchange really need another automotive group?

AB: We had reached a certain size and obviously wanted to grow further. The IPO gave us the opportunity to develop the STS Group further in strategic terms. The gross proceeds from the IPO of 24.0 mEUR provided us with important funds, meaning we can get on with implementing our international growth strategy. We have received a lot of positive feedback from our stakeholders – especially from our investors and banks, but also from customers and suppliers, who appreciate the high transparency of the stock exchange's Prime Standard segment. So when you ask me if the stock exchange needed another automotive group, my answer would have to be: Perhaps not, but the stock exchange needed STS Group AG.

The IPO is accompanied by strategic projects. Can you tell us a bit more about these, please?

AB: Of course. First of all, we want to enlarge our global footprint. Our aim here is to achieve further growth in China, enter the US commercial vehicle market and achieve growth there, and optimize our presence in Europe, especially in the direction of Eastern and Northern Europe. We have already made a significant amount of progress in 2018. We acquired a key US truck OEM as a customer in July. This order to supply driver's cabin parts from 2021 onwards will allow us to enter North America, the third largest commercial vehicle market in the world. We want to build on this position with further large orders. We have constructed our third production site in Shiyan in China, which has already commenced production and will provide us with additional capacity for our targeted growth over the next few years. We already supply the largest OEMs in the commercial vehicle sector and we intend to expand our market share further in the future. Consolidating our plant in Poland will enable us to supply our customers in Northern Europe more efficiently. Furthermore, by expanding our footprint in Eastern Europe, we can exploit the best-cost country advantages this entails.

"The vision was already clear back then: We wanted to form a globally leading supplier of components and systems for the automotive and commercial vehicle industry."

Andreas Becker
STS Group AG CEO

Much has been achieved and much is to come. CEO Andreas Becker presents the successfully rolled out STS Group Identity.

What is the objective of the other strategic projects?

AB: Innovation, both in terms of products and processes, provides an important basis for further growth. We made our first breakthrough with electric cars when we received an order from a Chinese electric vehicle manufacturer to produce battery covers. We have organized "Tech Days" in all markets to strengthen cooperation with our customers. This exchange of information reinforces our image and also provides us with interesting and important insights into the strategies of OEMs. Overall, there is high demand for system suppliers that can take on a project from the initial idea to the finished system. By combining our broad technological basis to create new products with first-class functionality and low weights, we believe this will offer us a huge amount of potential. We have also got several projects running within production, with the aim of improving and automating processes.

Three of the five projects are concerned with conquering new markets. How does the STS Group make inroads in new markets? Is there a recipe for success?

AB: The STS Group is a strategic supplier for key global commercial vehicle and automotive manufacturers. They know us, and they trust us, which is why we enjoy the status of a supplier of choice among our customers, which of course gives us a competitive edge over local suppliers.

You will have to explain that to us …

AB: Firstly, it's important for automotive manufacturers to have as few suppliers as possible. And a small number of systems is preferential to a large number of individual parts. Secondly, having a strategic supplier means that an OEM has a partner available to supply a specific component anywhere in the world. One supplier for all global activities is much easier to manage and much more reliable. This puts suppliers that operate globally, as we do, at an advantage. Our plants are located close to our customers' plants, making the logistics chain very efficient. Short distances save time, money, and are more environmentally friendly.

"It was clear from the beginning that it would be a challenge to bring the different cultures together. We didn't want to work side-by-side, with everyone carrying on as they were."

Andreas Becker
STS Group AG CEO

The STS Group has already been represented in China for a long time. With the order placed by an electric vehicle manufacturer, the Company is making inroads into a new market segment. What role does innovation play in the STS strategy?

AB: A very important one. Our high capacity for innovation sets us apart from our competitors, too. We operate four development centers in France, Italy and China, which provide us with a good infrastructure. In China, we have moved our R&D center to our new headquarters, giving us better access to well-trained local specialists (see also interview page 18).

The theme of electric mobility is throwing up major challenges for automotive manufacturers and the supplier industry. What is the significance of electric mobility for the STS Group?

AB: New regulations for exhaust and noise emissions pose a challenge and require innovation in areas such as electric mobility. However, the STS Group is well prepared for this with its product portfolio, because STS systems are used in both combustion engines and hybrid, gas and electric drives to create an attractive design, harmonious sound concept and low weight. New technologies are definitely opening up additional potential for STS.

But a fender is a fender. What contribution do components actually make with regard to the overall vehicle?

AB: Components make an important contribution no matter where they are used – each in their own unique way. Our customers' demands are very high in this respect. Trim parts always have to look good, and in the interior they need to feel good, too, and have the right acoustic properties. Interior modules need to be functional and look good at the same time. Acoustic components need to create a good sound inside and around the vehicle and must be heat-resistant and temperature-isolating in the engine compartment. And even more importantly, components need to be light. STS high-performance components have come into being in this context. Used in combination, they can take vehicles to the next level. And going back to the fender: For STS, this is a system within which we can integrate a range of components.

So how does STS secure its future viability?

AB: Firstly, we maintain a consistent focus on research and development, as already mentioned. Secondly, what this requires above all else is a strong team, a good organization. We want to continue to develop our components, moving in the direction of larger systems. Of course, we won't lose sight of costs and quality in this process. The general basis for this is a good understanding of market needs and close contact with customers and end markets.

Teamwork and organization are important factors. STS has grown rapidly within the space of a few years. How have individual corporate cultures converged following their respective acquisitions? What effect does this have on international cooperation?

AB: It was clear from the beginning that it would be a challenge to bring the different cultures together. We didn't want to work side-by-side, with everyone carrying on as they were. We wanted to leverage synergies, pool expertise, form the basis for new, innovative solutions, and we wanted to create a new, strong company, of course. We have already achieved a great deal here, e.g. with a project used to develop and introduce the STS Group identity. (See also interview page 24). Communication is the key to success. This isn't a cliché for us – it's a task we are taking very seriously and we are making a reality. We are holding workshops at all STS

IPO, global expansion, new mobility trends – these are the moving STS topics for Andreas Becker.

locations to familiarize our employees with our philosophy and identity. By the end of 2018, all acquired companies had been successfully integrated. This was an incredible team effort that we are very proud of.

What other steps have you taken?

AB: With the IPO, we of course needed to set up a headquarters and define an organization for the newly created group. We opted for a matrix organization, as we believe this offers the best opportunities – firstly, to integrate shared expertise and leverage synergies with central functions and, secondly, to define clear responsibilities for the business units, giving us a competitive edge.

Mr. Becker, one final question: Where do you see the STS Group in the next five years?

AB: With the companies acquired in 2017, their integration and our IPO in 2018, we have created a solid basis for future growth. We believe we are well positioned, both in terms of our organization and operations, to face up to the competition in a dynamic environment and to achieve further targeted development. This is an exciting challenge because it has so many different facets, from technology to organization. This will also allow us to expand our global position further, as a leading supplier of components and systems to our customers in the automotive and commercial vehicle industry. And we are ideally equipped to achieve this.

2018 HIGHLIGHTS

The STS Group has been able to successfully shape an exciting and eventful year for itself. Within a short time, the Group has grown solidly and sustainably. These are the milestones that were achieved in the 2018 financial year.

MAY 2018

Third production site in China

As part of its global growth strategy, the Group is building its third production facility in Shiyan. Production started in the first quarter of 2019 for the third plant in China.

JUNE 1, 2018

Successful IPO

The starting signal for STS Group's history as a listed company. A total of 24 mEUR in gross issue proceeds went to STS through the placement of 2,172,172 shares. At 24.00 EUR, the opening price on the regulated market of the Frankfurt Stock Exchange was the same as the issue price. The issue proceeds are to be used primarily for further expansion in China and North America. At the same time, STS presented its first quarter results. With revenues of 108.9 mEUR and an adjusted EBITDA of 8.1 mEUR for the IPO, the STS Group continued its solid growth in the first quarter.

GROSS PROCEEDS OF

24 mEUR

JULY 12, 2018

150 mEUR order for complex front modules

In July, STS made significant progress in expanding its position as an international systems supplier. The company produced and supplied complex front modules from almost one hundred individual parts from a single source for a leading commercial vehicle manufacturer. The injection-molded components will be manufactured, painted and assembled in the STS Group's French plants. In total, the order is worth more than 150 mEUR over its duration.

JULY 24, 2018

Entry into the North American commercial vehicle market

STS reached another milestone in its strategic growth in July. STS manufactured cab parts for heavy trucks for a US commercial vehicle manufacturer and thereby entered the world's third-largest commercial vehicle market, the USA, at the same time. This market entry was one of the prioritized goals during the IPO.

SEPTEMBER 5, 2018

Entry into the Chinese electric vehicle market

Thanks to the order to supply a battery cover for a Chinese electric vehicle manufacturer, STS Group AG entered the Chinese market for electromobility as a Tier 1 supplier.

SEPTEMBER 26, 2018

Revenues doubled in the first half of 2018

With its first half-year report as a listed company, the STS Group reported its revenue doubling from 109.1 mEUR in the first half of 2017 to 218.2 mEUR in the second half of the year. Adjusted EBITDA tripled to 16.5 mEUR. Fast-paced integration of the acquired companies and a positive stream of orders had a particularly positive impact on business development. The STS Group now has 17 locations in seven countries on four continents. The product portfolio also has high cross-selling potential thanks to the different acoustics, injection molding and SMC composites technologies.

REVENUES

309,2 mEUR

NOVEMBER 21, 2018

Nine months of sustainable growth

Even after nine months, the systems supplier for the global commercial vehicle and automotive industry is on course for even more growth. Compared to the previous year, revenue increased by 53.5% to 309.2 mEUR in 2017. Adjusted for extraordinary effects, EBITDA increased significantly from 8.2 mEUR by 12.9 mEUR to 21.1 mEUR.

DECEMBER 4, 2018

New headquarters and R&D center in Wuxi

The new Chinese headquarters with an integrated R&D center was inaugurated in Wuxi, near Shanghai. The new location, which is situated close to the University of Wuxi, opens up new opportunities for STS to attract highly qualified employees.

A year in motion, a market in transition. There are attractive opportuinities for the STS Group in Europe.

THE EUROPEAN TRUCK MARKET IN TRANSITION

For European truck customers, the total cost of ownership remains the most important purchase criterion. But it is becoming increasingly difficult for manufacturers to differentiate themselves from the competition. Vehicle quality and performance levels are converging. Customers now increasingly pay attention to other factors when making their purchasing decisions. Their interest lies more and more in alternative drives and the sales process.

If you want to develop a viable strategy for the future, you cannot ignore the major end customer trends. After all, it is always the end customer who decides which products with which technology or equipment variants prevail. Business consulting Bain regularly examines the needs of truck buyers and derives growth areas. The results of the study "How Europe's Truck Makers Can Break Out of the Pack" presented below are based on 533 interviews conducted by Bain with truck customers of all segments in Germany, France, Great Britain and Poland.

Customers are becoming more demanding

Once again, the total cost of ownership, including the vehicle price, is by far the most important purchase criterion when it comes to purchasing new trucks (Figure). This is followed by the vehicle's features and equipment. But from the customer's point of view, the quality level and total cost of ownership of European brands are now almost identical. The manufacturers are therefore finding it increasingly difficult to differentiate on the basis of products.

This means that other criteria for the value retention of truck offers are increasingly important for buyers. These include service quality and digital services, the buying process and alternative powertrains. This is the key to success for European truck manufacturers and dealers in new differentiation strategies.

Alternative drives are needed

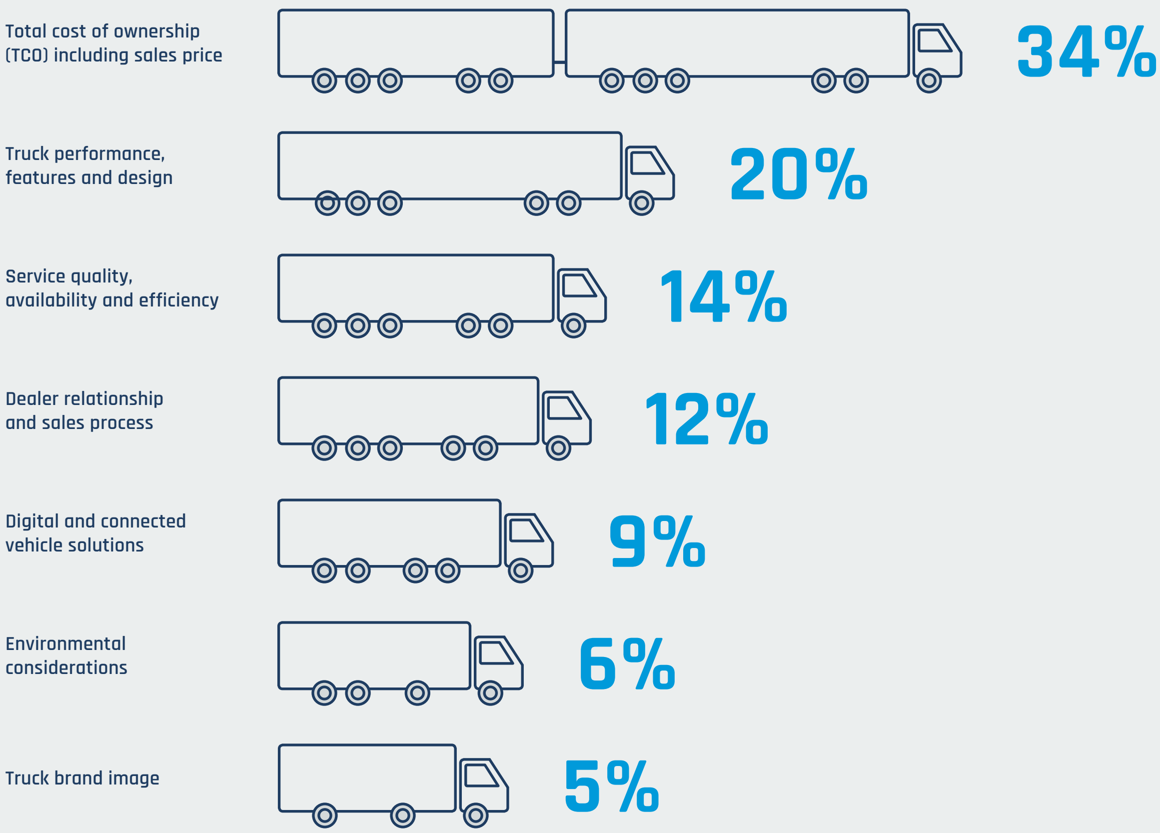
Truck customers are showing a high degree of willingness to buy vehicles with lower emissions and alternative drive systems. Around 40% of respondents want to purchase one or more electric or hybrid trucks for their next investment – despite the current high cost and limited supply. Only 30% of the study participants believe that by 2025, traditional diesel vehicles will still be the main drive form in their fleet.

This result should surprise many manufacturers and suppliers. The reason: inexpensive alternative drives for commercial buyers are by and large not yet available. But many customers are hoping for a learning experience when they have one or two such trucks in their fleet – and an even better image. For this they are also willing to accept higher costs.

Electrification could come sooner than expected. Some manufacturers already have prototypes of electric trucks, which in their view will be ready to market in 2019. Nevertheless, it will be many years before such trucks are the first choice for replacement investments. In the meantime, truck customers are turning to hybrids or gas drives with lower emissions.

Autonomous trucks are a mobility topic of the future. However, concept vehicles can already be seen today.

TRUCK BUYERS SAID TCO IS THEIR MAIN CONSIDERATION[1]



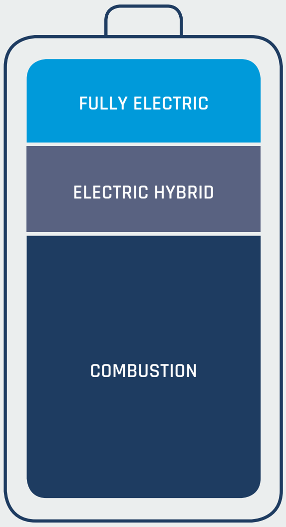
ABOUT 40% OF BUYERS WOULD CONSIDER AN ELECTRIC OR HYBRID TRUCK[2]

~20 %

Electric vehicles are not yet as cost-efficient as diesel, but some buyers are considering them to strenghten their image as environmentally friendly and to gain experience testing alternative drivetrains.

~60 %

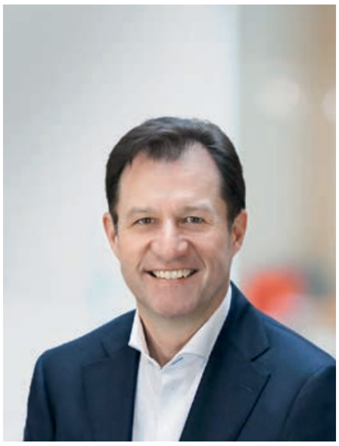
Many buyers, espacially in the long-haul segment, see diesel or alternative combustion fuels as the only costefficient option in the foreseeable future given their range and performance needs.



~20 %

Many buyers, espacially in distribution, consider hybrids more cost-efficient than fully electric vehicles while still supporting an eco-friendly image, allowing them to cover the last mile with low emissions.

[1] **Note:** Respondents were asked to rank their top three criteria (No. 1 criterion weighted by 3, No. 2 and No. 3 by 1)
Source: Bain 2018 European Truck Survey (n = 533, from France, Germany, Poland and the UK)
[2] **Note:** Combustion includes regular diesel and alternative fuels like biodiesel, gas and ethanol
Source: Bain 2018 European Truck Survey (n = 533, from France, Germany, Poland and the UK)



"In the long run, networked trucks and digital technologies will create new business models."

Dr. Jörg Gnamm
Partner at Bain & Company

Personal details
Dr. Jörg Gnamm is a Partner at Bain & Company. He has extensive experience in the automotive industry, mechanical and plant engineering as well as industrial goods. His consulting activities focus on growth strategies, turnarounds and potential development programs. Gnamm studied engineering in Stuttgart and London. He then developed the concept of the "fractal factory" for the Fraunhofer Institute and put it into practice in industrial projects. At the same time, he earned a doctorate in business administration.

In the medium term, truck manufacturers can respond to the growing demand for alternative powertrains with application-optimized, low-emission vehicles that offer a competitive total cost of ownership. In the short term, they can use practical solutions to meet customers' demands for testing alternative drives and improving their environmental image. Speed is essential here: Manufacturers who address these needs first will gain new customers and increase the loyalty of existing customers.

New technologies leave their mark
In the long term, networked trucks and new digital technologies will create new business models that will change the market and customer landscape fundamentally. Two trends could have a particularly strong impact on buyers: autonomous driving and the rise of digital freight forwarders.

Autonomous driving will most likely change the truck market significantly. Many customers are still unsure what that means for them. Half of the respondents in the study fear that autonomous driving will have a major impact on their business. Others welcome the new opportunities. In some segments, savings will be considered to be a strong business case, while others will continue to require drivers in the future. If truck manufacturers want to be successful in this environment, they must learn to understand their customers' business models even better and adapt their own to the changing needs of the market.

Digital freight companies using their digital platforms to connect shippers with hauliers will change the logistics industry and redefine the customer base for trucks. Although there is still no clear market leader, 60% of the truck customers surveyed know of online freight companies. 50% believe that these online forwarders will control more than 40% of the transport volume within the next ten years.

The sales process needs to be targeted
Truck customers want dealers to be a central part of the buying process in the future as well. But they also expect them to evolve. Dealers should help them understand the overall cost of their trucks and help them find the optimal vehicle with sophisticated digital tools. To do this, the dealers must be able to read the data of the customer fleet and intelligently link it with their own data.

It will be some time before self-propelled trucks dominate the road scene. But it is already clear today that autonomous driving is highly likely to change the truck market decisively and create new business models.

The Bain study also shows that the buying process has significantly more online stations than expected. Truck customers have both online and offline contact points for information gathering, configuration, price discussion and checkout. During the information procurement phase, 85% of respondents compare at least two brands. In turn, the dealer plays an essential role in the configuration. Accordingly, manufacturers need to find ways to dovetail the digital channels with the personal traders' contacts to create a seamless customer experience.

The supply industry can also benefit
The described customer trends indirectly open up opportunities for suppliers to truck manufacturers – trucks with alternative drive systems require newly designed components and solutions. In addition, new sales processes may make it possible to diversify the equipment. The flip side of the coin is that, in view of customer interest in alternative drive systems, the demand for diesel-specific equipment and components will slowly decline.

Low priced lightweight solutions will continue to offer good business prospects. The total cost of ownership, including the purchase price, is by far the most important decision criterion for customers. Therefore, truck buyers pay close attention to what they get for their money. In parallel, traders will significantly improve their advice on optimizing total cost of ownership. Since every kilo saved increases the loading capacity and thus the financial attractiveness of a truck, self-financing lightweight construction solutions are likely to attract great interest from manufacturers and customers alike.

Systems business will continue to increase. Manufacturers are all about developing trucks with alternative powertrains, converting traditional distribution into omni-channel distribution, and developing new digital services. They will therefore try to reduce their development and production complexity - and that will almost inevitably increase the share of system suppliers.

Product ranges need to be adapted. Because of the high end customer interest, alternative drives may arrive faster than expected. This will reduce the demand for specific combustion engine products such as engine encapsulation or insulation mats. At the same time, new solutions have to be found, for example for electrically powered trucks.

THE STS GROUP IS WELL POSITIONED TO MEET THE DEMANDS OF THE MARKET

01
The demands placed on the entire automotive industry and its suppliers are constantly increasing. Innovative products, alternative power trains and service quality are the distinguishing features of the competition. The STS Group offers its customers a wide range of systems and solutions for vehicle interiors, exterior trim and engine compartments.

02
In order to meet the forthcoming tightening of emission values for exhaust gas and noise the industry is, for example, required to develop numerous new solutions and models. The demands placed on components are also changing as a result of the spread of electric drives. Solutions for the changed sound image must be found, for which the STS Group already has the required know-how and the right materials.

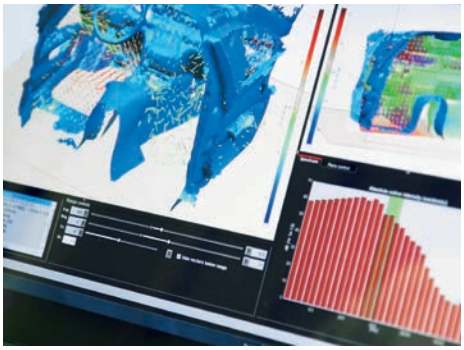
03
Another important topic is weight reduction through lightweight components. The STS Group is continuously developing materials and production techniques and has the ability to manufacture car trim parts and structural components entirely from plastic.

04
As the individual components become more sophisticated overall and their interaction becomes more important, the need to supply more complex systems is constantly growing. The combination of production techniques and materials is a core competence of the STS Group. All in all, the Group is perfectly positioned to seize the resulting industry opportunities with great determination.

STS front module assembly line for trucks in Bourg en Bresse, France. Each year, modules are manufactured for 29,000 vehicles and supplied in more than 300 colours "just in sequence" (JIS).

"WITH OUR PRODUCTS, WE CAN SAVE UP TO 30% IN WEIGHT."

Innovations secure the future viability of STS Group AG. The components must be lightweight, durable, heat-resistant, and versatile. Not an easy task for Vice President Research & Development Eric Morvan. He is developing the components of tomorrow together with his team and grants us an exclusive insight into his work in this interview.



Leakages and major sound paths can be tracked by the 3D analysis and projected directly onto the virtual vehicle image.

What effect do developments in the automotive industry have on your work?

ERIC MORVAN: Electromobility and autonomous driving are hot topics in the automotive industry. And wherever these developments lead, STS components and systems will be required. Here, it will be possible to combine our three technologies – thermoplastics, composite materials and acoustics – in such a way that we can offer structural, aesthetic, acoustic and thermal solutions. We are a leading tier 1 supplier for the commercial vehicle industry and are also represented in the passenger vehicle market. As such, we want to be a strong partner for our customers and develop and promote our innovative electric mobility solutions, without losing sight of our short-term challenges.

When do you think electric mobility will triumph in the commercial vehicle industry?

EM: We are surely still quite a way from a triumph. Fundamentally, you also have to differentiate as to where and how commercial vehicles with electric motors should be used. For long distances, diesel engines will still be used for some time yet. When it comes to urban use, electric vehicles will become established at an increasingly rapid rate in order to be able to meet emissions standards.

Eric Morvan (Vice President Research & Development) ensures the future viability of the STS Group with innovations.

The aim of EU member states and EU parliamentarians is for manufacturers of trucks and buses to reduce the carbon dioxide (CO_2) emissions of their models by 15% by 2025 and by 30% by 2030. Does that create opportunities for the STS Group?

EM: Absolutely. Stricter emissions standards will promote the need for innovative solutions. Many components that we manufacture are aimed at reducing weight. And we develop materials aimed at saving even more weight. Ultimately, that saves fuel, and reduces CO_2 emissions from cars significantly. In the case of heavy trucks, aerodynamics also have a strong influence on fuel consumption. As a supplier of external cabin modules – such as front modules, fenders and roofs, for example – the STS Group is active in this area, too. We are currently launching a co-development project with a large truck OEM, the aim of which is to improve both aerodynamics and weight. Noise emission regulations for commercial vehicles are also set to be tightened in the near future. We are developing innovative solutions aimed at bringing acoustic parts as close as possible to the source of noise in the area of the engine compartment by co-molding structural composite materials and high-performance acoustic materials. These new components will feature complex shapes and need to withstand high temperatures, chemical influences and stone chips.

In electric vehicles, the main source of noise – the loud combustion engine – disappears. Why do you still need acoustic components?

EM: That is correct, but without a loud engine, other things become more important. Then we are talking about a completely different acoustic pattern, because there are medium and high frequencies involved. We have solutions to absorb noise at these frequencies, but we also need to consider the fact that mechanical noises increasingly come to the fore in an electric vehicle. That places

With the innovative Scan 3D probe, the sound can be “visualized” in the STS Acoustic Lab.

1,000 °C

In the event of a module malfunction, the battery housing can be exposed to ventilation pressure and temperatures of over 1,000 °C.

entirely new demands on sound design. We have already conducted a spectral comparison on vehicles with combustion engines and electric motors in our acoustics laboratory. The data we collected will enable us to design and simulate acoustic solutions specifically for electric vehicles. Even if the specifications are different, there will still be a need for acoustic components in electric vehicles.

Another megatrend is autonomous driving. Even if we have to wait a while longer for driverless trucks to make their breakthrough, the STS Group needs to prepare for this development. What are your plans in this area?

EM: Of course, we have to apply ourselves to this topic, even if it will still take several more years for broad-based deployment. Customers are already posing a few questions as to how we want to handle this development. Our solutions will primarily be geared towards safely accommodating sensors, radar and lidar components and cameras in the vehicle. The major challenge will be developing modules that can be adapted during the series production run of the cabin, without having to wait for a model change.

Why is that?

EM: Commercial vehicles have a much longer life cycle. As many as ten years may pass before there is a model change. With cars, it is five or six. But technology is improving rapidly, and end customers won’t want to wait for a new model to be launched before they can obtain the latest components. It’s about designing modules flexibly so that they can be modified and adapted to new technologies, but can still be used for existing models.

Let’s talk about the automotive industry in a bit more detail. After receiving an order from a Chinese OEM, you now supply the battery cover for an electric vehicle. How difficult was it to develop a composite solution for the battery cover?

EM: Very challenging. Most chassis are designed for combustion engines, and so engineers are faced with the task of designing a battery pack that will fit in the space left by the missing fuel tank and exhaust pipe. Composite materials are ideally suited for this, as they can be molded into very complex shapes. They are light, electrically insulated and resistant to high temperatures. With the latest development of high-performance battery modules, we needed to produce a new formula for composite materials that would fulfill even higher requirements. In the event of a module malfunction, the battery housing can be exposed to ventilation pressure and temperatures of over 1,000°C. A housing made from aluminum would melt. Another challenge is ensuring electromagnetic shielding of the battery housing. We have developed specific innovative solutions in this area, too, which are currently being validated with our customers. You see, the components are becoming increasingly complex.

There are product innovations and process innovations. Can you give us an example of how things look at STS Group in this regard?

EM: With process innovations, it is a matter of making production more efficient and competitive. For us, that is a continuous process.

“Weight reduction is always topical in the automotive industry.”

Eric Morvan
Vice President Research & Development

Due to our high degree of vertical integration, we can develop components according to our customers’ requirements, from the initial idea to the finished product. Process innovations can also lead to the integration of new technologies, which then improve the performance of our products and bring additional benefits for our customers. We conduct research ourselves, and also collaborate with institutes and suppliers.

Please give us a little insight. On what product innovations are you working at the moment?

EM: Of course, I must not give too much away. The projects are confidential. But at the moment we are concentrating on lightweight components. Weight reduction is always topical in the automotive industry. Regardless of whether the car is powered by a combustion engine or an electric motor. In this area, carbon is a state-of-the-art solution. However, the material is still rather expensive and is mainly used in luxury vehicles or sports cars. Customers are increasingly asking for development of glass fiber reinforced materials with enhanced performances as alternative. The objective is to make components out of a material with a lower density for semi-structural parts, but also for exterior body panels. We have developed materials with a density of 1.3 *p* compared to the standard 1.9. That corresponds to a weight reduction of around 30%. If you consider that every gram counts in the automotive industry, that is a major leap.

So the STS Group is equipped for the future?

EM: With our four development centers, of which two are in France, one is in Italy, and one is in China, we are ideally positioned to be able to profit from the changing requirements in terms of mobility. We are ready and look forward to the challenges ahead.

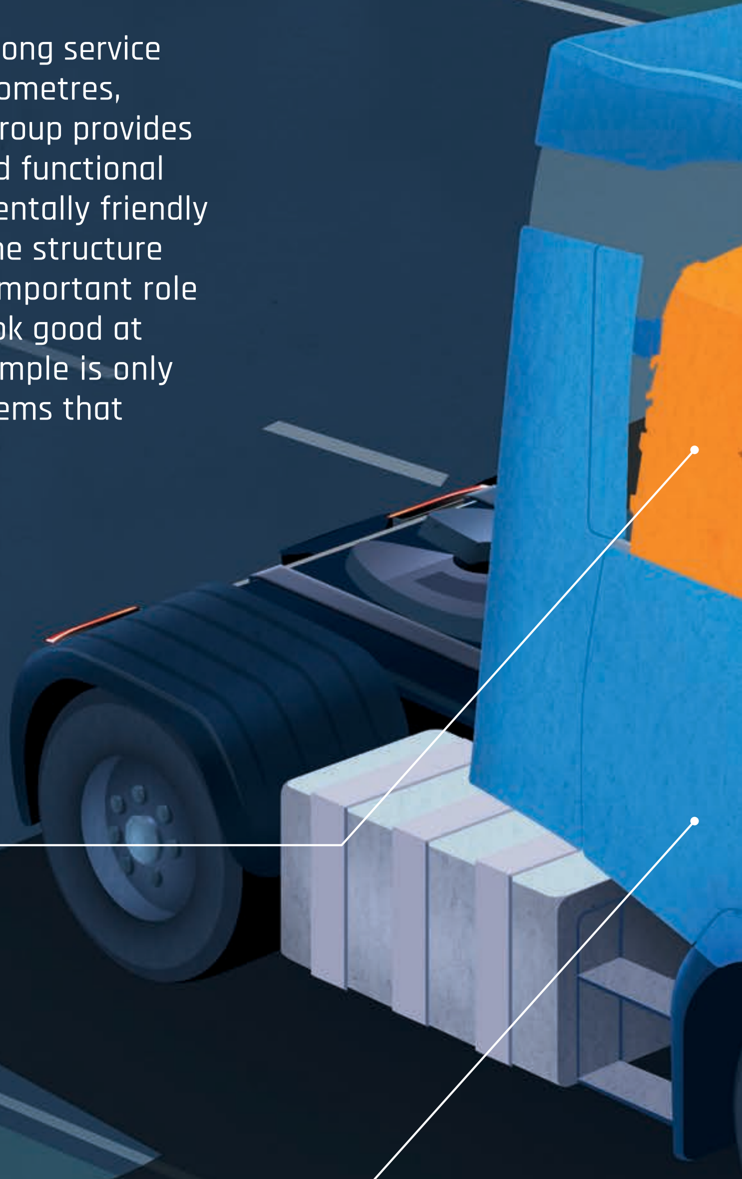
1.3 *p*

We have developed materials with a density of 1.3 *p* compared to the standard 1.9.

The formulation of raw material recipes is an STS expertise. Vertical integration accelerates the development of new products.

FROM COMPONENTS TO COMPLEX SYSTEMS

A truck is the habitat of its driver. During its long service life of many hundreds of thousands of kilometres, a truck is subjected to extreme stresses. STS Group provides systems to make the truck quiet, elegant and functional inside the cabin and as aesthetic and environmentally friendly as possible on the outside. The stability of the structure and the aerodynamic properties also play an important role in saving energy and making the vehicle look good at the same time. What you can see in this example is only a small selection of components and systems that STS manufactures.



Interior acoustic trims (headliner, rear and side-walls)
Interior acoustic trims are a main impact on the well-feeling of driver and passenger in the truck. They are the major contributors in making the truck quiet and thermally comfortable. STS created a variety of interior trim parts combining felt thermoset or thermoplastic technologies with a big variety of surfaces that look good and feel good.

Exterior trims
For most exterior trim parts SMC is a excellent solution. It delivers good appearance combined with strong structure and lightweight. For the truck, these components are used, for example, in numerous aerodynamic parts, instep and fender. For passenger cars, STS manufactures hatchbacks purely from SMC as entirely structural parts. Exterior trim parts are a strong pillar in the STS competence and include a broad range of materials and systems.

Roof spoiler
Aerodynamic parts are often big. They need a high structural strength combined with lightweight and a class A surface. The requirements for geometry, surface, strength, cost and particularly weight make SMC a perfect solution. The roof and side spoiler improve the aerodynamic between tractor and trailer to reduce fuel consumption, and they also make the vehicle look good.

Interior storage systems
The cabin is the home of the driver. The storage systems in the cabin are a core component to manage the daily life. Upper shelves and under bunk storage have to provide a reliable and convenient function with good ergonomics, superior design and lightweight. STS has developed a range of innovative products and materials to deliver superior components.

Noise shields
The newly approved EU regulations are challenging in terms of CO_2 and noise emission reduction. New concepts and innovations are needed. The STS Group develops innovative noise shields and can combine SMC and plastic materials with its thermo-acoustic expertise. The properties of the materials and parts can be optimised through the clever selection of materials.

Lower front
The lower front is a complex system, made of up to more than 100 parts. It provides impact management, diversity management and brand identity and has to deliver that with low weight. Based on these drivers STS developed module solutions with a combination of materials and technologies including hybrids that combine SMC for structure with thermoplastics for outer skin.

“NOW IT’S UP TO US TO GIVE LIFE TO OUR IDENTITY”

Producing a functioning whole from many individual parts was, and still is, the responsibility of Vice President Human Resources/Legal Affairs, Dr. Rudolf Benesch. Part of his mission involves creating an unifying corporate identity and introducing a binding set of values within the STS Group. In an interview, Dr. Benesch reveals why structures are important, what makes the STS identity special and what role cultural peculiarities play in the development of the STS Group.

Respect, integrity, open-mindedness and commitment to the Company are key aspects of the STS Group identity. How will you ensure that these are made a reality?

DR. RUDOLF BENESCH: Quite literally, together. A set of values defines our conduct and provides a living vision of how we want to interact with each other and with our stakeholders. These values determine our culture – in other words, HOW we want to achieve our vision and give life to our mission. Our Executive Board defined this vision and, as the process went on, it was very important for us to bring everyone along for the ride and give them the chance to take part. After all, it doesn’t really make sense to force an identity – it evolves naturally from the self-conception of all those involved, and this is the only way it will have a chance of being made a reality, too. That’s why workshops have been held to allow all locations to play a role in developing our mission and values. On the basis of the large number of suggestions we received – which were on the same wavelength by and large – we then went on to develop today’s STS Group identity in a management workshop.

So what specific matters did employees bring to your attention?

RB: The issue of safety in the workplace was right at the top of the list in many places. We’re very well positioned in this regard, even when compared to the industry norm. A safe workplace where employees like to work is a win-win situation. But open communication, capacity for innovation, appreciation, trust and reliability also came up frequently. In order to prevent each of our four values being interpreted differently, we defined precisely what these values stand for, and so most suggestions have also been incorporated in our values profile.

Are there regional differences when it comes to employees’ desires and visions?

RB: Yes, there are, definitely. In China, where there is a high level of labor migration, a canteen and residential facility are a huge plus when it comes to employee satisfaction. A good canteen is also very important for our employees in Brazil. The quality of the meals and the facility itself are reviewed on an ongoing basis and employees can provide feedback at any time. The journey to work is equally important. We organize local shuttle buses. Employees in Europe appreciate the quality of the canteen, too, but other issues feature higher on their list of priorities. For example, the option to work from home.

Dr. Rudolf Benesch responsible for Human Resources and Legal Affairs

"We ensure fair working conditions. This starts with safety in the workplace and a culture of open, trusting cooperation, extending right up to competitive remuneration."

Dr. Rudolf Benesch
Vice President Human Resources/Legal Affairs

“We as HR team want to make the STS Identity a tangible part of our daily work together with all employees.”

Susanna Kujas
Senior Manager Human Resources

LABOUR MIGRATION

Dormitories in China

The provision of dormitories enables the employment of staff from industrially weak regions.

Flexible working hours are also perceived as creating high added value and really mark us out as a modern employer. And last but not least, our attractiveness as an employer is also measured against what we stand for as a company – something which is very clearly defined by our STS Group identity.

The STS Group faces strong competition around the world when it comes to competing for the best talent. How do you recruit new employees and, in particular, how can you ensure their loyalty to the Company in the long term?

RB: Attracting new employees is a huge challenge, especially in a young company. The STS Group isn't very prominent on the market yet, which is something we would like to, and must, change of course, if we want to be successful. That's why we are increasingly investing in employer branding, too. These measures are designed to increase awareness of us on the market and with potential employees. We have to go where the employees are.

How can "employer branding" be interpreted? What specific measures have you taken?

RB: The STS Group is an attractive employer. We want to highlight and communicate this core message when competing for talent, of course. Employer branding is all to do with the way you go about this – self-advertising, in a manner of speaking. We want to ramp up our collaborations with universities and research institutes, while also increasing our attendance at career fairs. Of course, we also intend to expand our presence on social networks to generate even more attention. A Group-wide Intranet promotes multi-location working. Ultimately, it's not just about looking for, finding and inspiring new talent to join the STS Group – it's also about remaining the employer of choice for our existing employees. And that's where we come full circle: Our STS Group identity forms both the basis and the framework for attracting and retaining employees.

How will you achieve that?

RB: We ensure fair working conditions. This starts with safety in the workplace and a culture of open, trusting cooperation, extending right up to competitive remuneration. After all, we need to compare well with large companies in this regard. For us as a company, they form the basis of how we treat our employees. And this also contributes towards the STS Group brand as an employer.

What is the reason behind moving the STS Group's Chinese headquarters to Wuxi?

RB: The University of Wuxi offers courses in the areas of engineering and automation that are relevant to our staffing requirements profile. We obviously wanted to be close to the university to capture the imagination of highly qualified employees at an early stage and encourage them to join our Company.

You have already mentioned that employees are the decisive factor. So how do employees feel about the STS Group as an employer?

RB: The feedback we've received during visits to numerous locations is positive. Identification with the Company and its values is very strong. We are all giving life to a corporate culture that can be described as very dynamic. People actually have the opportunity to shape things at STS, and especially in this relatively young formation of an international group.

Listing on the stock exchange and a global presence as a medium-sized company pose specific challenges for the STS HR organization.

You had to create new structures within a very short space of time. What advantages does the matrix organization offer?

RB: Our job was to form an effective and operational group from a number of individual companies. This also involved legal issues. From the first day the Group was listed and as soon as the Executive Board was appointed, it was responsible for the management of all companies. This meant that structures needed to be created – firstly, to establish legal certainty, and secondly, to ensure successful strategic operations as a listed company.

What effect has this new form of organization had?

RB: To give one example, the four STS business units – Acoustics, Plastics, Materials and China – have been established on the basis of our new organizational form. They operate relatively autonomously and are also responsible for their own profit and loss. This structure creates high transparency for our stakeholders, too. Furthermore, our organization has a strong headquarters where the Sales, Purchasing and IT units are organized centrally in order to leverage as many synergies as possible.

> "The STS Group is still fairly young as such. Therefore, you have the chance as an employee to have a determining influence in many areas and make a significant contribution to developing the STS Group within their unit."

Dr. Rudolf Benesch
Vice President Human Resources/Legal Affairs

Is there a conflict of interests when, on the one hand, you need to create an organizational structure quickly, but, on the other hand, it also needs to function perfectly?

RB: I wouldn't call it a conflict of interests. The challenge here was that a lot of things had already worked autonomously in the individual business units previously, but the interaction of all those involved needed to be organized and harmonized. This affects a number of processes – for example, the order-to-cash process, which is the process between order and delivery, and even IT itself. We have invested a lot of work in this, such as standardizing the reporting software used. This is essential in ensuring an efficient workflow. And completing our integration successfully is a great reward for us.

Developing a corporate identity and defining an organizational structure within a short space of time is a huge achievement. Can you tell us in your own words why a new employee should choose STS?

RB: Because our employees can help us to shape our future. It's an open playing field. The STS Group is still fairly young as such. Therefore, they have the chance as an employee to have a determining influence in many areas and make a significant contribution to developing the STS Group within their unit. So anyone who comes to us after 17 years with a DAX company and expects to find a distinctive organisational and process landscape will soon find out that there is still a lot to do along the way. Anyone who wants to shape things will be right at home with us. These are the employees we want.

VALUE ROLL-OUT

The STS Group Identity was presented and explained at local company staff meetings. In the various locations, lively discussions developed about content and reach in daily cooperation.

13
Staff meetings

4
Continents

Dr. Rudolf Benesch and Susanna Kujas are working with the HR team on globally uniform HR processes.

FINANCIAL CALENDAR 2019

February 12, 2019
CF&B 12th European Midcap Event, Frankfurt/Main

April 4, 2019
Publication of 2018 Annual Report

April 16 to 17, 2019
CF&B 14th Smallcap Event, Paris

May 7 to 8, 2019
MKK Munich Capital Market Conference, Munich

May 15, 2019
Publication of Quarterly Report (Q1)

May 17, 2019
Annual General Meeting

May 28, 2019
MainFirst SMID Cap One-on-One Forum

June 4, 2019
Prior Capital Market Conference, Frankfurt/Main

June 27, 2019
Capital Market Day

August 7, 2019
Publication of Half-Year Report

September 2 to 3, 2019
Fall Conference, Frankfurt/Main

September 11, 2019
ZKK Zürich Capital Market Conference, Zürich

November 6, 2019
Publication of Quarterly Report (Q3)

November 25 to 27, 2019
German Equity Forum 2019, Frankfurt/Main

You can download the annual report as a PDF file at:
https://ir.sts.group/websites/stsgroup/English/3100/financial-reports.html

This is a translation of the German “Geschäftsbericht 2018 der STS Group“.
Sole authoritative and universally valid version is the German language document.

CONTENT

1 — TO THE SHAREHOLDERS

DEAR SHAREHOLDERS,

STS Group AG continues its success story. We have mastered the IPO and achieved our growth targets for 2018. We are very pleased to present the development of STS Group AG and its subsidiaries in this first annual report.

There has scarcely been a more exciting period than the current one to be a reliable partner specializing in components and systems for commercial vehicles and cars for our customers. The exciting challenge facing us lies in the automotive industry's constantly increasing demands on vehicles and consequently on their various components. Sustainability is a factor here, as is the growing need for more drive comfort. Key issues include weight reduction, durability, functionality but also a pleasant sound design, an upmarket feel and an attractive appearance. Our customers' needs are our mission. In consultation with them, we develop and produce modern and innovative components of aerodynamic and storage modules for trucks through lamp modules for transporters to interior paneling of luxury sports cars' passenger compartments and trunks.

Financial year 2018, in which we succeeded in making further progress on our growth path, was also exciting and very dynamic. We would like to describe developments in 2018, our successes and the milestones we have achieved in more detail.

Continuation of the STS success story – our IPO

On June 1, 2018, we ventured onto the Frankfurt trading floor with our share's debut in the Prime Standard. This start was also followed by our first annual report for a full financial year. 2,172,172 shares were placed at an issue price of 24.00 EUR. Accordingly, the placement volume amounted to 52.1 mEUR. STS Group AG received 24.0 mEUR of this as gross proceeds. At 24.00 EUR, the initial listing was equal to the issue price. Overall, we therefore generated a very good result in a challenging market environment with our IPO. In line with our strategy, we want to invest the funds raised in growth and thus simultaneously in the future viability of our Company.

Promised and delivered – development in the reporting year 2018

Promised and delivered is not only our motto in day-to-day relations with our customers. It is also the basis of our corporate activity when formulating and achieving our targets. We achieved these as far as financial year 2018 is concerned. STS Group AG generated revenue of 401.2 mEUR. The Company posted earnings before interest, taxes, depreciation and amortization (EBITDA) of 11.9 mEUR. Adjusted EBITDA amounted to 23.7 mEUR, having been adjusted primarily for integration costs and expenses for the IPO and the conversion of Group accounting to International Financial Reporting Standards (IFRS) that this required. Revenue and earnings therefore developed in line with the management's expectations in the reporting period. Non-organic growth contributed to the positive development primarily. In the process, the acquired entities were integrated faster than expected in the half-year reporting period. In contrast, the start-up costs at our Polish plant were initially higher than expected. However, the situation improved steadily during the financial year, but will burden the earnings situation in 2019.

Strong growth – milestones we have achieved

With respect to non-organic growth in the form of acquisitions, the companies acquired in financial years 2016 and 2017 had the greatest influence on our figures. These comprised three strategic acquisitions; namely, the commercial vehicle supplier business of the Mecaplast Group (today: Novares), which was acquired at the end of 2016, the acquisition of the commercial vehicle supplier business of the Plastic Omnium Group, which took place in 2017, and the acquisition of a Brazilian plant from the Autoneum Group. We view them as strategic acquisitions, as our product range was significantly extended, our presence in the commercial vehicle business considerably strengthened and our global footprint significantly expanded. In particular, the truck business of the Plastic Omnium Group and the Mecaplast Group with production sites in China, Mexico, France and Germany significantly expands our product portfolio with injection-molded and composite components for external and internal parts for truck cabins, light commercial vehicles and cars. It also allowed us to extend our geographical footprint with important regions such as China and North America. By acquiring the Autoneum Group's Brazilian production site, we have also successfully expanded our business activities into South America. We completed the integration of the acquired companies in the third quarter and are already generating initial synergies. The acquisitions have transformed the STS Group from an acoustic parts supplier to a global systems supplier for the automotive industry.

We are convinced that we have laid a solid foundation for additional growth with these acquisitions. We shall benefit from a global market presence and the development of our own market share. We have an obvious competitive advantage here. Our longstanding expertise and profound market knowledge allow us to provide our customers with a one-stop-shop service. We offer them everything from a single source. Thanks to our high vertical integration, we are also in a position to develop bespoke solutions in consultation with our clients, from the first idea to the finished product. Our business partners appreciate these advantages and this is reflected in the form of orders. In this connection, we must mention the new orders from two renowned truck manufacturers and an electric mobility OEM that we received at the beginning of the second half of 2018. For example, the Group will supply front modules for a major European commercial vehicle manufacturer as part of a high-volume order of 150.0 mEUR in the years to come. The order from a North American commercial vehicle manufacturer is of strategic importance to us. From the second half of 2021, the Group will supply driver's cab parts for heavy trucks to the customer. The strategic significance of the order manifests itself in the STS Group AG's entry on the North American commercial vehicle market. We are therefore not only expanding our global presence significantly but at the same time we are achieving one of the priority targets of our corporate strategy. At the beginning of the second half of 2018, we were able to open up the Chinese market further with another initial order to supply a battery cover for an electric vehicle model and at the same time address the key trend of electric mobility. The order has given us the status of a tier 1 supplier for this electric vehicle manufacturer ("EV OEM").

For our customers on the spot – the global STS footprint is growing

We are distinguished by our proximity to the OEMs' plants. We are to be found where our customers are. This is why we work continually on expanding our global footprint. Currently, with 17 sites and four development centers, we are represented in seven countries and on four continents for our customers on the spot. The expansion of our presence into Eastern and Northern Europe has already begun with our plant in Poland. This will ensure that we are in a position to serve our customers on the spot more effectively and more efficiently. As mentioned above, we are opening up one of the largest commercial vehicle markets in the world in North America and we are consolidating our position in China, where we already have a presence. Our third plant meanwhile is contributing to the fact that production started on schedule in the first quarter of 2019. The R&D center has also relocated to Wuxi following the opening of the new headquarters there. We therefore have a state-of-the-art development center. We are therefore able to promote and influence developments with regard to cutting-edge components. We can also adapt trends as soon as possible and implement them profitably. The measures taken will not only promote customer loyalty and the acquisition of new customers but, at the same time, make STS Group AG more attractive as a modern employer focused on the country and its people. Geographical expansion and our clear focus on the production of high-quality composite components are very good conditions by and large to be successful in the respective markets.

Outlook

In the short period as a listed company, we have already achieved significant progress and reached crucial milestones in our strategy. The integration of the companies acquired was completed as planned in the third quarter of 2018; we have succeeded in enlarging our global footprint through expansion in key markets and consolidating our existing presence.

With sales and earnings figures for financial year 2018, STS Group AG is on target. Despite the economic headwind, STS products are meeting robust demand from all major markets. Proximity to customers and a highly vertically integrated production process are obvious competitive advantages for the Group. Given this, the Management Board expects even in a particularly challenging market environment and significantly more resilient than the competition to generate Group sales and an adjusted EBITDA at the 2018 level for the current financial year. The Executive Board therefore expects the reported EBITDA to increase by ≥100% compared to the prior year (2018: 11.9 mEUR) and thus forecasts a significant increase in net result in the 2019 financial year.

Success is a team performance. At this point, we would therefore like to take this opportunity to thank our employees for their passion and commitment in financial year 2018. We thank you, dear shareholders, for the trust you have placed in us.

Hallbergmoos, March 31, 2019

Andreas Becker (CEO)

DEAR SHAREHOLDERS,

STS Group AG can look back on a successful financial year. The year was characterized by the IPO in June 2018, the full integration of the companies acquired at the end of 2016 and during 2017, and the expansion of the Company's market presence into China and North America, which both represent strategically important regions for the STS Group.

Monitoring and advising in constant dialog with the Executive Board

In financial year 2018, the Supervisory Board of STS Group AG performed its advisory and monitoring duties as required by law, the Articles of Association, the German Corporate Governance Code and the rules of procedure with a high level of care and attention. It advised the Executive Board on corporate management, while overseeing and monitoring the Company's management and business development. Within the framework of close cooperation, the Executive Board provided the Supervisory Board with regular, timely and comprehensive reports, in writing, over the telephone and in face-to-face meetings, on the current situation and prospects, business policy principles, the profitability of the Company and significant transactions of the Company. Furthermore, the Supervisory Board held personal exchanges with the Executive Board outside defined meetings and was involved in discussions and decision-making in the event of fundamental issues. The Executive Board also informed the entire Supervisory Board on an ongoing basis of relevant developments and transactions subject to the approval of the Supervisory Board. The Supervisory Board was involved, in a direct and timely manner, in all decisions of fundamental importance for the Company and decisions where its involvement was required by law, the Articles of Association or the rules of procedure. In urgent cases, the Board also was able to pass resolutions by way of a written circular resolution procedure where necessary. The Supervisory Board was able to fulfill its monitoring and advisory function at all times on account of the regular, prompt and detailed information provided by the Executive Board. The Supervisory Board therefore believes that the Executive Board's actions were legal, regular and efficient in all respects.

Meetings and key topics

The Supervisory Board held a total of eight meetings during the reporting year – May 14, 2018, May 28, 2018, May 29, 2018, August 23, 2018, October 1, 2018, October 25, 2018, November 29, 2018 and December 20, 2018 – where it held discussions that were necessary for it to perform its duties. Of these meetings, five were held in the form of face-to-face meetings, on August 23, 2018, October 1, 2018, October 25, 2018, November 29, 2018 and December 20, 2018, where – with the exception of the meeting on October 25, 2018, which Supervisory Board member Bernd Maierhofer was unable to attend – all Supervisory Board members were in attendance at all times. The three other meetings held on May 14, 2018, May 28, 2018 and May 29, 2018 took place in the form of telephone conferences, in which all members participated.

During these meetings, the Supervisory Board received regular reports from the Executive Board, in accordance with Section 90 (1) Sentence 1 No. 1–3 of the German Stock Corporation Act (AktG), on the intended business policy, profitability and course of business, including the market situation and competition, and discussed these at length. The Executive Board also reported on transactions that may be of considerable significance to the profitability or liquidity of the Company and/or the Group, in accordance with Section 90 (1) Sentence 1 No. 4 AktG. Plenary discussions also regularly focused on the Finance and Controlling, Sales and Marketing, Production, Quality Management, Human Resources and Research and Development units. In addition, the Executive Board reported on the strategic situation of the foreign subsidiaries of STS Group AG and their key developments.

Relevant topics and resolutions arising from the activities of the Supervisory Board in financial year 2018 are given below:

During the Supervisory Board meeting held by telephone on May 14, 2018, the Supervisory Board approved the Executive Board's resolution to perform the IPO and an IPO capital increase and the conclusion of an acquisition agreement with the syndicate banks.

In the Supervisory Board meetings held by telephone on May 28 and May 29, 2018, the Supervisory Board approved the IPO capital increase and the conclusion of a pricing agreement.

In its meeting held on August 23, 2018, in the presence of the Chairman of the Executive Board Andreas Becker and Executive Board member Patrick Oschust, the Supervisory Board examined the development of incoming orders and the ongoing process of opening up the US market. They also discussed future investment in strategically significant business areas, focusing on China and the USA which represent strategic future markets for the STS Group. During the meeting, the Supervisory Board looked at the project aimed at developing an "STS Group identity" and a "corporate governance structure". Furthermore, the Supervisory Board discussed topics relating to innovation, development in China, financing and HR matters.

During the meeting held on October 1, 2018, in the presence of the Chairman of the Executive Board Andreas Becker and Executive Board member Stefan Vrublovsky, the Supervisory Board discussed, in addition to general business development, the status of STS Acoustics Poland Sp. Z o.o. based in Poland. An analysis had revealed a deviation from budgeted targets. Measures were introduced immediately in order to improve the situation. As a result, the situation improved over the course of the financial year. In the meeting held on October 1, 2018, the Supervisory Board also adopted the rules of procedure for the Supervisory Board and a new organizational structure, and discussed the draft version of the rules of procedure for the Executive Board. Furthermore, the Supervisory Board approved the conclusion of a consultancy agreement between the Company and mutares AG.

In its meeting on October 25, 2018, in the presence of all members of the Executive Board, the Supervisory Board discussed the general market situation in the commercial vehicle market. They also looked in detail at the latest financial key figures, budgetary planning and forecasts.

In the meeting held on November 29, 2018, the Supervisory Board adopted a set of rules of procedure for the Executive Board. In addition, the Executive Board, which was present at this meeting, provided an update on sales planning for 2019, business development in the business units, the status of the plant in Poland and the expansion of capital market activities.

The meeting on December 20, 2018, which was held in the presence of the entire Executive Board and invited guests, focused on the audit assignment, key focal areas for the audit and the timetable and calculation of fees for the audit of the Company's 2018 annual financial statements. The Supervisory Board also approved the review of the non-financial declaration and the audit of the Company's consolidation tools in the form of non-audit services.

Where necessary, the Supervisory Board also took votes outside meetings – by telephone, email and in person. For example, by way of a telephone conference as of February 9, 2018 Mr. Patrick Oschust became effectively appointed as Management Board of the company in accordance with the Articles of the Association. In addition, the audit and approval of the 2017 annual financial statements formed the subject of a resolution passed by way of a telephone conference held on April 12, 2018, while the audit and approval of the consolidated financial statements and the Group management report for financial year 2017 formed the subject of a resolution passed by way of a telephone conference held on April 27, 2018.

The approval of key contracts associated with the Company's IPO, the approval of the 2018 budget, the approval of the construction of a new production site in Shiyan (China) and the approval of the acquisition of a neighboring property at the Poland site formed the subject of further resolutions passed outside meetings.

Composition of the Executive Board and Supervisory Board

During the reporting period, the Executive Board of STS Group AG comprised Andreas Becker as Chairman (CEO), Stefan Vrublovsky as CFO and Patrick Oschust as COO.

The members of the Supervisory Board of STS Group AG during the reporting period were Robin Laik (Chairman), Dr. Kristian Schleede (Deputy Chairman) and Bernd Maierhofer (from May 3, 2018). Dr. Wolf Cornelius was a member of the Supervisory Board up to May 2, 2018. Furthermore, with Dr. Kristian Schleede, the Company has a member of the Supervisory Board with expert knowledge in the areas of financial reporting or financial statement auditing as required by Section 100 (5) 1st Clause AktG.

Formation of committees

In financial year 2018, the three members of the Supervisory Board chose not to form committees and dealt with all matters at hand within the Supervisory Board as a whole.

Corporate governance and declaration of compliance

The Supervisory Board and Executive Board act in the knowledge that good corporate governance forms a key basis for the success of the Company. The Executive Board and Supervisory Board most recently submitted a declaration of compliance with the German Corporate Governance Code on December 19, 2018. There were no conflicts of interest relating to individual members of the Executive and Supervisory Boards during financial year 2018. A breakdown of all mandates held by members of the Supervisory Board is given in the notes to the consolidated financial statements (Note 4.8).

Information on aspects of the Company's corporate governance relating to the Supervisory Board can be found in the corporate governance report, which has been made permanently accessible as part of the corporate governance declaration given on the Company's website at https://ir.sts.group/websites/stsgroup/English/5350/corporate-governance-report.html.

The remuneration of the members of the Supervisory Board is shown in the remuneration report on pages 83 ff. of the annual report, given on an individual basis and broken down into components.

The Supervisory Board identified no potential conflicts of interest relating to a member of the Supervisory Board during the reporting year.

The Company is committed to the recommendations set out in the German Corporate Governance Code. The declaration of compliance to be submitted annually by the Executive Board and Supervisory Board – most recently in December 2018 – has been made permanently accessible on the Company's website at https://ir.sts.group/websites/stsgroup/English/5300/corporate-governance.html.

Audit of the single-entity and consolidated financial statements for financial year 2018

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as the auditor of the single-entity and consolidated financial statements for the financial year from January 1 to December 31, 2018 by resolution of the General Meeting held on May 3, 2018 and was commissioned accordingly by the Chairman of the Supervisory Board. A statement of auditor independence as required by Section 7.2.1 of the German Corporate Governance Code has been made available to the Supervisory Board.

The subject of the audit was the single-entity financial statements of STS Group AG for the financial year from January 1 to December 31, 2018 prepared by the Executive Board in accordance with the German Commercial Code (HGB), the consolidated financial statements for the financial year from January 1 to December 31, 2018 prepared by the Executive Board in accordance with Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS), and the management report of STS Group AG, which is combined with the Group management report of the STS Group. Upon conclusion of the audit, PricewaterhouseCoopers GmbH issued the single-entity financial statements, the consolidated financial statements and the combined Group management report of the STS Group and STS Group AG each with an unqualified audit opinion.

The audit found that the Executive Board of STS Group AG has implemented the measures required by Section 91 (2) AktG to establish an appropriate early risk detection system and that this early risk detection system is suitable to identify developments that threaten the Company as a going concern at an early stage.

All members of the Supervisory Board were provided with the single-entity financial statements, the consolidated financial statements, the combined Group management report of the Company and the auditor's report on its audit in good time prior to the resolution and approval by the Supervisory Board on April 1, 2019. The auditor reported to the Supervisory Board on the progress and significant findings of its audits and made itself available to the Supervisory Board for any queries, explanations or additional information. It took part in Supervisory Board discussions concerning the single-entity and consolidated financial statements and the meeting of the Supervisory Board to adopt the single-entity and consolidated financial statements and approve the consolidated financial statements on April 1, 2019.

In its balance sheet meeting, the Supervisory Board discussed the financial statements of STS Group AG and the STS Group and the combined Group management report. The Supervisory Board also submitted its proposal to the General Meeting to elect the auditor. The Supervisory Board had previously obtained a written statement of auditor independence. The Board also considered the dependent company report prepared by the Executive Board, the financial reporting process and the risk management system of the Company, as well as the effectiveness and adequacy of internal control systems and the maintenance of integrity in financial reporting.

Following a thorough examination of the audit reports for the single-entity and consolidated financial statements as at December 31, 2018 and of the combined Group management report of the Company and the Group, the Supervisory Board did not raise any objections. In its Supervisory Board balance sheet meeting of April 1, 2019, the Supervisory Board approved the single-entity financial statements and the consolidated financial statements of STS Group AG prepared by the Executive Board for financial year 2018 together with the combined Group management report. The 2018 annual financial statements have therefore been adopted (Section 172 Sentence 1 AktG).

Dependent company report

In its meeting held on April 1, 2019, the Supervisory Board also examined the report of the Executive Board of STS Group AG in accordance with Section 312 AktG on relationships with affiliated companies for financial year 2018 (dependent company report).

The report prepared by the Executive Board on relationships with affiliated companies in accordance with Section 312 (1) AktG was also examined by the auditor. The auditor issued the following unqualified audit opinion in accordance with Section 313 (3) AktG:

Following our compulsory audit and assessment, we hereby confirm that

- the facts presented in the report are correct,
- in the case of transactions listed in the report, the compensation of the Company was not inappropriately high or disadvantages were compensated for,
- in the case of measures listed in the report, no circumstances indicate an assessment materially different to that of the Executive Board.

The auditor presented the Supervisory Board with the audit report. The dependent company report and the audit report relating to this were submitted to the Supervisory Board on time. The auditor attended the meeting of the Supervisory Board on April 1, 2019, where it provided information on the key findings of its audit of the dependent company report.

For its part, the Supervisory Board reviewed the dependent company report of the Executive Board and the auditor's audit report.

The Supervisory Board agrees with the result of the audit carried out by the auditor and approves its report, following the final outcome of its own review. In accordance with the final outcome of this review, the Supervisory Board raises no objections to the statement of the Executive Board given at the end of the dependent company report.

Dear shareholders, our Group is well equipped for the future. The Supervisory Board would like to express its thanks and appreciation to the members of the Executive Board and the employees of all Group companies for their personal commitment and hard work during 2018.

Hallbergmoos, March 31, 2019

On behalf of the Supervisory Board

Robin Laik
Chairman of the Supervisory Board

STS GROUP AG ON THE CAPITAL MARKET

STS GROUP AG MAKES ITS STOCK MARKET DEBUT IN THE PRIME STANDARD

Capital market participants first turned their attention to STS Group AG on March 8, 2018, when the parent company, mutares AG, indicated the possibility of a (partial) exit via the stock market. The Executive Board of STS Group AG officially announced the IPO in the Regulated Market of the Frankfurt Stock Exchange on April 23, 2018. The aims of the placement of new and existing ordinary shares in the Prime Standard segment included the further financing of the growth strategy with a special focus on the Chinese and North American automotive markets, which offer the STS Group significant growth opportunities.

STS Group AG set the price range for the up to 2,300,000 shares offered, including greenshoe option, at 26.00 EUR to 32.00 EUR per share and specified the conditions for the IPO when it published the approved securities prospectus on May 14, 2018. 2,172,172 shares were effectively placed at an issue price of 24.00 EUR in the IPO. The placement volume amounted to 52.1 mEUR. The IPO generated gross issue proceeds of 24.0 mEUR for STS Group AG.

The STS Group AG share debuted on the Frankfurt trading floor on June 1, 2018, with an initial listing equal to the issue price of 24.00 EUR. The STS share held out against generally muted sentiment on the stock markets with a closing price of 24.00 EUR at the end of the first day of trading. At this point, the market value of STS Group AG was 144.0 mEUR with a free float of around 28.2%. Overall, the STS Group generated a good result in a challenging market environment with its IPO.

The IPO was assisted by Hauck & Aufhäuser Privatbankiers Aktiengesellschaft as sole global coordinator and MainFirst Bank AG as joint bookrunner.

SHARE INFORMATION

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

CAPITAL MARKET ENVIRONMENT

The optimistic sentiment among capital market participants at the start of 2018 dimmed at the end of the first quarter, dominated by a slowdown in global economic momentum. Besides the deterioration of economic data, politics played a particular role in the sobering performance of the global stock markets as the year progressed. The US government's escalating pronouncements on global trade had as much of a negative effect as the continuous tightening of US monetary policy – the US Federal Reserve Bank (Fed) raised the key interest rate on a total of four occasions. Uncertainty was also provided by the hardened fronts between Italy and the EU over the country's budget proposal and the UK's unresolved exit from the European Union.

The DAX (German stock index) opened the trading year on January 2, 2018, at 12,897.69 points. While the DAX marked a temporary all-time high of 13,596.89 points on January 23, 2018, the barometer of German economic sentiment gradually declined in the subsequent months of 2018. The automotive industry as a whole came under pressure, in particular, the automotive suppliers, both in the DAX and the mid-caps and small-caps in the MDAX and SDAX. The DAX closed trading in the reporting period at 10,558.96 points on December 28, 2018. While the DAX suffered its biggest loss since the financial crisis of 2008 with a drop of 18.3% on the end of 2017, the European automotive sector index, STOXX Europe 600 Automobile & Parts, lost over 28%.

SHARE: PRICE PERFORMANCE AND TRADING VOLUME

in EUR

Initial listing	**June 1, 2018**	**24.00**
Low	December 28, 2018	10.00
High	June 1, 2018	24.79
Closing price	December 28, 2018	10.17
Market capitalization		**61.0 mEUR**

Even after a successful IPO and with sustained growth in line with the expansion strategy, the price of the STS share could not escape the generally challenging capital market environment. With an initial listing on June 1, 2018, of 24.00 EUR, the price reached its high for the 2018 reporting year of 24.79 EUR on the same trading day. It marked its low at 10.00 EUR on December 28, 2018, and closed the trading year at a closing price of 10.17 EUR. In total, the price declined by 57.6% in the reporting period compared to the initial listing of 24.00 EUR on June 1, 2018.

STS Group AG's market capitalization amounted to 61.0 mEUR as of December 28, 2018, on the basis of 6,000,000 outstanding shares. At the IPO on June 1, 2018, the market value was 144.0 mEUR with the same number of shares and the initial listing of 24.00 EUR (all information based on Xetra prices). The average daily trading volume of STS Group AG shares on all German stock exchanges amounted to 6,770 in the 2018 reporting period. After the end of the reporting period, the trading volume in shares of STS Group AG rose significantly by 16.4% to an average of 7,861 shares per day as of February 28, 2019.

DIRECTORS' DEALINGS

In the reporting period, following the IPO on June 1, 2018, Supervisory Board and Executive Board members repeatedly provided evidence of their confidence in the development of the STS Group even in a difficult economic and capital market environment by buying shares in STS Group AG through directors' dealings. Members of the Supervisory Board and the Executive Board did not sell any shares in the STS Group.

As Chairman of the Supervisory Board, Robin Laik subscribed for STS Group shares in the amount of 96,000.00 EUR at a price of 24.00 EUR on May 28, 2018, during the subscription period and, therefore, before the official IPO. Following publication of the half-year report at the end of September, Robin Laik acquired additional shares in the STS Group worth 49,176.34 EUR at a price of 18.56 EUR per share on October 11, 2018, and in the amount of 74,538.04 EUR at a listing of 16.93 EUR on October 12, 2018. The Chairman of the Supervisory also purchased shares in the amount of 18,899.55 EUR at a price of 13.50 EUR on November 23, 2018, following publication of the interim statement on the third quarter. In total, Robin Laik, as Chairman of the Supervisory Board of the STS Group, registered the acquisition of shares in the company worth 238,613.93 EUR in total.

On July 24, 2018, Andreas Becker, Chief Executive Officer (CEO) of the STS Group acquired shares worth a total of 16,630.16 EUR at just under 21.00 EUR and on July 25, 2018, in the amount of 4,471.18 EUR at just under 21.50 EUR. Following publication of the half-year report at the end of September, Andreas Becker acquired additional shares in the STS Group worth 2,736.00 EUR at a price of 18.00 EUR per share on October 17, 2018, and in the amount of 10,764.00 EUR at a listing of 18.00 EUR on October 18, 2018. The Chairman of the Executive Board of the STS Group purchased shares in the amount of around 10,086.51 EUR at a price of 13.50 EUR on November 23, 2018, following publication of the interim statement on the third quarter. Thus, according to official reports of directors' dealings, Andreas Beck acquired shares in the STS Group of 44,687.85 EUR.

In total, members of the Supervisory Board and the Executive Board acquired shared in the STS Group worth a total of 283,301.78 EUR.

SHARE BUY-BACK PROGRAM

On November 21, 2018, the Executive Board of STS Group AG, with the approval of the Supervisory Board, resolved a share buy-back program (not including ancillary acquisition costs) of up to 1.0 mEUR (Share Buy-Back Program 2018/I). In the Share Buy-Back Program 2018/I, a total of up to 50,000 of the Company's own shares are to be bought back in the period between November 22, 2018, and May 21, 2019. In the period from November 22, 2018, to December 13, 2018, a total of 4,763 shares with a total volume of 59,566.30 EUR were acquired as part of the share buy-back program. The share buy-back was carried out by Hauck & Aufhäuser Privatbankiers AG exclusively via the stock exchange in the electronic XETRA trading system.

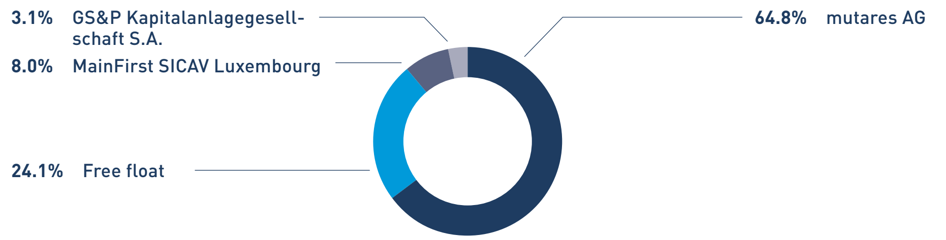
SHAREHOLDER STRUCTURE

The Company has a balanced ratio of free float and institutional investors. mutares AG, the strategic anchor investor, held the majority (64.8%) of outstanding shares as of December 31, 2018. 8.0% of voting shares are held by MainFirst SICAV Luxembourg, 3.1% by GS&P Kapitalanlagegesellschaft S.A. and 24.1% of the shares were in free float as of December 31, 2018.

24.1%

As of December 31, 2018, 24.1% of the shares were in free float.

SHAREHOLDER STRUCTURE



ANALYST RESEARCH

STS Group AG's share was analyzed and evaluated in the reporting period by the renowned research houses Hauck & Aufhäuser Privatbankiers and MainFirst Bank. In his update of November 22, 2018, Hauck & Aufhäuser analyst Christian Glowa emphasized the Company's progress in increasing profitability and market shares and recommended the STS share as a buy with a price target of 25.00 EUR. On the same day, analyst Alexander Wahl from MainFirst Bank issued an "Outperform" rating, forecasting that the STS Group share would perform better than the automotive supplier sector as a whole. In his update, he recommended the STS Group AG share as a buy with a price target of 28.00 EUR.

INVESTOR RELATIONS ACTIVITIES

STS Group AG's share is listed in the strictly regulated Prime Standard market segment of the Frankfurt Stock Exchange. The Company informs its shareholders and the participants in the capital market about major business events or events with significance for price performance immediately via ad hoc notification or Corporate News.

The Executive Board of STS Group AG maintains continuous, close dialog with investors, analysts and the financial and business press, conducting numerous one-to-one meetings in the reporting year. With regard to announcements of business results, the Executive Board has also been available for communication with capital market participants in regular telephone conferences since the publication of the interim statement in the third quarter of 2018.

The Executive Board presented STS Group AG, its business model and its strategy at roadshows and also participated in the ZKK Zürich Capital Market Conference in Zürich, Switzerland, in September 2018. The presentation at the German Equity Forum in Frankfurt/Main in November 2018 rounded off STS Group AG's investor relations activities in the 2018 financial year.

INVESTOR RELATIONS OVERVIEW 2018

June 1, 2018	Publication quarterly statement (call-date Q1)
September 5, 2018	ZKK Zürcher Kapitalmarktkonferenz, Zurich
September 26, 2018	Publication half-yearly financial report
November 21, 2018	Publication quarterly statement (call-date Q3) Earnings Call Quarterly report
November 26, 2018	German Equity Forum 2019, Frankfurt/Main

Hauck & Aufhäuser Privatbankiers AG acted as designated sponsor in 2018 and continuously supported the appropriate tradability of the STS Group share with binding bid and ask prices.

The Investor Relations pages of STS Group AG's website at sts.group offer a comprehensive insight into business performance.

FINANCIAL CALENDAR 2019

February 12, 2019	CF&B 12th European Midcap Event, Frankfurt/Main
April 4, 2019	Publication of 2018 Annual Report
April 16 to 17, 2019	CF&B 14th Smallcap Event, Paris
May 7 to 8, 2019	MKK Munich Capital Market Conference, Munich
May 15, 2019	Publication of Quarterly Report (Q1)
May 17, 2019	Annual General Meeting
May 28, 2019	MainFirst SMID Cap, One-on-One Forum
June 4, 2019	Prior Capital Market Conference, Frankfurt/Main
June 27, 2019	Capital Market Day
August 7, 2019	Publication of Half-Year Report
September 2 to 3, 2019	Fall Conference, Frankfurt/Main
September 11, 2019	ZKK Zürich Capital Market Conference, Zürich
November 6, 2019	Publication of Quarterly Report (Q3)
November 25 to 27, 2019	German Equity Forum 2019, Frankfurt/Main

2 — COMBINED MANAGEMENT REPORT

BASIS OF THE GROUP

BUSINESS MODEL

STS offers its customers a wide range of systems and solutions for vehicle interiors, exterior paneling and the engine compartment. STS components enhance the appearance of vehicles, create a pleasant soundscape in the interior and around the vehicle and achieve a significant weight reduction through their lightweight construction. Thanks to its high vertical integration, STS is able to map the entire production process of each component from the idea to the finished product. As a one-stop-shop provider with longstanding expertise, STS has an obvious competitive advantage in the sector. The production facilities and logistics are mainly designed for small and medium-sized series, as they are typical for light to heavy commercial vehicles but also increasingly appear in the cars sector with special models and electric mobility or even weight-optimized plastics solutions.

STS production sites are located close to the respective sites of customers' plants. This makes the logistics process more efficient and more environmentally friendly. Headquartered in Germany, the Group operates a global network in all key markets. Currently, STS has 17 plants in seven countries on four continents.

STS combines the production technologies injection molding, hot molding and compression molding of composites (sheet molding compounds and felt mats). STS is characterized by high vertical integration. It manufactures the semi-finished composite products and felt mats itself and can consequently react flexibly to customer-specific requirements.

17
Locations worldwide

4
Research and development centers

>2.500
Employees

OVERVIEW OF LOCATIONS

The Group produces parts and systems for commercial vehicles and cars. The customer base includes most well-known commercial vehicle manufacturers and carmakers, including many market leaders. For fast 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 activities are divided into four segments:

- **Acoustics:** integrated acoustic and thermal systems are developed and produced in this segment. It encompasses all soft trim products. The parts produced have different uses for vehicles. They increase comfort in the driver's cabin through attractive design and an upmarket feel. The components provide an attractive soundscape, characterized by low noise levels, in and around the vehicle. They also absorb vibration, through the use of "bulkhead paneling for the interior and exterior" and "cabin floor carpets" as well as thermal insulating parts for the engine compartment, for example. The parts are installed in vehicles ranging from light cars through luxury vehicles, transporters to heavy commercial vehicles. The Acoustics segment boasts high manufacturing depth from semi-finished felt products to complete pre-finished systems.

- **Plastics:** a variety of body parts and interior modules for trucks, commercial vehicles and cars are produced in this segment. It contains hard trim products made via injection molding and composites such as SMC, excluding the China segment, as the segment is presented separately. Hard trim systems are used in commercial vehicles, such as for external parts (e.g. front modules and aerodynamic paneling) or interior modules ("bunk box" under the driver's bed and shelf elements) and in cars, such as for structural components (tailgate). The segment also has its own capacity for painting plastics.

- **China:** activities in the Chinese market are combined in this segment. These include supplying customers with plastic parts for the exterior paneling of vehicles, mainly for the cabins of commercial vehicles but increasingly also for cars. The product range offers solutions and components for commercial vehicles, such as bumpers, front paneling, deflectors, roofs, fenders and step plates as well as parts for cars such as battery covers for electric vehicles up to complex structural components such as the tailgate for SUVs. These are made with composite compression processes, and injection molding will also be used in future. The segment also has its own capacity for painting plastics.

- **Materials:** This segment comprises the production of semifinished products, namely sheet molding compounds (SMC), bulk molding compounds (BMC) and advanced molding compounds (AMC). The semifinished products are used within the Group for hard trim applications as well as supplied to external third parties.

Historically, the Group has seen significant growth through acquisitions, especially in the financial years 2016 and 2017. It originally resulted from the acquisition of the commercial vehicle business of the Swiss-based Autoneum Group, which was acquired in 2013 by the STS Group AG's majority shareholder, mutares AG, as part of a carve-out. The Group acquired the truck business of the French automotive supplier Mecaplast France SAS (now Novares France) in December 2016, thus entering the hard-trim business. By acquiring the Plastic Omnium Group's commercial vehicle supplier business in June 2017, STS expanded its product portfolio with composite pre-products and composite components for external parts for truck cabins and light commercial vehicles and structural components for cars (tailgate). Its presence in Eastern and Northern Europe was also expanded through a production site in

2016 and 2017 the STS Group grew significantly through acquisitions

Poland, which started in 2017. This increased production capacity and guaranteed direct proximity to essential customers. In addition, the Group expanded the Acoustics business by acquiring the Autoneum Group's production site in Brazil in September 2017. As a consequence, the global presence was enlarged by the extra business gained in the South American region.

GROUP STRATEGY AND MANAGEMENT

OBJECTIVES AND STRATEGY

4
Strategic pillars

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

STS Group AG is a globally leading supplier of components and systems for the commercial vehicle and automotive industry. Its objective is to expand this positioning. Doing so, it focuses on composite components from the initial idea to the finished product. STS products aim to make vehicles future-proof by making significant contributions to acoustics, design, feel and functionality while, at the same time, helping to reduce weight. In order to expand its competitive position and make it profitable in the long term, the Group is concentrating on four strategic pillars: "market leadership", "technology leadership", "customer proximity" and "operational excellence".

As part of the Company's strategy to achieve further growth in new geographical markets and to expand its business activity in China, the Group constructed its third production site in Shiyan, China, for which the production started in the first quarter of 2019.

In addition, the Company plans to extend its presence in Europe, e.g. by expanding its capacity in Eastern Europe. The Company also aims to expand its presence in North and South America. The growth strategy is supported by process optimization including the increased automation of production processes and the response to technological trends such as autonomous driving and electric mobility.

MANAGEMENT SYSTEM

All segments and subsidiaries provide reports on their results of operations, financial position and net assets on a monthly basis

All business units and subsidiaries provide reports on their results of operations, financial position and net assets on a monthly basis, which are included in the Group's interim, half-year and annual reports. In addition, the business units submit a monthly estimate of current and expected business performance, and business unit managers present monthly variance analyses regarding certain key operating figures (e.g. productivity, rates of absence, waste) to the Executive Board.

In addition, the following elements largely ensure compliance with the internal management system:

- Regular Executive and Supervisory Board meetings, Regular shareholders' meetings, and Annual General Meetings, Risk and opportunity management
- Liquidity planning
- Management reporting

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

The significant financial performance indicators for the Group particularly include revenue, earnings before interest, taxes, depreciation an amortization (EBITDA) and Adjusted EBITDA. Here, EBITDA is adjusted for extraordinary effects such as the costs of the IPO totaling 3.8 mEUR, TSA fees (transition services agreements) of 1.0 mEUR, as well as legal and consulting fees and severance costs totaling 6.9 mEUR. Adjustments in the previous year primarily related to a bargain purchase gain of 47.0 mEUR. Adjusted EBITDA measures and evaluates operating performance – without extraordinary items. The reconciliation of adjusted EBITDA with EBITDA and earnings before taxes is as follows.

in kEUR	2018	2017
Adjusted EBITDA Group	**23,677**	**14,167**
Management adjustments (netted)	–11,798	40,870
EBITDA Group	**11,879**	**55,037**
Depreciation and amortization expenses	–13,208	–8,177
Earnings before interest and income taxes (EBIT)	**–1,329**	**46,860**
Interest and similar income	89	56
Interest and similar expenses	–2,102	–3,072
Finance result	–2,013	–3,016
Earnings before income taxes	**–3,342**	**43,844**

For the STS Group, there are no significant non-financial performance indicators, which are used for internal management or are relevant for compensation.

EMPLOYEES

The STS Group aspires to create a working environment that is characterized by responsible and respectful dealings with all employees and, as an employer, is committed to providing fair working conditions and equality of opportunity. Discrimination on grounds of ethnic origin, religion and ideology, gender, physical constitution, sexual orientation or age are not tolerated throughout the Group. In filling vacant positions, it focuses on performance, knowledge and skills as well as equal treatment.

It is increasingly important for enterprises to encourage top performers. Changes on the labor market and the reduction in the half-life of knowledge mean that employers must increasingly advocate encouraging and developing the skills of their employees. As an employer, the STS Group is aware of this responsibility and because of the numerous acquisitions in recent times, therefore, uses locally managed personnel development tools, which have not yet been consolidated across the Group. Employee surveys are carried out at the level of the major business units, for example. Employees are also given various opportunities for training as well as individual development and career prospects.

As of December 31, 2018, a total of 2,564 persons were employed throughout the Group (prior year: 2,564).

RESEARCH AND DEVELOPMENT

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

The development of new products for the commercial vehicle and automotive industry is a longstanding competence of the Group. Its integrated know-how regarding injection molding, composite materials and acoustics give the Group the extraordinary opportunity of combining structural, aesthetic, acoustic and thermal solutions.

The four research and development centers in France, Italy and China have successfully networked their capabilities and cooperate closely. Methods, processes and organizations have been standardized and harmonized. In the year under review, slightly more than 80 people were employed in the STS Group's research and development centers.

The R&D activities focus on three main pillars:

- Combination of the know-how and the existing technologies of the Group for innovative system solutions.
- Development of new applications in order to meet customers' expectations for lighter and more comfortable vehicles.
- Continuous improvement of the existing product lines in order to offer customers of the Group attractive value for money.

The innovation process is clearly defined and operational. It includes monitoring technological development, creativity management, the selection of ideas, project management and working groups. We presented the STS Group's innovation roadmap to our customers during various "Tech Days" in China, Europe and the USA in the fourth quarter of 2018.

The "Tech Days" inspired new developments:

- The prototype phase to validate the lightweight construction composite solution in cooperation with a global automotive tier 1.
- The validation of the composite battery pack for electric vehicles in collaboration with a major battery manufacturer.
- Further projects are in the planning phase.

A reinforced and reorganized innovation team accelerates the pace of development

The know-how of the Group research and development team and our well-equipped laboratories and prototyping facilities around the world will allow us to provide innovative and reliable solutions for these new opportunities. In the reporting period, development costs of 1.2 mEUR were capitalized.

ECONOMIC REPORT

MACROECONOMIC AND SECTOR CONDITIONS

MACROECONOMIC DEVELOPMENT

Less momentum in the global economy

According to the Kiel Institute for the World Economy (IfW), the expansion of the global economy lost momentum slightly in the course of 2018. While production initially grew substantially in the second quarter of 2018 following the weak start to the year, momentum weakened in the third quarter of the past year. The economy also slowed slightly in the fourth quarter of 2018 according to the IfW indicator. As a result, global production in 2018 as a whole increased by 3.7% against 3.9% in the prior year. This is 0.2 percentage points less than originally expected. Besides the uncertainty resulting from an increase in trade disputes, the tightening monetary policy in the United States curbed economic expansion in emerging markets with a reversal of international capital flows. Economic momentum was uneven in the developed economies. While the rate of expansion picked up further in response to fiscal stimulus in the USA, economic activity in the eurozone and in Japan lost momentum.

+3.7%
Global production for the full year 2018 with a plus of 3.7%

China's economy is cooling

In the People's Republic of China, the growth rate for gross domestic product fell slightly in 2018 to 6.6% against 6.8% in the prior year. Having proved more robust in recent years than forecast, the Chinese economy experienced more difficulties towards the end of 2018. Besides growth in industrial production, private consumption, which was previously a reliable growth driver, also lost momentum. The economy of the world's largest exporting nation was particularly hit by increasing protectionism in global trade, as Germany Trade & Invest (GTAI), the Federal Republic of Germany's agency for foreign trade and location marketing, determined. Accordingly, gross fixed asset investment grew more slowly than in prior years. According to GTAI, the declining significance of fixed asset investment for economic growth is politically motivated. Meanwhile, Chinese consumers were reluctant to purchase durable consumer goods such as cars. However, private consumption generally remains a key support. Urbanization is also a source of continuous stimulus.

Burdens due to protectionism in the world trade

Economic upturn in the eurozone eases

Economic momentum in the eurozone flagged significantly in 2018 with growth of 1.9%. An increase in gross domestic product of 2.5% had been observed in the prior year. Following a perceptible slowdown in the first half following the very strong upturn in the prior year, production picked up at a slower rate in the third quarter. The slowdown was caused by a decline in car production triggered by new standards for measuring exhaust emissions. While some countries in the eurozone, including Germany, increasingly reached the limits of their capacity, Italy and France, in particular, were inhibited by structural problems. Meanwhile the unemployment rate fell further to 8.2%. The inflation rate in the eurozone increased from 1.3% to 1.8% due to the interim rise in energy prices.

capacity limits reached, structural problems lead to slow down

Political uncertainties overshadow North and South America

Industrial production in Brazil weaker than expected

Following low growth of 1.3%, confidence still increased sharply in 2018. In the prior year, growth was nominally plus 1.0%. Brazil's financial market reacted positively to the election of the new president and the voting out of the left-wing Workers' Party. Although, there were increased hopes of an economic revival in Brazil following the election, growth in industrial production was weaker than expected. Notwithstanding strong currency depreciation, it seems that interest rates and inflation are stable according to GTAI. Accordingly, in 2018, inflation, at 4%, was in line with the target of the central bank, which initiated various measures to accelerate the anticipated cut in borrowing rates. Loans were already more easily available. Despite the increase in production, capacity was poorly utilized. Nevertheless, there were new purchases in many sectors, as machinery and equipment are obsolete. At the same time, Brazil's industry invested less in 2018 than had been assumed at the beginning of the year even though gross fixed asset investment rose by 7% in the first three quarters compared with the prior period. Imports were 16.7% and exports 7.1% higher than the figures for the same period of the prior year. In the first nine months of 2018, Germany increased goods imports to Brazil by 13%.

Mexican economic growth by 2.1%

In Mexico, growth amounted to 2.1% because of internal and external uncertainties according to GTAI. Following a good start, the new Mexican government lost support. In particular, the way in which decisions are taken caused resentment. Sentiment among entrepreneurs was also depressed by questions concerning free trade. Although Mexico has agreed with the USA and Canada on the United States-Mexico-Canada Agreement (USMCA), which is to replace the previous NAFTA treaty, the US government reserves the right to levy additional duties on cars, which would also affect Mexico. The US duties on Mexican steel and aluminum products were also still in effect in 2018. At 4.4.%, inflation remained at a high level in 2018; this is above the target range of the central bank, which again raised the key interest rate to 8% in mid-November. Meanwhile, investment recovered to 1.5% in 2018 compared with the negative figure for the prior year of –1.5%.

SECTOR DEVELOPMENT

For STS relevant US market with solid 11% growth

After successfully overcoming the growth dip in the first quarter of 2018, the market research company IHS Markit is anticipating new sales records for the global commercial vehicle market in the past financial year. The forecast rise for global truck demand in 2018 is 1.6% equating to 3.2 million new vehicles sold. Key growth drivers are important markets such as India and Eastern Europe. In the meantime, the headwind from China, the largest truck market in the world, has abated according to IHS. As a result of the ongoing strong employment environment of the Chinese economy, IHS Markit has lifted its forecasts and is now anticipating that the expected decline for new vehicles in 2018 will be less than 10%. North America, a market particularly relevant for the STS Group, stands out from the rest in 2018 with solid growth of 11%. This was the result of strong demand for trucks and capacity bottlenecks in truck production.

The European Automobile Manufacturers' Association (ACEA) puts the rise in demand for new commercial vehicles in the EU at 3.2%. This would mean an increase to a total of 2.5 million registered vehicles and the sixth successive year of growth, generating the highest volume since 2007. The growth was driven particularly by the markets in Spain, France and Germany. Italy did not manage to maintain the momentum of the strong prior year, while the decline in Great Britain continued.

BUSINESS PERFORMANCE

The first half of 2018 was defined by the preparations for the initial public offering in the Prime Standard of the Frankfurt Stock Exchange as of June 1, 2018. 2,172,172 shares were effectively placed at an issue price of 24.00 EUR. The gross proceeds received by STS Group AG amounted to 24.0 mEUR. The initial listing of 24.00 EUR matched the issue price. Against the backdrop of a challenging market environment, STS Group AG generated a good result overall. In line with corporate strategy, the funds raised will be invested in growth and thus synonymously in the international expansion of STS Group AG.

In the reporting year 2018, the STS Group generated revenue of 401.2 mEUR (2017: 310.0 mEUR). The Company recorded earnings before interest, taxes, depreciation and amortization (EBITDA) of 11.9 mEUR (2017: 55.0 mEUR). Adjusted EBITDA reached 23.7 mEUR (2017: 14.2 mEUR), adjusted for the costs of the IPO, legal and consulting fees, severance costs and TSA fees totaling 11.8 mEUR (2017: – 40.9 mEUR). Nearly all four segments contributed to the positive business figures and the sound statement of financial position. All in all, the acquired entities were integrated faster than expected in the reporting year. Due to higher than planned start-up costs in the new production plant in Poland, the economic development did not proceed as planned. However, the situation improved slightly during financial year 2018.

Contribution of almost all segments to positive business figures

With regard to the non-organic growth of the STS Group, the three strategic acquisitions of financial years 2016 and 2017 had a positive influence on the development of the STS Group in the financial year 2018. In particular, the acquisitions of the production sites of the Plastic Omnium Group and the Mecaplast Group with plants in China, Mexico, France and Germany significantly expanded the product portfolio with injection-molded and composite components for external and internal parts for truck cabins and light commercial vehicles. By taking over the Autoneum Group's Brazilian production site, the STS Group succeeded in expanding business activities into South America. The acquired entities and plants were integrated faster than planned, which was extremely gratifying. All the activities needed to integrate the acquired units were completed in 2018.

To strengthen its position on the European market, the STS Group received new orders from two renowned truck producers at the beginning of the second half of 2018. The STS Group will manufacture and supply front modules for a major European commercial vehicle manufacturer with a significant total volume of 150.0 mEUR in the years to come. At the same time, the Group expanded its market presence with the important regions of North America and China. With regard to its entry on the US market, the order from a North American commercial vehicle manufacturer is of strategic importance. From the second half of 2021, the Group will supply driver's cab parts for heavy trucks to the customer. With this order, the Group is entering the North American commercial vehicle market and, therefore, enlarging its global presence. In connection with the IPO, this was one of the priority targets of corporate strategy.

Second half-year starts with new orders of notable truck producers

Expansion of presence in China, admission in future market for E-Mobility

The expansion on the Chinese market was also stepped up over the entire reporting year. The construction of a third production plant started. The plant started production in the first quarter of 2019. To be able to succeed in the competition for young, talented skilled staff, the Group also relocated its China headquarters together with its research and development activities to Wuxi at the beginning of December 2018. In September, the STS Group also won a major order to supply a battery cover for an electric SUV. The order by the Chinese EV OEM is of major significance from a business strategy perspective. Firstly, the STS Group will now operate as a tier 1 supplier for this customer, secondly by achieving this, it has gained access to the emerging electric mobility market. It also provides the basis for expanding the presence of the STS Group in China.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

RESULTS OF OPERATIONS

In the reporting year, the results of operations were strongly impacted by the acquisition concluded in the 2017 reporting year. In the financial year 2017, the Group carried the business figures of the Dolmen Group (Plastic Omnium truck business) on its books since July 1, 2017 and the Opus Group (Brazilian plant of the Autoneum Group) on its books since October 1, 2017. The business figures were, therefore, consolidated for a full year for the first time in the reporting year. As a result, the key earnings figures for financial year 2018 are not directly comparable with those of the same period of the prior year (2017).

For this reason, "pro forma financial information" is shown in the comments in the management report, where the Dolmen and Opus activities are shown consolidated for the full year since January 1, 2017, comparable with 2018. Unless described separately, the comments on the results of operations, financial position and net assets relate to the reported figures of the prior year. Changes to 2017, which are due to the hypothetical situation of the pro-forma finance information, are stated separately.

The Company's consolidated pro forma financial information is based on assumptions described in the accompanying comments and is presented exclusively for illustrative purposes. In particular, the consolidated pro forma financial information assumes that the acquisitions of the Dolmen Group and the Opus Group took place on January 1, 2017 and that any expenses in connection with the transactions were incurred before January 1, 2017. By its very nature, this financial information describes a hypothetical situation only and thus does not reflect the actual results of operations of the reporting entity.

	Reporting period January 1 to December 31,						
in kEUR	2018	2017	Delta	Delta in %	2017 Pro-forma[1]	Delta	Delta in %
Revenue	**401,228**	**309,993**	**91,235**	**29.4%**	**425,226**	**–23,998**	**–5.6%**
Segment Acoustics	124,384	132,636	–8,252	–6.2%	138,087	–13,703	–9.9%
Segment Plastics	198,582	137,681	60,901	44.2%	209,742	–11,160	–5.3%
Segment China	48,631	25,298	23,333	92.2%	47,475	1,156	2.4%
Segment Materials	40,008	19,991	20,017	100.1%	41,240	–1,232	–3.0%
Corporate/Consolidation	–10,377	–5,612	–4,765	84.9%	–11,318	941	–8.3%
EBITDA	**11,879**	**55,037**	**–43,158**	**–78.4%**	**65,815**	**–53,936**	**–82.0%**
Segment Acoustics	–2,998	3,984	–6,982	–175.3%	4,873	–7,871	–161.5%
Segment Plastics	11,380	680	10,700	1573.5%	3,003	8,377	279.0%
Segment China	6,466	3,855	2,611	67.7%	8,815	–2,349	–26.6%
Segment Materials	1,713	994	719	72.3%	2,785	–1,072	–38.5%
Corporate/Consolidation	–4,681	45,524	–50,205	–110.3%	46,338	–51,019	–110.1%
EBITDA (in % of revenue)	3.0%	17.8%			15.5%		
Adjusted EBITDA	**23,677**	**14,167**	**9,510**	**67.1%**	**23,729**	**–52**	**–0.2%**
Segment Acoustics	–1,241	2,725	–3,966	–145.5%	3,214	–4,455	–138.6%
Segment Plastics	16,677	6,368	10,309	161.9%	8,691	7,986	91.9%
Segment China	7,160	4,145	3,015	72.7%	9,105	–1,945	–21.4%
Segment Materials	1,927	1,249	678	54.3%	3,040	–1,113	–36.6%
Corporate/Consolidation	–846	–321	–525	163.6%	–321	–525	163.6%
Adjusted EBITDA (in % of revenue)	5.9%	4.6%			5.6%		

1 Pro-forma figures for 2017 are unaudited.

In financial year 2018, the STS Group recorded surging revenue growth of 29.4% on the heels of the acquisitions made in 2017 and the resulting expansion of business activities, exceeding the prior year's figures across nearly all segments. **Consolidated revenue** thus increased to 401.2 mEUR in 2018 (2017: 310.0 mEUR reported, 425.2 mEUR pro forma). There was a decline in comparison to pro-forma revenue, resulting chiefly from the Acoustics and Plastics segment. This resulted from lower customer call-offs due to the economic situation, and a project which ended in the first half of the year.

+29.4%
Consolidated turnover up 29.4% to 401.2 mEUR

Other income fell to 4.5 mEUR on a pro forma basis (2017: 55.7 mEUR reported, 60.8 mEUR pro forma) primarily due to the positive one-time effect from business combinations in 2017 (bargain purchase gain) and income from tax indemnification claims in the prior year. Adjusted for the positive one-time effect from business combinations in the prior year and the tax indemnification claim, other income increased in financial year 2018, largely due to higher capitalization of development costs and higher income from development grants.

The **change in finished goods and work in progress,** which more than doubled, reflects the increase in operating activities, with work in progress increasing by approximately 132.0% to 5.8 mEUR (2017: 2.5 mEUR reported, 3.5 mEUR pro forma).

This also affected **materials expenses,** which increased by 22.7% to 233.8 mEUR (2017: 190.6 mEUR reported, 252.5 mEUR pro forma). **Personnel expenses** increased by 37.4% with the same average number of employees to 103.9 mEUR (2017: 75.6 mEUR reported, 106.2 mEUR pro forma). The increase in materials and personnel expenses was largely due to the fact that the financial year 2018 was the first full financial year of consolidation. The expenses of the acquired companies were recorded only from the date of acquisition in the prior year.

Due to acquisitions, **other expenses** increased to 62.0 mEUR (2017: 47.0 mEUR reported, 65.0 mEUR pro forma). They specifically include legal and consulting fees incurred in the context of the IPO. The prior year was negatively impacted by expenses for retrospective tax payments and and fines.

Earnings before interest, taxes, depreciation and amortization **(EBITDA)** came to 11.9 mEUR in the reporting period, 78.4% down year-on-year due to one-time effect from bargain purchase gains of 47.0 mEUR in financial year 2017 (2017: 55.0 mEUR reported, 65.8 mEUR pro forma).

+67.1%

Adjusted EBIDTA
with an increase of 67.1%
to 23.7 mEUR

On the other hand, **adjusted** EBITDA rose sharply by approximately 67.1% (adjusted for one-time items connected with the IPO, legal and consulting fees, severance costs and TSA costs) (2017: 14.2 mEUR reported, 23.7 mEUR pro forma).

As expected, **amortization** of intangible assets rose from 2.1 mEUR to 3.6 mEUR was well as **depreciation** on property, plant and equipment from 6.1 MEUR to 8.5 mEUR. In addition, an impairment test for the cash generating unit (CGU) Brazil resulted in an impairment loss on property, plant and equipment of 1.1 mEUR. This had become necessary as the difficult political situation and a difficult economic environment resulted in customer call-offs/revenue being lower than expected. As a result, the carrying amount of the cash generating unit was no longer covered by the cash flows expected in the future. Total depreciation and amortization for the reporting period was 13.2 mEUR (December 31, 2017: 8.2 mEUR reported, 12.3 mEUR pro forma).

As a result, earnings before interest and taxes **(EBIT)** of –1.3 mEUR was recorded (2017: 46.9 mEUR reported, 53.5 mEUR pro forma).

Consolidated profit or loss for financial year 2018 fell to –4.8 mEUR due to one-time acquisition effects (bargain purchase gain) in the prior year and the increase in operating expenses resulting from growth of the Company (2017: 47.0 mEUR reported, 52.6 mEUR pro forma).

Earnings per share of –1.20 EUR under IFRS accounting rules—both undiluted and diluted—is not comparable to the prior-year figure due to a large difference in the number of shares outstanding.

Results of operations by segment

The **Acoustics** segment recorded revenue of 124.4 mEUR in 2018, 6.2% lower than in the prior year (2017: 132.6 mEUR reported, 138.1 mEUR pro forma) due to reduced customer call-offs from the production sites in Italy. Furthermore, challenging ramp-ups for models of European manufacturers, which were not implemented with the usual operating efficiency, caused additional non-chargeable expenses in the Polish production facility. As a result, the Acoustics EBITDA declined to – 3.0 mEUR (2017: 4.0 mEUR reported, 4.9 mEUR pro forma). Adjusting for one-time legal and consulting fees, severance costs and TSA costs, the Acoustics segment recorded EBITDA of –1.2 mEUR (2017: 2.7 mEUR reported, 3.2 mEUR pro forma).

Acoustics with costs for production start-up and fewer customer call-off orders in Italy

However, for the **Plastics** segment revenue surged 44.2% to 198.6 mEUR (2017: 137.7 mEUR reported, 209.7 mEUR pro forma). That it was lower than pro forma revenue was mainly due to a project that ended in the first half of 2018, but this was largely offset by the successful implementation of numerous operating improvement measures which generated efficiency enhancements of 2.4 mEUR. EBITDA recorded by the Plastics segment contributed decisively to the STS Group's overall result soaring more than 15 times to 11.4 mEUR (2017: 0.7 mEUR reported, 3.0 mEUR pro forma). The operational synergies leveraged through the integration and the resulting cost savings were major factors behind the pleasant result for the Plastics segment, substantially exceeding management estimates. The Plastics segment recorded the Group's highest adjusted EBITDA at 16.7 mEUR, an increase of 161.9% (2017: 6.4 mEUR reported, 8.7 mEUR pro forma).

+161.9%
Adjusted EBITDA – Plastics as largest segment

The **China** segment was reported in the Plastics segment until December 31, 2017 before being presented as a separate segment in financial year 2018 for the first time. The 48.6 mEUR of revenue recorded in the China segment (2017: 25.3 mEUR reported, 47.5 mEUR pro forma), nearly doubling year-on-year, underscores the Group's strategy of pursuing further growth in new geographic markets, although currency exchange effects had a slightly negative impact in comparison to the pro forma revenue. Alongside the first-time full-year consolidation of the China segment in the Group, the realization of savings potential in the area of materials expenses resulted in EBITDA soaring by 67.7% to 6.5 mEUR (2017: 3.9 mEUR reported, 8.8m EUR pro forma). Adjusted EBITDA exceeded management expectations at 7.2 mEUR, increasing 72.7% (2017: 4.1 mEUR reported, 9.1 mEUR pro forma).

+72.7%
China with adjusted EBITDA plus 72,7%

Revenue for the **Materials** segment doubled in financial year 2018 to 40.0 mEUR (2017: 20.0 mEUR reported, pro forma 41.2 mEUR). Higher raw materials prices not passed on to customers due to existing agreements were reflected in increased materials expenses in financial year 2018, weighing on operating profit, which can be partially offset by price increases with a time lag. EBITDA climbed 72.3% to 1.7 mEUR (2017: 1 mEUR reported, 2.8 mEUR pro forma). Adjusting for one-time legal and consulting fees, severance costs and TSA costs, the Materials segment recorded an adjusted EBITDA of 1.9 mEUR (2017: 1.2 mEUR reported, 3.0 mEUR pro forma). This corresponds to a year-on-year upturn of 54.3%.

+54.3%
Materials with increase of adjusted EBITDA of 54.3%

NET ASSETS AND FINANCIAL POSITION

VERMÖGENSLAGE

in kEUR	December 31, 2018	December 31, 2017
Non-current assets	115,624	114,794
Current assets	158,220	160,159
Total assets	**273,844**	**274,953**
Total equity	82,409	60,666
Non-current liabilities	39,171	45,867
Current liabilities	152,264	168,420
Total equity and liabilities	**273,844**	**274,953**

Total assets were slightly below the prior year figure at 273.8 mEUR as of December 31, 2018 (December 31, 2017: 275.0 mEUR).

Non-current assets increased slightly by 0.7% to 115.6 mEUR (December 31, 2017: 114.8 mEUR), due principally to a 1.0 mEUR increase in intangible assets to 25.6 mEUR versus 24.6 mEUR for the prior period, and to a 1.0 mEUR increase in other tax receivables to 3.0 mEUR. This was offset by an impairment of 1.1 mEUR on property, plant and equipment and deferred tax assets declining from 8.6 mEUR to 8.0 mEUR. The impairment resulted from the difficult economic conditions of a plant.

Current assets decreased by a moderate 1.2% to 158.2 mEUR (December 31, 2017: 160.2 mEUR) due primarily to a 18.2 mEUR decline in trade receivables to 81.1 mEUR. In addition, other financial assets declined by 11.8 mEUR, largely due to the repayment of a loan granted by mutares AG and the settlement of indemnification claims by a previous shareholder. Due to the increase in cash and cash equivalents resulting from the IPO proceeds, current assets are approximately at the level of the prior year.

EQUITY AND LIABILITIES

Significant increase of the equity ratio to 30.1%

Equity rose by 35.7% to 82.4 mEUR as of December 31, 2018 (December 31, 2017: 60.7 mEUR) due to the IPO proceeds of 24.0 mEUR.

The **equity ratio** rose considerably to 30.1% as of December 31, 2018 (December 31, 2017: 22.1%).

Non-current liabilities fell to 39.2 mEUR as of December 31, 2018 (December 31, 2017: 45.9 mEUR). This substantial 14.6% decline was chiefly due to the reduction of non-current liabilities to banks in the amount of 4.8 mEUR. This effect was the result primarily of the reclassification to current liabilities.

Current liabilities also decreased significantly by 9.6% to 152.3 mEUR as of December 31, 2018 (December 31, 2017: 168.4 mEUR), due to a large decrease in trade payables and liabilities to 70.0 mEUR (December 31, 2017: 83.8 mEUR). Other current liabilities also declined to 27.1 mEUR (December 31, 2017: 33.9 mEUR). The 4.7 mEUR increase in contract liabilities due to the application of IFRS 15 and a slight rise in liabilities to banks had a counterbalancing effect.

Investments

In fiscal year 2018, net cash flows from investing activities amounted to EUR –13.9 million, and were with EUR 11.9 million (2017: EUR 17.2 million) mainly related to Group-wide investments in the development and expansion of production and research facilities. Most was invested in property, plant and equipment with 7.8 mEUR, and in intangible assets with 4.2 mEUR, the major part in the Acoustics segment at 3.8 mEUR, the Plastics segment at 3.1 mEUR and the China business at 3.8 mEUR. The prior-year figures were substantially impacted by acquisitions.

13.9 mEUR
Group-wide investments

Financial position

in kEUR	December 31, 2018	December 31, 2017
Net cash flows from operating activities	7,103	–8,667
Net cash flows from investing activities	–13,879	–17,230
Net cash flows from financing activities	22,135	39,204
Effect of currency translation on cash and cash equivalents	–26	–80
Net increase/decrease in cash and cash equivalents	**15,333**	**13,228**

The STS Group recorded positive **net cash flow from operating activities** of 7.1 mEUR for financial year 2018, coming after a net cash outflow of 8.7 mEUR in the prior year. The higher cash flow from operating activities was driven primarily by the decline of trade receivables and other assets and receivables. This was countered by the decline in trade liabilities and other liabilities.

Cash flow from investing activities for financial year 2018 was a net outflow of 13.9 mEUR (2017: – 17.2 mEUR), primarily reflecting outflows for investments in property, plant and equipment and intangible assets.

The Group recorded cash flow from financing activities of 22.1 mEUR in the financial year 2018 (2017: 39.2 mEUR). The IPO had a particularly positive impact, with gross issue proceeds of 24.0 mEUR. The proceeds from the capital increase implemented on April 25, 2018 generated an additional inflow of 4.0 mEUR. Outflows of 1.4 mEUR resulted from the use of factoring (2017: –36.4 mEUR), and inflows of 12.1 mEUR from new borrowings (2017: 8.6 mEUR). These were offset by cash outflows of 13.5 mEUR to pay back liabilities to banks (2017: 2.9 mEUR).

24.0 mEUR
IPO with gross issue proceeds of 24.0 mEUR

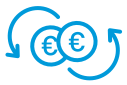
The Group more than doubled its holdings of **cash and cash equivalents** as of December 31, 2018, which increased 109.4% to 33.2 mEUR (December 31, 2017: 15.8 mEUR), consisting nearly exclusively of bank balances.

The Group has fixed and floating rate credit facilities. These floating rate credit facilities are based on a 1-month, 3-month and 6-month EURIBOR plus a margin. Some credit facilities have underlying credit covenants and some loans are secured. For information on financial liabilities, please refer to Section 3.12 Non-current and current financial liabilities in the notes to the consolidated financial statements.

The Group is currently negotiating bank financing for an eight-figure sum, which is set to extend over three tranches for different purposes.

Principles and objectives of financial management and dividend policy

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



Appropriation of profit to finance further growth

No dividend payout is planned for the 2018 financial year. The Company intends to use a significant portion of its future potential profits less the amounts to be transferred to the statutory reserve to finance its further growth in the financial years to come and to pay a dividend only if this is compatible with its business and investment plans.

GENERAL STATEMENT BY THE EXECUTIVE BOARD ON THE ECONOMIC SITUATION

The Executive Board believes that business performance developed positively in financial year 2018. The Group continued to grow and expand its business globally in the financial year.

The Plastics segment developed better than expected, as did the China segment, which despite the increasingly challenging market environment outperformed expectations, especially in the third and fourth quarter of 2018. Due to the complex ramp-up in Poland, the Acoustics segment did not develop as well as expected. The Materials developed in line with expectations.

Revenues and EBITDA performance meets expectations

The objective for financial policy is always to have the necessary financial flexibility to drive the Group's further growth. The development of revenue, EBITDA and adjusted EBITDA is in line with the management's expectations. Nearly all four segments contributed to the positive business figures and the sound statement of financial position. All in all, the companies acquired in 2017 were integrated faster than expected. On the other hand, the ramp-up costs in the Poland plant were higher than anticipated, i.e. the usual productivity levels have not yet been reached.

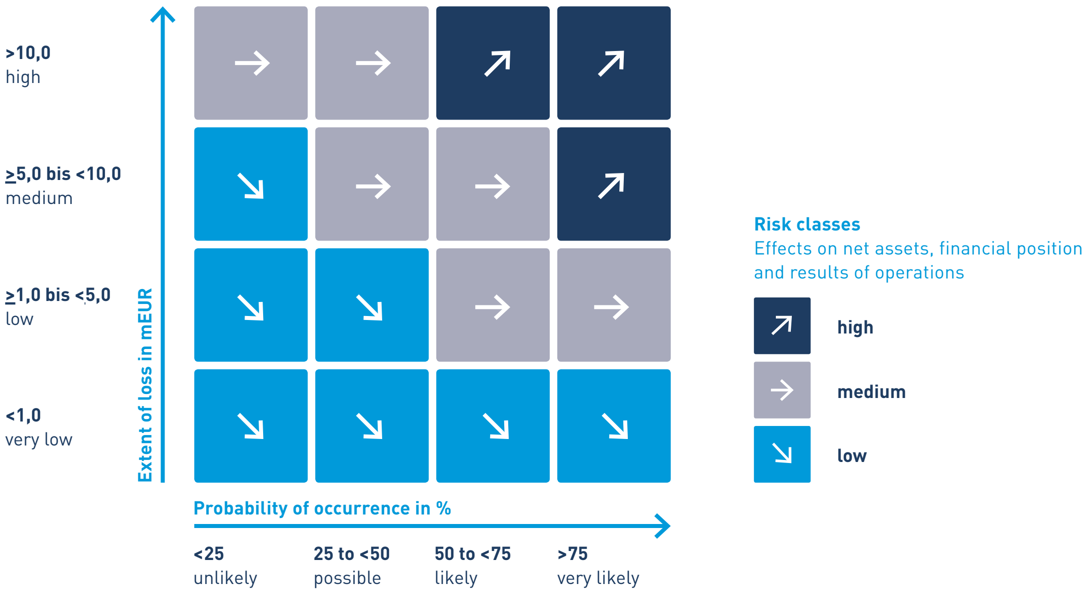
OPPORTUNITIES AND RISKS

RISK MANAGEMENT SYSTEM

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

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

RISK MATRIX



In the risk assessment, a distinction is drawn between gross and net assessment. Measures already taken can reduce the gross risk in terms of both the monetary impact and the possible occurrence of the risk. The net risk is then the extent of loss and probability of occurrence taking the loss-reducing measures taken before the reporting date into account. The identified risks are to be managed actively in order to achieve the risk reduction targeted by the Company. All risks against which no suitable measures can be taken must be classified as business risks. The management of risks with a minor influence on the Group is up to the operationally responsible management. Current risks are regularly reported to the Executive Board. Within its respective area of responsibility, the Executive Board determines any necessary measures and sees to their continuous implementation.

Internal control and risk management system within the financial reporting process

The internal control and risk management system has an appropriate structure and processes that are defined accordingly. It is set up to guarantee the prompt, uniform and correct accounting entry of all business transactions. For the consolidation of the subsidiaries included in the consolidated financial statements, the internal control system ensures that legal standards, financial reporting requirements and internal instructions on financial reporting are complied with. Changes therein are continuously analyzed with regard to relevance to and impact on the consolidated financial statements and accounted for accordingly. The Group specifies a schedule for its subsidiaries concerning the monthly, quarterly and annual preparation of the consolidated financial statements. For quarterly and annual financial statements, instructions are sent to the subsidiaries and a request is made for additional data/information that is necessary for all relevant topics relating to content, processes and deadlines for the preparation of financial statements. A standardized Group chart of account and uniform accounting standards are used for the purposes of Group consolidation. Corresponding consolidation software is used for consolidation. There is close communication between the operating units and head quarter within the context of Group accounting. If necessary, the head quarter departments of Controlling, Treasury and Tax and external specialists are brought in to provide support. In addition to defined controls, automated and manual reconciliation processes, the segregation of implementing and controlling functions and compliance with guidelines and work instructions are essential elements of the internal control system. On a monthly basis, quality assurance relating to accounting data used within the Group is performed centrally by the Finance department on the basis of analyses and plausibility checks.

Group companies are responsible for compliance with the applicable guidelines and financial reporting processes and the proper and timely preparation of financial statements. In the financial reporting process, the Group companies are supported by central contact partners.

Financial risk management

The management of the Group monitors and manages the financial risks associated with the Group's businesses by means of internal risk reporting, in which the Group analyses risks according to their scale and scope. These risks include credit risk, liquidity risk and market risk (foreign currency risk and interest rate risk).

In some cases, the Group minimizes the effects of these risks with derivative financial instruments. The use of financial derivatives is governed by guidelines set by the Group management, which contain requirements for the management of currency, interest rate and default risks. In addition, basis rules are laid down for the use of derivative and non-derivative financial transactions and for the investment of excess liquidity. Compliance with the guidelines and risk limits is monitored continuously. The Group does not contract or trade financial instruments, including derivative financial instruments, for speculative purposes.

MACROECONOMIC OPPORTUNITIES AND RISKS

GLOBAL ECONOMY CONCERNED ABOUT ECONOMIC DISRUPTIONS

According to the Kiel Institute for the World Economy (IfW), the global economy is exposed to risks from economic disruptions such as a further intensification in trade disputes, especially if they were to spread to trade between the United States and the European Union. Further price corrections on equities markets plus perceptible falls in the price of real estate, which has recently risen sharply could also have a negative impact on the global economy. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as medium.

Escalating trade conflicts as risks for global economy

CHINA DEFYING THE DOWNTURN

According to the Federal Republic of Germany's agency for foreign trade and location marketing (Germany Trade & Invest, GTAI), the customers of Chinese export companies are stockpiling in anticipation of an escalation in the trade dispute, meaning that a collapse in foreign trade could have a negative impact on gross domestic product in 2019. Nevertheless, China is still deemed to be far from an economic slump even though GTAI states that far lower increases in GDP can be expected from 2019. The risk of a downturn is also being reduced by fiscal and monetary policy measures by the government in Beijing. According to advisors of the Chinese central bank, these tools are expected to include cuts in taxes and duties equal to at least one percent of GDP, which will benefit both companies and private individuals. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as medium.

POLITICAL RISKS INCREASE IN THE EUROZONE

In the eurozone, political risks, in particular, in three of the major economies are having an adverse impact on economic momentum. While the UK's withdrawal from the European Union and the arrangements for the future are still unclear at the time this report was prepared, the Italian government did reach agreement with the responsible authorities in Brussels in the reporting period. In France, uncertainty about whether the president's reform agenda can be implemented could also have an adverse effect on economic development. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

Situations in Great Britain, France and Italy burden

POLITICAL UNCERTAINTY IN NORTH AND SOUTH AMERICA PERSISTS

Consolidation of the state budgets in Brazil and Mexico determines the situation

Consolidation of the budget will be decisive in generating lasting confidence and a revival in investment in Brazil. It is, however, uncertain whether the new president Jair Bolsonaro will approve the economic measures proposed by the new minister Paulo Guedes. According to GTAI, it is also not clear whether the measures can be pushed through the heavily fragmented Congress. Nevertheless, companies approve of the change in the political course. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

In Mexico, the future president lost the approval of companies even before being sworn in on December 1, 2018. His budget planning is seen as too optimistic and so far, no measures are planned to implement the forecast spending cuts. In addition, sentiment among entrepreneurs is depressed by questions concerning free trade. With the United States-Mexico-Canada Agreement (USMCA) an agreement has been reached to replace the previous NAFTA treaty, which is an opportunity for the STS Group. However, the US government reserves the right to levy additional duties on cars. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

SECTOR OPPORTUNITIES AND RISKS

Digitisation as an opportunity

The German Association of the Automotive Industry considers digitization as an opportunity for the further development of business models in the commercial vehicle industry with its complex logistics network of manufacturers, suppliers and service providers to renew and improve the processes of the supply chain successively on the basis of innovative solutions and projects. In this way the commercial vehicle industry can counter the increasing complexity of logistics, caused especially by the range of variants and volume fluctuations.

The market research company IHS Markit anticipates that the volume of delivery vehicles for the last mile will continue rising and that the urban infrastructure will have to find solutions for the challenges of congestion. This means that in the commercial vehicle industry there are opportunities resulting from the demand for alternative traffic patterns and innovative remedies which can compensate for rising traffic levels and the resulting consequences. Additional opportunities arise from the demand for solutions to increase fuel efficiency to compensate for an increase in the price of diesel and petrol fuels, and the related higher acceptance for vehicles with alternative drives. Systems and components for the construction of more environmentally friendly and quieter vehicles will thus increasingly become a requirement to maintain a competitive advantage in the global commercial vehicle market. According to IHS, the regulatory environment can make a contribution here. Thus, prohibitions of diesel vehicles in town centers certainly have the potential to influence commercial vehicle manufacturers and operators as well as suppliers. A more vigorous approach from the regulatory authorities to move away from fossil fuels could result in a more rapid introduction of electric, hybrid and fuel cell trucks.

Possible CO_2 regulation as a risk

In contrast, the VDA sees risks for the commercial vehicle market as a result of the agreement on the part of the European Commission, the EU Parliament and the European Council in respect to CO_2 regulation for heavy commercial vehicles. As a result, truck manufactures should reduce CO_2 emissions of new vehicles in the EU by 30% to 2030 against the comparative year of 2019. By 2025, the reduction must already be 15%. For the regulations to become effective, they must first be approved by the Council and Parliament. According to the VDA, the present agreement does not take sufficient account of the technical and business realities in the commercial vehicle segment. The results for offsetting particularly environmentally friendly vehicles are thus insufficient and the incentives to introduce low or zero emission vehicles are weak. There are also additional risks resulting from the more stringent requirements from 2025. Alternative drives – unlike the car segment – are not yet viable on the market for heavy-duty long-distance traffic. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

Other potential risks relate to the as yet unforeseeable impact of Brexit and isolationist and protectionist policies in the target markets relevant to the commercial vehicle industry. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

OTHER RISK AREAS, MATERIAL OPPORTUNITIES AND INDIVIDUAL RISKS

RISKS

- General disruptions in the automotive and truck supply chain could have negative effects on the Company's businesses, even if the Company itself is not exposed to delivery bottlenecks in the case of its suppliers. If the Group's suppliers are no longer able to deliver the raw materials or components required for the Group's business operations, the Group's ability to meet the demand from its customers and continue its business operations at the current production level could be impaired. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as medium.

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

- The Group depends on a limited number of major customers and the relationships with them. The loss of these business relationships could have a substantial negative effect on the business activity and net assets, financial position and results of operations of the Group. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as medium.

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

STS Group in contest with established competitors

- The Group is currently competing with established competitors and expects that other companies will also engage in competition with the Group in the future. The Group may be unable to remain competitive in the entire automotive and truck industry. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

- The Group depends on its ability to adapt to changing technologies and new trends and to continue developing new products. If in the future the Group is unable to introduce new products for the automotive and truck industry, it could lose its competitive edge and market shares. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

- The Group can be subject to product liability claims and claims in respect to specific performances or defects of its productions which result in claims for damages or other claims. Furthermore, the Group also manufactures products to customer specifications as well as in line with performance and quality requirements. If products are not delivered on time or not to the agreed specifications, this can result in considerable contractual penalties and reworking costs for the Group. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as medium.

- The Group uses complex IT systems and networks, which as a result of increased hacker activities or fraud can be susceptible to damage, interruption or cyber-attacks. Although the Group has taken precautions to manage its risks in connection with system and network disruption, security infringement or other events, this could result in a longer unforeseen interruption of its systems and networks and thus impede normal business operations and also result in loss of data and customer knowledge which could impact considerably and detrimentally on its business and reputation. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

- The Group can be involved in legal disputes, which result in claims for damages or other claims. The disputes can result mainly from obligations from services and performance obligations. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

- As a result of acquisitions in the past and in the future, the Group could be involved in legal disputes, particularly in relation to the interpretation of purchase price components which have considerable negative effects on the the financial position and results of operations. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as medium.

- Disruptions to operations or extended production downtimes which negatively impact the products of the Group could negatively impact the ability of the Group to deliver its products on time or even to deliver them at all. Operating interruptions can be triggered by internal or external circumstances. If the Group is not in a position to fulfill its contractual supply obligations, this could impact business activities and the customer relationship negatively. In terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, the Executive Board assesses the risk as low.

The Executive Board assesses the individual cross-segment risks listed as low to medium in terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, and sorts them in descending order of severity. In the view of the Management Board, the risk landscape did not change significantly in the last half of the year. In the opinion of the Management Board, there are no risks that could jeopardize the continued existence of the Company.

OPPORTUNITIES

- Growth in Eastern Europe. In order to improve its presence in Europe, the Group is planning to further expand its production capacity in the low-cost countries of Eastern Europe. With the lower production costs, the Group will be able to further hone its competitive edge and increase its market share in Europe.

- Focus on technology trends. New technology trends such as autonomous driving and electric mobility will drive the Group's growth in the future. The Group sees growth as an opportunity and is developing the appropriate solutions for these trends. In addition, the Group expects that the trend for autonomous driving will require an adjustment in the product range in order to adapt to the specific properties of electronic and electric devices. Demand in the Group's most important target markets is increasingly being influenced by a range of trends, especially by trends for reducing emissions and the increasing focus on electric mobility, which are being driven primarily by the emissions targets demanded in various regions of the world. The Group is in line with these trends, as its materials enable lightweight products that reduce the total weight of vehicles and thus lead to lower emissions, while product costs for structural components fall in comparison with metal products.

Growth by focusing on technology trends

Global one-stop shop: technological know-how for all components from a single source

- The Group's technological know-how enables the Company to offer its customers noise protection and thermal insulation in the interior and exterior from a single source. The Group is one of the few global automotive suppliers with the technological know-how to offer all components of the structural, visual, acoustic and thermal elements of its products and to combine them in order to offer its customers a "one-stop shop" for automotive and truck parts. The Group believes STS Plastics is the only provider on the market that can offer both thermosetting and thermoplastic technologies and is thus able to serve all markets for such products and even to combine both technologies into comprehensive system solutions.

- The Group can scale its batch sizes to its customers' individual requirements. The Group has the advantage that it can produce small and large batch sizes for its customers thanks to its applied technologies such as composites. The Group can thus address a broad range of customers for all its products and thus distinguishes itself from larger automotive and truck part suppliers that concentrate only on customers with high-volume orders and are thus exposed to business downturns if these large customers reduce the quantity of car and truck parts purchased from them.

STS Group with globally integrated base in key markets

- In its key markets, the Group has a strong, globally integrated base from which it can generate further international growth. The Group operates 17 locations in seven countries on four continents with large locations in the key regional markets of Europe, China, North and South America. These plants are strategically located close to or integrated into the sequencing plants of their major OEM customers and enable the Group to offer the services and products that its customers need quickly and cost-effectively by using local staff who are qualified to operate such plants and attuned to the requirements of the local customers. In addition, the Group can grow organically with its key customers and better respond to the changing requirements of its international customers, because it knows their situation thanks to its proximity to and understanding of its customers' business.

- The Group's experienced management team can monetize its long-standing OEM relationships by taking cross-selling opportunities in strong customer relationships.

The Company has a lean corporate structure with direct reporting to the Executive Board. The longstanding customer relationships of over 20 years on average (Europe > 20 years, China >10 years and America ~10 years) support a strong position in a fiercely competitive market environment on the basis of a high order backlog. In addition, this results in cross-selling potential between Acoustics and Plastics in the use of technological synergies.

FORECAST

LOWER GROWTH IN THE GLOBAL ECONOMY – NO ECONOMIC DOWNTURN

According to the Kiel Institute for the World Economy (IfW), the growth in global production will fall slightly from 3.7% in the prior year to 3.4% in 2019 and will also remain unchanged at 3.4% in 2020. The IfW reduced its September forecasts for both 2019 and 2020 by 0.1 percentage points in each case. This growth is lower than the rates of expansion in the upturns of the 1990s and 2000s, but the IfW states there is no talk of an economic downturn. Nevertheless, there will be scarcely any increase in capacity utilization in the advanced economies. In contrast, in view of adverse economic conditions and a difficult financial environment, experts expect only a moderate expansion in a large number of emerging markets. For the developed economies, the IfW expects the increase in production to wane gradually in response to a slow tightening of expansionary monetary policy, diminishing fiscal stimuli and modestly rising demand in developing and emerging economies. The economic recovery in the other emerging markets is set to continue at slightly slower rates, as it affected by a slowdown in global trade.

Weak dynamics in world trade

PEOPLE'S REPUBLIC OF CHINA BRACES ITSELF AGAINST AN UNWELCOME SLOWDOWN IN ECONOMIC ACTIVITY

The IfW expects a slower increase in production in the People's Republic of China than in recent years. After the smaller increase in gross domestic product last year, of 6.6%, an increase of 6.1% is expected for 2019 and of 5.8% for 2020. This is caused by the efforts of the Chinese government to adopt a more sustainable development path, in both social and environmental terms, for its economy. According to IfW, the decision to cut taxes and increase public-sector spending does not indicate an economic U-turn but will serve primarily to cushion the effects of US punitive tariffs if the trade dispute should escalate further. Accordingly, with its more expansionary economic policy, the Middle Kingdom is emphasizing that it will brace itself against an unwelcome slowdown in economic growth.

Tax cuts and public spending programmes concluded

UPTURN IN THE EUROZONE SOFTENS DESPITE GROWTH CONTINUING

According to the IfW, the rate of growth in the eurozone is gradually slowing but the economy is to continue expanding. Foreign trade will provide stimulus and the economic area's exports will again catch up with the growth in global trade following a soft patch in 2018. Accordingly, production growth in the eurozone will be lower at 1.7% this year and 1.5% in 2020, and will no longer significantly exceed the growth rate of production potential. The unemployment rate is expected to fall more slowly to 8.2% on average this year and 7.4% in 2020. The increase in consumer prices will amount to 1.8% in 2019 because of higher energy prices, however, according to the IfW, core inflation, at 1.5% in both the current year and next year, will be slightly below the European Central Bank's target.

Export growth catching up

STRONGER GROWTH IN NORTH AND SOUTH AMERICA

Stronger increase of GDP in Brazil and Mexico expected

In the Americas market of relevance for the Group, especially in Brazil and Mexico, the IfW expects more rapid growth in the gross domestic product of the two largest Latin American economies following an election year characterized by significant political uncertainty in 2018. Thus the Brazilian economy is expected to grow by 2.0% in 2019 and by 2.5% the following year. According to the IfW, gross domestic product (GDP) is expected to expand by 2.6% in the current year. Growth of 2.4% is expected for 2020.

SECTOR FORECAST

9% growth in North America underlines progress of the STS Group

With a share of 40% in global truck unit sales, the market research company IHS Markit, taking into account the sales downturn in China, anticipates a decline in global truck sales figures of approximately 7% for 2019. Another negative factor could be the start of a demand decline in Europe after the record year of 2018. With an upturn of 9% expected for 2019, North America stands out within the industry as a sound growth market, thus underlining the progress made by the STS Group in this region. While diesel and gasoline models still preponderate with commercial vehicles, demand for electric vehicles and alternative drive forms is increasing even in weaker phases for conventional commercial vehicles, states IHS.

According to IHS Markit, in the foreseeable future commercial vehicles will still run on diesel fuel. However, the share of commercial vehicles operating with diesel fuel (diesel and diesel hybrid) will decline from 80% in 2018 to 66% by 2040. As a result, right up to 2040 diesel will remain the dominating fuel type world-wide. A decisive role in diesel retaining its competitive advantage against alternative drive forms will be the decline in fuel consumption. As a result of the demands of long-distance traffic on range and load capacity on highways and main roads, IHS states that diesel will remain important both in the short and in the long term, even if other drive types can gain market share with the technological advances. With a view on overall operating costs, electric vehicles remain inferior to diesel and natural gas drives and the minimum weight of the battery pack will continue to result in restrictions on transport capacity. For electric vehicles, IHS is forecasting an annual average growth rate of 15% in the US, a market important for the STS Group. This growth will be driven by a rise in inner-city goods transport and advances in battery technology, which will promote acceptance in the mainstream, especially in the case of lighter payloads.

GROUP FORECAST FOR 2019

Revenue growth of at least 30% had been anticipated for financial year 2018, which was very nearly achieved, with revenue increasing by 29.4%. At 11.9 mEUR, EBITDA in financial year 2018 was well below the previous year's figure (55.0 mEUR), as expected. Adjusted EBITDA of 23.7 mEUR greatly exceeded that of the previous year (14.2 mEUR), as planned.

+30%

2018 consolidated revenues +30% – adjusted EBITDA significantly higher than 2017

The STS Group expects sales volume to remain stable despite continuing challenges in the market environment in 2019 at approximately 400 mEUR and adjusted EBITDA at or above the prior-year level (2018: 23.7 mEUR). No one-time items are expected in 2019, as activities in relation to the IPO have been concluded successfully and the acquisitions have been integrated. The Executive Board anticipates reported EBITDA will increase by ≥ 100% against the prior year (2018: 11.9 mEUR) and thus anticipates a significantly higher net result for financial year 2019.

General Risk Disclaimer

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

REPORT ON EVENTS AFTER THE END OF THE REPORTING PERIOD

On February 25, 1019, the Supervisory Board member Dr. Ulrich Hauck was appointed as a member of the Company's Executive Board with effect from April 1, 2019. He assumed the position of Chief Financial Officer (CFO) from Stephan Vrublovsky, whose contract ended on March 31, 2019.

No events occurred after the end of financial year 2018 which are of material significance to the STS Group's business.

TAKEOVER-RELATED DISCLOSURES

ACCORDING TO SECTION 289 A AND SECTION 315 A HGB

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

COMPOSITION OF SUBSCRIBED CAPITAL

STS Group AG's subscribed capital amounted to 6,000,000.00 EUR on December 31, 2018 (December 31, 2017: 50,000.00 EUR) and was divided into 6,000,000 no-par value bearer shares each with a notional interest in the share capital of 1.00 EUR. The shareholders' right to the certification of their shares is excluded in accordance with Article 5 (2) of the Articles of Association of STS Group AG to the extent that this is permitted by law and certification is not required under the rules of a stock exchange on which the shares are admitted to trading. STS Group AG is entitled to issue individual or global certificates for the shares. Bearer shares are not required to be entered in a share register in accordance with Section 67 (1) of the German Stock Corporation Act (AktG).

All shares carry the same rights and obligations. The individual rights and obligations of the shareholders arise from the provisions of AktG, and, in particular, from Sections 12, 53a ff., 118 ff. and 186 AktG.

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

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

The shares of the Company are freely transferable in accordance with the statutory provisions concerning the transfer of bearer shares. With the exception of the lock-up agreements described below, there are no restrictions on transferability or lock-ups affecting the shares of the Company.

In the acquisition agreement between the Company, the selling shareholder and the joint bookrunners that was concluded on May 14, 2018, the Company undertook not to perform any of the following actions for a period of six months following the admission of the shares of the Company to trading on the Frankfurt Stock Exchange and a subsequent period of a further six months without the prior written consent of the joint bookrunners:

(i) the announcement or implementation of capital increases from subscribed capital;
(ii) the proposal of a capital increase to the General Meeting;
(iii) the announcement, incitement or proposal to the General Meeting of an issue of securities with conversion or option rights in respect of shares of the Company, with the exception of the issue of stock options under an employee option plan, and
(iv) the conclusion or announcement of transactions or measures with the same economic effect as those described in (i) to (iii) above.

In respect of its shares in the Company that are not subject to placement or overallotment, the selling shareholder undertook not to perform any of the following actions for a period of six months following the admission of the shares of the Company to trading on the Frankfurt Stock Exchange and a subsequent period of a further six months without the prior written consent of the joint bookrunners:

(i) the granting, offering for sale, assignment, allotment, distribution, sale or agreement to sell shares of the Company or other securities of the Company granting a conversion or option right in respect of shares of the Company held by the selling shareholder at the prospectus date, either directly or indirectly;
(ii) the proposal to the General Meeting of a capital increase or the issue of securities with conversion or option rights in respect of shares of the Company, and
(iii) the conclusion or announcement of transactions or measures with the same economic effect as those described in (i) and (ii) above.

For additional information, please refer to the disclosures made in the notes to the consolidated financial statements in section 3.11 Equity.

INTERESTS IN CAPITAL THAT EXCEED 10.0% OF THE VOTING RIGHTS

As of December 31, 2018, there were the following direct and indirect interests in the capital of STS Group AG that exceeded the threshold of 10% of the voting rights: The largest shareholder in STS Group AG, mutares AG, Munich (Germany), most recently informed us that it held 63.8% of the voting rights in STS Group AG on June 29, 2018. STS Group AG has not been informed and is not otherwise aware of any other direct or indirect interests in the capital of the Company that amount to or exceed the threshold of 10% of the voting rights.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROLLING POWERS

No shares were issued with special rights conferring controlling powers.

CONTROL OF VOTING RIGHTS IN THE EVENT OF EMPLOYEE INVESTMENT

To the extent that STS Group AG has issued or issues shares to employees under employee participation plans, these shares are transferred to the employees directly. The participating employees may exercise the control rights conferred upon them in connection with the employee shares directly in the same way as other shareholders as set out in the statutory provisions and the Articles of Association.

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

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

In accordance with Sections 119 (1) No. 5 and 179 AktG, amendments to the Articles of Association require a resolution of the General Meeting. The authority to make amendments to the Articles of Association relating solely to their wording has been transferred to the Supervisory Board in accordance with Section 179 (1) Sentence 2 AktG in conjunction with Article 12 (4) of the Articles of Association of STS Group AG. By resolution of the General Meeting on May 3, 2018, the Supervisory Board is also authorized to amend Article 4 of the Articles of Association to reflect the utilization of Authorized Capital 2018/I and Contingent Capital 2018/I and the expiry of the respective authorization period.

Resolutions of the General Meeting require a simple majority of the votes cast and, where a capital majority is required, a simple majority of the share capital represented at the time of the resolution, unless a larger majority is required by law (Article 21 (2) of the Articles of Association of STS Group AG). Accordingly – in derogation of Section 179 (2) Sentence 1 AktG – resolutions of the General Meeting amending the Articles of Association also require a majority of the share capital represented at the time of the resolution in addition to a simple majority of the votes cast, unless a larger majority is required by law. Furthermore, Article 21 (2) of the Articles of Association of STS Group AG states that – in derogation of Section 103 (1) Sentence 2 AktG – a majority of the votes cast is sufficient for the dismissal of members of the Supervisory Board.

EXECUTIVE BOARD’S AUTHORITY TO ISSUE OR BUY BACK SHARES

a) Authorized Capital 2018/I

By resolution of the General Meeting on May 3, 2018, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to 2,500,000.00 EUR on one or more occasions in the period to May 2, 2023 by issuing up to 2,500,000 new no-par value bearer shares in exchange for cash and/or non-cash contributions (Authorized Capital 2018/I). Shareholders are to be granted subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply shareholders’ subscription rights for one or more capital increases from Authorized Capital 2018/I,

(i) in order to exclude fractional amounts;
(ii) where this is necessary to grant subscription rights for new no-par value bearer shares of the Company to the bearers or creditors of bonds with conversion or option rights or obligations that were or will be issued by the Company or a direct or indirect affiliate thereof in the extent to which they would be entitled as shareholders following the exercise of the conversion or option rights or the fulfillment of the conversion or option obligations;

(iii) to issue shares in exchange for cash contributions where the issue price of the new shares is not significantly lower than the stock exchange price of the shares already listed within the meaning of Sections 203 (1) and (2), 186 (3) Sentence 4 AktG and the proportionate amount of the share capital attributable to the new shares issued with shareholders' subscription rights disapplied in accordance with Section 186 (3) Sentence 4 AktG does not exceed 10% of the share capital in total;
(iv) to issue shares in exchange for non-cash contributions, particularly for the purposes of – but without being limited to – the acquisition of parts of companies, equity investments in companies or other assets (including indirectly) or the servicing of bonds issued in exchange for non-cash contributions.

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

b) Contingent Capital 2018/I

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

c) Contingent Capital 2018/II

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

- Executive Board members may receive a maximum of 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 Article 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 shares of the Company and to sell repurchased shares in the cases set out in Section 71 AktG. By resolution of May 3, 2018, the General Meeting authorized the Executive Board, with the approval of the Supervisory Board, to purchase shares of the Company amounting to up to 10% of the share capital of the Company at the resolution date or – if lower – at the exercise date in the period up to and including May 2, 2023. Taken together with the other shares of the Company purchased and still held by the Company or attributable to the Company in accordance with Section 71a ff. AktG, the shares purchased under this authorization may not exceed 10% of the share capital of the Company at any time. The Executive Board may choose whether to purchase the treasury shares via the stock exchange or a public purchase offer addressed to all shareholders or a public invitation to all shareholders to submit offers for sale.

In addition to sale via the stock exchange or an offer to all shareholders, the General Meeting on May 3, 2018 resolved to authorize the Executive Board to utilize treasury shares for all permissible purposes, and, in particular, as follows:

(i) They may be withdrawn and the share capital of the Company reduced by the portion of the share capital attributable to the withdrawn shares.
(ii) They may be offered to third parties in exchange for non-cash contributions and transferred to such parties.
(iii)) They may be sold to third parties in exchange for cash payment if the price at which the shares of the Company are sold is not significantly lower than the stock exchange price of the Company's shares at the transaction date (Section 186 (3) Sentence 4 AktG). The proportionate amount of the share capital attributable to the number of shares sold under this authorization may not exceed 10%.
(iv) They may be used to service purchase obligations or rights for shares of the Company arising from and in connection with convertible bonds, bonds with warrants or profit participation rights with conversion rights or warrants issued by the Company or one of its subsidiaries.

Further details can be found in the authorization resolution.

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

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

STS Group AG has concluded no significant agreements that include provisions for the event of a change of control.

REMUNERATION AGREEMENTS CONCLUDED WITH MEMBERS OF THE EXECUTIVE BOARD OR EMPLOYEES IN CASE OF A TAKEOVER BID

There are no remuneration agreements of STS Group AG concluded with the members of the Executive Board or the employees in case of a takeover bid.

COMPENSATION REPORT

Compensation report of STS Group AG, Hallbergmoos, for the financial year from January 1 to December 31, 2018 (Remuneration report pursuant to the German Corporate Governance Code (GCGC) and the German Commercial Code (HGB))

COMPENSATION STRUCTURE FOR EXECUTIVE BOARD MEMBERS

The compensation of Executive Board members is measured in such a way that it is competitive on the market for highly qualified managers and offers incentives for successful and sustainable work in a corporate structure with a marked focus on performance and earnings. If requested by the Company, Executive Board members also assume or resign executive roles in affiliated companies. If an Executive Board member receives compensation for roles on the executive bodies of third-party enterprises, this is shown separately in each case below.

Executive Board compensation is reported in accordance with two different sets of rules: firstly, in accordance with the recommendations of the German Corporate Governance Code (GCGC) as amended on February 7, 2017 and secondly in accordance with the HGB taking account of the applicable accounting policies (DRS 17).

MAIN FEATURES OF THE COMPENSATION SYSTEM

The applicable compensation system contains fixed and variable components. It consists of

1. fixed compensation
2. fringe benefits
3. annual variable compensation
4. multi-annual variable compensation
5. D&O insurance

FIXED COMPENSATION

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

There is no agreement regarding any fixed compensation with STS Group AG for the Executive Board member Patrick Oschust. Patrick Oschust is in an unlimited employment relationship with mutares AG. Patrick Oschust receives his fixed compensation directly from mutares AG. mutares AG has concluded a supplementary agreement concerning the management service provided with STS Group AG in which inter alia reimbursement of the compensation by STS Group AG has been agreed.

FRINGE BENEFITS

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

ANNUAL VARIABLE COMPENSATION

The short-term variable compensation usually consists of a bonus (annual bonus). Its amount is individually limited for the individual Executive Board members and the actual amount is set by the Supervisory Board before the annual financial statements are approved. In doing so, the Supervisory Board takes account of the extent to which the Company has achieved its corporate targets in the respective financial year, which it sets, at its discretion, no later than the beginning of each financial year. The bonus is due for payment in the month following its being set.

With regard to the variable compensation of Patrick Oschust, the same process applies as to his fixed compensation. Patrick Oschust receives his variable compensation from mutares AG, which is refunded by STS Group AG via the settlement of management service fees.

MULTI-ANNUAL VARIABLE COMPENSATION

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

MUTARES SHARE OPTION PLAN 2016

The mutares share option plan 2016 is aimed at members of the management of mutares AG and its affiliated companies. The Annual General Meeting of the Company's former sole shareholder resolved to issue share options on June 3, 2016 to take account of the future commitment and future contribution to increasing share value of employees of the mutares Group and to allow them to participate in the increased value.

Stock options may, therefore, only be received by those employees, who are in an employment relationship that has not been terminated with mutares AG or a company affiliated with it at the time the share options are granted.

The share options can be exercised for the first time after a vesting period of four years from the respective issue date. The fact that the average, volume-weighted share price of the mutares share has exceeded the exercise price by a specific percentage during the last 20 trading days before the beginning of the respective exercise period also counts as a particular requirement for exercising the share options. The Executive Board may set additional individual performance targets for the beneficiaries, which contain inter alia a minimum price for the mutares share.

A share option has a term of six years from its respective issue date, subsequently share options that have not been effectively exercised will lapse without compensation. Share options will also usually lapse without compensation on receipt of termination of the employment relationship with a mutares Group company or on conclusion of a cancellation agreement unless a new employment relationship with a mutares Group company is established in a material and temporal connection with the termination or cancellation.

A limit is set in advance for the total amount of share options for the members of the management of mutares Group companies over the term of the option plan.

Executive Board members of STS Group AG were not offered any options from this share option plan in the financial years 2018 and 2017. Of the options granted in 2016, the Executive Board members Andreas Becker and Stephan Vrublovsky each received 15,000 options and the Executive Board member Patrick Oschust received 30,000 options. The options granted resulted in expenses from share-based payments of 7,550 EUR in relation to both Andreas Becker and Stephan Vrublovsky and of 15,100 EUR in relation to Patrick Oschust in 2018. All 60,000 options were still outstanding at the end of the reporting period.

At the time the options were granted, the fair value of the individual option amounted to 3.02 EUR at an exercise price of 8.83 EUR. At the end of the reporting period, the maximum contractual term of the individual options was still three years and ten months.

STS SHARE OPTION PLAN 2018

The share option program 2018 (Contingent Capital 2018/II of STS Group AG) is part of the Executive Board's variable compensation that is geared to sustainably positive corporate development of which a transparent and comprehensible system is the main element. The Company's economic success is based not least on its ability to attract qualified specialists and managers and encourage their long-term loyalty to the Company by means of a success-based compensation system. The share option program also provides an incentive to focus decisions on achieving the demanding, clearly defined performance targets for the Company. The compensation component is geared to increasing the market price of the share. The performance target for exercising subscription rights granted is reached when the closing price of the Company's share exceeds the market price of the STS Group share by a percentage specified in advance on the day the respective subscription rights are allocated on a total of 60 trading days in a period of twelve months following the granting of the respective subscription rights.

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

Members of the Executive Board of STS Group AG can receive up to 200,000 subscription rights in a maximum of five tranches over the term of share option program 2018. The Executive Board members were granted 24,500 options in total in financial year 2018. Of the total number of options, Stephan Vrublovsky and Patrick Oschust were each granted 7,000 options, which led to expenditure from share-based payments of 5,565 EUR in the financial year. Andreas Becker was granted 10,500 options, which resulted in expenses of 8,347.50 EUR in 2018. All 24,500 options from the share option program 2018 were still outstanding at the end of the reporting period.

At the time the options were granted, the fair value of the individual option amounted to 3.18 EUR at an exercise price of 18.77 EUR. As of December 31, 2018, the maximum contractual term of the individual options still amounted to six and a half years.

PARTICIPATION BONUS MUTARES

The members of the Executive Board are also entitled to a "participation bonus". Here the former sole shareholder mutares AG is solely responsible for the costs. In the course of the agreement, the Executive Board members Stephan Vrublovsky and Patrick Oschust each receive 1.2% and Andreas Becker 2.4% of the net proceeds mutares AG receives from its investment in the STS Group. Net proceeds are calculated as the difference between the investment proceeds and the cost from the investment. Investment proceeds specifically include dividend payments and transaction proceeds. The payments to the Executive Board members are made on a quarterly basis.

The "participation bonus" in the financial year was paid to the Executive Board members as follows: Andreas Becker 545 kEUR, Stephan Vrublovsky 273 kEUR and Patrick Oschust 273 kEUR. The monetary amounts have already been paid.

D&O INSURANCE

The members of the Executive Board are insured by the Company via a third-party financial loss insurance policy (D&O insurance) for a standard market sum insured. The agreed deductible equals the minimum deductible for Executive Board members specified in Section 93 (2) Sentence 3 AktG, as amended.

PENSION

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

EXECUTIVE BOARD CONTRACTS

Executive Board contracts of employment are prepared by the Supervisory Board of STS Group AG, negotiated with the respective Executive Board member and concluded following approval by the entire Supervisory Board. The Executive Board contracts with Andreas Becker and Stephan Vrublovsky were concluded for a period of over two years from the time they joined the Board. Andreas Becker's contract of employment ends on June 30, 2019. It may be canceled prematurely at any time subject to a notice period of three months to the end of the month. Stephan Vrublovsky's contract of employment ends on March 31, 2019. The appointment of Patrick Oschust in the STS Group AG Executive Board ends on June 30, 2019.

There is no contract of employment between Patrick Oschust and STS Group AG. Patrick Oschust is in a permanent employment relationship with mutares AG. mutares AG has concluded a supplementary agreement concerning the management service provided by Patrick Oschust with STS Group AG. The disclosures in the section "Takeover-related disclosures according to Section 289a and Section 315a HGB" must be noted in this context.

REVIEW AND/OR ADJUSTMENT OF COMPENSATION

The Supervisory Board shall review the compensation system for the Executive Board at regular intervals and, if applicable, shall devise proposals for enhancing or amending it. The Supervisory Board shall deal with these recommendations with care, shall use them as a basis for its decisions and they shall be decided by the full Board.

The Executive Board's compensation takes account inter alia of the tasks and performance of the respective Executive Board member and of the Executive Board as a whole, the achievement of corporate targets, the size and international character of the Company, its economic and financial situation, its future prospects, the economic environment, the size and structure of comparable enterprises and the compensation structure applicable otherwise in the STS Group. The Supervisory Board also tracks how the Executive Board compensation develops in comparison with other enterprises and in comparison, with the compensation structure applicable otherwise in the STS Group.

LIMIT ON SEVERANCE PAYMENTS

In the event of the contract of employment of Andreas Becker being terminated without good cause, a severance payment of a specific amount has been agreed as consideration for the fact that he is subsequently prohibited from competing with the Company. The agreed payment does not exceed the value of two years' fixed compensation (severance cap). This equates to a maximum actual value of 650 kEUR. The severance agreement shall not apply if the contract of employment is terminated at the request of the Executive Board member or for a reason for which he is responsible, or the Company waives the subsequent prohibition of competition. A severance cap depending on the remaining term of his contract of employment will be taken into account when concluding Executive Board contracts in future.

The contract of employment of the other two Executive Board members does not envisage – apart from for good cause – any premature termination, meaning that severance payments and any cap thereof are not regulated.

There are no agreements of STS Group AG concluded with the members of the Executive Board in case of a change of control.

LOANS TO EXECUTIVE BOARD MEMBERS

Loans or advances were not granted to Executive Board members of STS Group AG either in financial year 2018 or in the prior year. Contingencies in their favor were not entered into either.

WITHDRAWAL OF AN EXECUTIVE BOARD MEMBER IN THE PRIOR YEAR

The sole Executive Board member Dr. Reiter withdrew from the Board effective March 9, 2017. As a freelance consultant of mutares AG, Dr. Reiter was delegated by mutares to the Executive Board and was compensated solely by the former sole shareholder. Following his withdrawal, the Company is not liable for compensation or benefits – neither to mutares AG nor to the former sole Executive Board member.

EXECUTIVE BOARD COMPENSATION IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The following tables comply with the recommendations of the German Corporate Governance Code (GCGC) as amended on February 7, 2017 and specify the individualized compensation of the individual Executive Board members. The actual compensation paid is not shown in the table "Benefits granted" rather the table shows the target values (the amount of compensation if targets are achieved 100%) of the compensation components, which were granted in financial year 2018. The value of performance-related share-based compensation components equals their fair value at the time they are granted. The minimum and maximum values for the target values are also specified. Actual compensation paid in financial year 2018 is shown in the table "Inflows". It must also be noted that the figures for Dr. Reiter included in the following tables refer to the period until he stopped being the sole Executive Board member on March 9, 2017, which were borne by mutares AG.

BENEFITS GRANTED PURSUANT TO GCGC

The following table shows the benefits granted to members of the Executive Board for financial year 2018, which must be specified in accordance with GCGC.

BENEFITS GRANTED

	Andreas Becker CEO since February 20, 2017				Stephan Vrublovsky CFO since February 20, 2017			
in kEUR	2018	2018 (min)	2018 (max)	2017	2018	2018 (min)	2018 (max)	2017
Fixed compensation	325	325	325	163	240	240	240	160
Fringe benefits	22	22	22	16	13	13	13	8
Total	**347**	**347**	**347**	**179**	**253**	**253**	**253**	**168**
Annual variable compensation	325	0	325	276	200	0	200	170
Mulit-annual variable compensation	557	546	546	8	283	273	273	8
Share based payment (mutares AOP 2016)	8	0	[1]	0	8	0	[1]	8
Share Option Plan 2018	4	0	[1]	–	3	0	[1]	–
IPO Participation Bonus (cost bearer = mutares AG)	546	546	546	–	273	273	273	–
Total	**882**	**546**	**871**	**284**	**483**	**273**	**473**	**178**
Pension commitment	0	0	0	0	0	0	0	0
Total compensation	**1,229**	**893**	**1,218**	**462**	**736**	**526**	**726**	**346**

	Patrick Oschust COO since July 27, 2017				Dr. Albrecht Reiter Sole Director until March 9, 2017		Total	
in kEUR	2018	2018 (min)	2018 (max)	2017	2018	2017	2018	2017
Fixed compensation	163	163	163	66	–	1	728	389
Fringe benefits	25	25	25	8	–	0	60	32
Total	**188**	**188**	**188**	**74**	**–**	**1**	**787**	**421**
Annual variable compensation	189	0	189	36	–	0	714	482
Mulit-annual variable compensation	291	273	273	6	–	0	1,131	22
Share based payment (mutares AOP 2016)	15	0	[1]	6	–	0	30	22
Share Option Plan 2018	3	0	[1]	–	–	0	10	0
IPO Participation Bonus (cost bearer = mutares AG)	273	273	273	–		0	1,091	0
Total	**480**	**273**	**462**	**42**	**–**	**0**	**1,846**	**503**
Pension commitment	0	0	0	0	–	0	0	0
Total compensation	**668**	**461**	**650**	**116**	**–**	**1**	**2,633**	**924**

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

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

INFLOW PURSUANT TO GCGC

The inflow for the fixed annual salary, fringe benefits, short-term variable compensation and multi-annual variable compensation in or for financial year 2018 is shown in the following table.

INFLOW

	Andreas Becker CEO since February 20, 2017		Stephan Vrublovsky CFO since February 20, 2017		Patrick Oschust COO since July 27, 2017		Dr. Albrecht Reiter Sole Director until March 9, 2017		Total	
in kEUR	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Fixed compensation	325	163	240	160	163	66	–	1	728	389
Fringe benefits	22	16	13	8	25	8	–	0	60	32
Total	**347**	**179**	**253**	**168**	**188**	**74**	**–**	**1**	**787**	**421**
Annual variable compensation	253	171	156	160	98	36	–	0	507	367
Mulit-annual variable compensation	546	0	273	0	273	0	–	0	1,091	0
Share based payment (mutares AOP 2016)	0	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 AG)	546	0	273	0	273	0	–	0	1,091	0
Total	**799**	**171**	**429**	**160**	**371**	**36**	**–**	**0**	**1,598**	**367**
Pension commitment	0	0	0	0	0	0	–	0	0	0
Total compensation	**1,146**	**350**	**681**	**328**	**559**	**110**	**–**	**1**	**2,386**	**788**

EXECUTIVE BOARD COMPENSATION ACCORDING TO HGB

The total emoluments of the Executive Board in accordance with Section 314 (1) No. 6a Sentence 1 to 4 are shown in the following overview. The disclosures on the share option plan reflect the fair value at the time options are granted. Please refer to the section "Multi-year variable remuneration" for the individualized breakdown of the IPO "participation bonus" paid by mutares AG.

GERMAN COMMERCIAL CODE (HGB)

	Andreas Becker CEO since February 20, 2017		Stephan Vrublovsky CFO since February 20, 2017		Patrick Oschust COO since July 27, 2017		Dr. Albrecht Reiter Sole Director until March 9, 2017		Total	
in kEUR	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Short-term compensation										
Fixed compensation	347	179	253	168	188	74	0	0	787	420
Variable performance-related compensation	253	171	156	160	98	36	0	0	507	367
Total	**600**	**350**	**409**	**328**	**286**	**110**	**0**	**0**	**1,295**	**787**
Long-term compensation										
Long-term performance-related compensation	12	8	10	8	18	6	0	0	40	22
Total	**12**	**8**	**10**	**8**	**18**	**6**	**0**	**0**	**40**	**22**
Total compensation	**612**	**357**	**419**	**336**	**304**	**116**	**0**	**0**	**1,334**	**809**

COMPENSATION STRUCTURE FOR SUPERVISORY BOARD MEMBERS

Article 15 of the Articles of Association of STS Group AG regulates the Supervisory Board's compensation. The Annual General Meeting decides on the level of compensation. This last took place on May 3, 2018.

The compensation system for the Supervisory Board applied since June 2018 envisages a fixed compensation of 50 kEUR per member for each full year of membership of the Board. The Chairman of the Supervisory Board receives twice the fixed compensation of an ordinary member, the Deputy Chairman is entitled to one and a half times this amount. Members who sit on the Supervisory Board during only part of a financial year or who hold the office of Chairman or Deputy Chairman will receive the compensation in question pro rata temporis.

The Supervisory Board did not form any committees in the reporting year. In view of the size of the Supervisory Board, namely three members, the Company does not consider this necessary. The Supervisory Board members are included in a third party financial loss insurance policy for Board members (D&O insurance) maintained in the interests of the Company. The Company has departed from the deductible recommended in the GCGC. The Company's D&O insurance does not envisage a deductible of this kind for Supervisory Board members. The Company is of the opinion that a deductible is not a suitable means of influencing the motivation and responsibility of Supervisory Board members positively. The deductible would not be appropriate either given that the Supervisory Board members do not receive variable compensation and neither do they participate in any positive corporate development.

EMOLUMENTS OF THE SUPERVISORY BOARD

In financial year 2018, the Supervisory Board's actual fixed remuneration amounted to 131 kEUR in total (prior year: 0 EUR). There were other benefits totaling 5 kEUR.

In the prior year and in the reporting year until the compensation system came into effect, the Supervisory Board was not compensated separately by the Company. Mr. Laik and Mr. Schleede fulfilled their duties as members of the Board on secondment of the majority shareholder mutares AG, Mr. Maierhofer as an independent member of the Supervisory Board.

The total compensation of the Supervisory Board is divided 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 since May 3, 2018		Dr. Wolf Cornelius Member of the Supervisory Board until May 2, 2018		Total	
in kEUR	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Compensation	58	0	44	0	29	0	0	0	131	0
Other benefits	0	0	0	0	5	0	0	0	5	0
Total	**58**	**0**	**44**	**0**	**34**	**0**	**0**	**0**	**136**	**0**
Pension commitment	0	0	0	0	0	0	0	0	0	0
Total compensation	**58**	**0**	**44**	**0**	**34**	**0**	**0**	**0**	**136**	**0**

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

In the corporate governance report, STS Group AG outlines the working methods of the Executive and Supervisory Boards in accordance with Section 3.10 of the GCGC. The corporate governance report is publicly accessible at: https://ir.sts.group/websites/stsgroup/English/5350/corporate-governance-report.html.

CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289F HGB

The Corporate Governance Declaration in accordance with Section 289 f HGB and Section 315 d is publicly accessible at: https://ir.sts.group/websites/stsgroup/English/5300/corporate-governance.html.

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

In December 2018, the Executive Board and Supervisory Board of STS Group AG provided the declaration required under Section 161 of the German Stock Corporation Act (AktG) and made it publicly available on the Company's website at https://ir.sts.group/websites/stsgroup/English/5300/corporate-governance.html.

DEPENDENCE REPORT

With respect to transactions listed in the report on relationships with affiliated companies for the reporting period from January 1 to December 31, 2018, and according to the circumstances known to us at the time when the transactions were carried out or omitted, our Company, STS Group AG, received appropriate consideration for every transaction. Other measures were not performed or omitted in the reporting year at the instigation of or in the interests of the controlling company or a company affiliated to the controlling company.

NON-FINANCIAL DECLARATION

STS Group AG complies with the obligation to provide a non-financial declaration (NFD) in accordance with Sections 315b, 289b HGB by publishing a separate non-financial Group report on the STS Group AG website at https://ir.sts.group/websites/stsgroup/English/3100/financial-reports.html.

In addition to a description of the business model, the NFD also contains information on the following aspects if these are required to understand the business performance, the business results, the Group's situation and the effects of business performance on these aspects:

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

STS GROUP AG

In addition to the reporting on the STS Group, we provide the following explanations of the development of STS Group AG.

STS Group AG is the parent company of the STS Group and carries out the corresponding management and head office functions. STS Group AG assumes key, overarching tasks, such as Group-wide finance and accounting, the provision of management services in the areas of corporate acquisitions and divestments, personnel management, improvements to processes and strategic corporate development as well as global corporate and marketing communication. STS Group AG holds shares in 14 companies directly or indirectly. As of December 31, 2018, 14 staff were employed at STS Group AG (2017: 6). The economic circumstances of STS Group AG largely matched those of the STS Group, as described in the basis of the Group and in the economic report.

In contrast to the consolidated financial statements, STS Group AG does not prepare its annual financial statements in accordance with the International Financial Reporting Standards ("IFRS") but in accordance with the provisions of the German Commercial Code ("HGB"). The complete annual financial statements are published separately at https://ir.sts.group/websites/stsgroup/English/3100/financial-reports.html.

For the STS Group AG, revenue from management and service fees and dividend payments of the subsidiaries represent key performance indicators.

RESULTS OF OPERATIONS

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

INCOME STATEMENT OF STS GROUP AG IN ACCORDANCE WITH HGB

in kEUR	2018	2017
Revenues	9,643	3,286
Other operating income	439	17
Personnel expenses	–2,807	–1,320
Amortization of intangible assets and depreciation of tangible assets	–118	–32
Other operating expense	–12,409	–2,274
Income from equity investments	2,742	0
Other interest and similar income	389	173
Other interest and similar expense	–1,579	–371
Taxes on income	–51	–17
Profit after taxes on income	**–3,751**	**–538**
Other taxes	–2	0
Net loss for the year	**–3,752**	**–538**
Retained accumulated losses/profits carried forward	–523	15
Accumulated losses carried forward	**–4,276**	**–523**

In financial year 2018, **revenue** rose by 6,357 kEUR to 9,643 kEUR due to higher allocations for management and corporate services charged to subsidiaries.

Other operating income increased by 422 kEUR to 439 kEUR, which was largely attributable to the reversal of the provision for bonus payments of 363 kEUR from 2017.

As a result of an increase in the number of staff at the head office in Hallbergmoos, **personnel expenses** rose by 1,487 kEUR in financial year 2018 to 2,807 kEUR, reflecting the ongoing professionalization of organizational structures and their orientation towards the Group's internationalization strategy, which did not exist in this form in the previous year.

Other operating expenses increased by 10,135 kEUR to 12,409 kEUR. Of this increase, 9,163 kEUR was attributable to legal and consulting costs and the cost of preparing and auditing the annual financial statements and costs payable to mutares, largely as a result of the IPO in June 2018. Furthermore, recruitment costs rose by 316 kEUR to 450 kEUR due to the development of head office functions. This also contains Supervisory Board remuneration of 131 kEUR for the first time in the reporting year.

Income from equity investment totaled 2,742 kEUR in the reporting year and is the result of dividend payments from two subsidiaries.

Interest and similar expenses increased by 1,208 kEUR to 1,579 kEUR. This rise is largely attributable to the commission payment of 960 kEUR to the syndicate bank that assisted with the IPO and an increase in interest expenses to affiliates from 371 kEUR to 619 kEUR.

NET ASSETS AND FINANCIAL POSITION

BALANCE SHEET OF STS GROUP AG IN ACCORDANCE WITH HGB

	December 31,	
in kEUR	2018	2017
Assets		
Fixed assets		
Intangible assets	944	275
Tangible assets	236	173
Financial assets	15,190	13,274
Current assets		
Receivables and other assets	9,391	7,211
Cash and cash equivalents	10,922	991
Prepaid expenses	**116**	**54**
Total assets	**36,799**	**21,978**
Equity and liabilities		
Share Equity	**25,260**	**1,122**
Provisions		
Provision for taxation	17	17
Other provisions	2,532	580
Liabilities		
Trade payables	1,653	1,063
Liabilities to affiliated companies	7,208	19,029
Other liabilities	129	168
Total equity and liabilities	**36,799**	**21,978**

At 36,799 kEUR, **total assets** were up 14,821 kEUR year-on-year.

Over the course of 2018, **fixed assets** increased by 2,648 kEUR to 16,370 kEUR. This was due to the 1,915 kEUR rise in financial assets, largely as a result of extending new loans to subsidiaries. Furthermore, intangible assets increased by 669 kEUR to 944 kEUR as a result of investments relating to the extension of the consolidation software in order to comply with the requirements for Group-wide finance and accounting.

The increase in **receivables and other assets** by 2,180 kEUR to 9,391 kEUR was largely attributable to receivables from affiliated companies of 7,883 kEUR (December 31, 2017: 2,059 kEUR) and claims for repayment of value added tax of 1,429 kEUR (December 31, 2017: 78 kEUR). This was offset by the repayment of the loan to shareholders of 5,000 kEUR.

Cash and cash equivalents rose by 9,931 kEUR to 10,922 kEUR, mainly due to IPO proceeds.

Equity increased by 24,138 kEUR to 25,260 kEUR in the reporting year, mainly as a result of the IPO in June 2018. The equity ratio was 68.6% as of the balance sheet date (December 31, 2017: 5.1%). Here, STS Group AG held 4,763 own shares in its portfolio as at December 31, 2018. In accordance with the proposal by the management, the balance sheet loss of 4,276 kEUR is to be carried forward to new account.

Provisions rose by 1,952 kEUR compared to December 31, 2017 to 2,549 kEUR, mainly due to an increase in provisions for the cost of preparing and auditing the annual financial statements, outstanding invoices and higher personnel provisions.

Liabilities fell by 11,270 kEUR to 8,990 kEUR due to the repayment of loans granted to three subsidiaries.

OPPORTUNITIES AND RISKS

The business development of STS Group AG is largely subject to the same opportunities and risks as the STS Group. In principle, STS Group AG participates in the risks of its subsidiaries directly and indirectly in line with its ownership interest. In addition, contractual contingencies (in particular financing) from relationships with subsidiaries may result in charges and write-downs on shares in affiliated companies.

As the parent company, STS Group AG is included in the STS Group's Group-wide risk management system. The description of the internal control system for STS Group AG required by Section 289 (4) HGB is provided in Chapter "Risk and opportunity report".

FORECAST

The expectations for STS Group AG are reflected in the Group's forecast because of its interdependence with the subsidiaries. The results of the subsidiaries have an indirect effect on the results of STS Group AG via income from equity investments. The company expects EBITDA to rise significantly in 2019. The growth in earnings is mainly based on the fact that earnings in 2018 were significantly burdened by special effects in connection with the IPO. Furthermore, STS Group AG expects slightly higher dividend payments from its subsidiaries in 2019.

General Risk Disclaimer

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

Hallbergmoos, March 31, 2019

Andreas Becker (CEO) **Stephan Vrublovsky (CFO)** **Patrick Oschust (COO)**

3 — CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

in kEUR	Note	2018	2017 [1]
Revenues	2.1	401,228	309,993
Increase or decrease of finished goods and work in progress	2.2	5,790	2,450
Other operating income	2.3	4,474	55,735
Material expenses	2.4	−233,790	−190,555
Personnel expenses	2.5	−103,902	−75,619
Other operating expenses	2.6	−61,921	−46,967
Earnings from operations before depreciation and amortization expenses (EBITDA)		**11,879**	**55,037**
Depreciation and amortization expenses	2.7	−13,208	−8,177
Earnings before interest and income taxes (EBIT)		**−1,329**	**46,860**
Interest and similar income	2.8	89	56
Interest and similar expenses	2.8	−2,102	−3,072
Earnings before income taxes		**−3,342**	**43,844**
Income taxes	2.9	−1,461	3,121
Net income		**−4,803**	**46,965**
Thereof attributable to: Owners of STS Group AG		−4,803	46,965
Earnings per share in EUR (undiluted)	2.10	**−1.20**	**939.30**
Earnings per share in EUR (diluted)		**−1.20**	**939.30**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

in kEUR	2018	2017 [1]
Net income	**–4,803**	**46,965**
Currency translation differences	–679	–610
Items that may be reclassified subsequently to profit or loss	**–679**	**–610**
Remeasurements of defined benefit plans, net of tax	490	–272
Items that will not be reclassified to profit or loss	**490**	**–272**
Other comprehensive income	**–189**	**–882**
Total comprehensive income	**–4,992**	**46,083**
Thereof attributable to: Owners of STS Group AG	–4,992	46,083

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018

ASSETS

in kEUR	Note	December 31, 2018	December 31, 2017 [1]
Intangible assets	3.1	25,565	24,567
Property, plant and equipment	3.2	78,664	79,049
Contract assets	3.8	91	0
Other financial assets	3.3	246	267
Income tax receivables	3.4	97	1,579
Other non-financial assets	3.5	3,008	768
Deferred tax assets	3.6	7,953	8,564
Non-current assets		**115,624**	**114,794**
Inventories	3.7	29,934	28,124
Contract assets	3.8	5,014	0
Trade and other receivables	3.9	81,050	99,335
Other financial assets	3.3	1,242	13,051
Income tax receivables	3.4	1,162	0
Other non-financial assets	3.5	6,649	3,813
Cash and cash equivalents	3.10	31,169	15,836
Restricted cash	3.10	2,000	0
Current assets		**158,220**	**160,159**
Total assets		**273,844**	**274,953**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

EQUITY AND LIABILITIES

in kEUR	Note	December 31, 2018	December 31, 2017[1]
Share capital	3.11	6,000	50
Capital reserve	3.11	22,193	1,615
Retained earnings	3.11	55,266	59,802
Other reserves	3.11	–991	–801
Own shares at acquisition cost	3.11	–59	0
Equity attributable to owners of STS Group AG		82,409	60,666
Total equity		**82,409**	**60,666**
Liabilities to banks	3.12	4,901	9,663
Third party loans	3.12	5,733	6,645
Liabilities from finance leases	3.12	2,471	819
Other financial liabilities	3.12	46	0
Contract liabilities	3.8	1,120	0
Trade and other payables		768	642
Provisions	3.13	20,133	21,116
Deferred tax liabilities	3.6	3,999	6,982
Non-current liabilities		**39,171**	**45,867**
Liabilities to banks	3.12	9,040	7,094
Liabilities from factoring	3.12	36,211	37,159
Third party loans	3.12	3,222	1,097
Liabilities from finance leases	3.12	723	237
Other financial liabilities	3.12	29	26
Contract liabilities	3.8	4,669	0
Trade and other payables		69,963	83,846
Provisions	3.13	1,129	3,397
Income tax liabilities	3.14	143	1,673
Other non-financial liabilities	3.15	27,135	33,891
Current liabilities		**152,264**	**168,420**
Total equity and liabilities		**273,844**	**274,953**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

	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, 2017[1]	**50,000**	**50**	**1,594**	**14,547**	**82**	**0**	**82**	**0**	**16,273**
Equity-settled share-based payment	0	0	21	0	0	0	0	0	21
Income after income tax expense	0	0	0	46,965	0	0	0	0	46,965
Dividends paid	0	0	0	–1,710	0	0	0	0	–1,710
Other comprehensive income	0	0	0	0	–272	–610	–883	0	–883
Balance at December 31, 2017[1]	**50,000**	**50**	**1,615**	**59,802**	**–190**	**–610**	**–801**		**60,666**
Balance at January 1, 2018 before adjustments IFRS 9 and IFRS 15[1]	**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**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

in kEUR	Note	2018	2017[1]
Net income		**–4,803**	**46,965**
Income taxes	2.9	1,461	–3,121
Net interest expense	2.8	2,013	3,016
Depreciation of property, plant and equipment	2.7	9,565	6,105
Amortization of intangible assets	2.7	3,643	2,072
Gain/loss on disposal of property, plant and equipment		–27	146
Bargain purchase gain from business combination		0	–46,957
Other non-cash income and expenses		92	–271
Inventories	3.7	–5,690	–2,623
Contract assets	3.8	997	0
Trade and other receivables	3.9	16,679	–15,603
Contract liabilities	3.8	3,775	0
Trade and other payables		–13,884	11,069
Change in net working capital		**1,877**	**–7,157**
Other receivables		8,059	–10,449
Other liabilities		–6,703	3,582
Provisions		–3,251	–1,685
Income taxes paid		–4,823	–913
Net cash flow from operating activities		**7,103**	**–8,667**
Proceeds from sale of property, plant and equipment		144	186
Proceeds from sale of intangible assets		0	387
Disbursements for acquisition of a business, net of cash acquired		0	–5,767
Disbursements for investments in property, plant and equipment		–7,813	–9,593
Disbursements for investments in intangible assets		–4,210	–2,443
Disbursements for cash deposits	3.10	–2,000	0
Net cash flow from investing activities		**–13,879**	**–17,230**
Proceeds from capital increase, cash based		27,950	0
Costs of capital procurement		–1,480	0
Proceeds from share premium services		–59	0
Dividends paid		0	–1,710
Proceeds from borrowings		12,112	8,565
Repayments of borrowings		–13,513	–2,853
Repayments of finance lease liabilities		–421	0
Proceeds from factoring (+)/disbursements for factoring (–)		–1,356	36,437
Interest paid		–1,098	–1,256
Interest received		0	22
Net cash flow from financing activities		**22,135**	**39,204**
Effect of currency translation on cash and cash equivalents		**–26**	**–80**
Net increase/decrease in cash and cash equivalents		**15,333**	**13,228**
Cash and cash equivalents at the begining of the period		**15,836**	**2,608**
Cash and cash equivalents at the end of the period		**31,169**	**15,836**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEGMENT REPORT

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

	Acoustics		Plastics		China		Materials		Corporate/ Consolidation		Group	
in kEUR	2018	2017[1]	2018	2017[1]	2018	2017[1]	2018	2017[1]	2018	2017[1]	2018	2017[1]
Revenue – third parties	124,384	132,636	198,530	137,559	48,631	25,298	29,683	14,501	0	0	401,228	309,993
Revenue – inter-segment	0	0	52	122	0	0	10,325	5,490	−10,377	−5,612	0	0
Revenue segment	**124,384**	**132,636**	**198,582**	**137,681**	**48,631**	**25,298**	**40,008**	**19,991**	**−10,377**	**−5,612**	**401,228**	**309,993**
EBITDA	−2,998	3,984	11,380	680	6,466	3,855	1,713	994	−4,681	45,524	11,879	55,037
Adjusted EBITDA	−1,241	2,725	16,677	6,368	7,160	4,145	1,927	1,249	−846	−321	23,677	14,167
Adjusted EBITDA in % of revenue	−1.0%	2.1%	8.4%	4.6%	14.7%	16.4%	4.8%	6.2%	8.2%	5.7%	5.9%	4.6%
Depreciation and amortization	−4,281	−2,730	−6,802	−4,145	−730	−633	−1,277	−638	−118	−32	−13,208	−8,177
EBIT	−7,279	1,254	4,578	−3,465	5,736	3,222	436	356	−4,799	45,490	−1,329	46,860
CAPEX	3,835	11,905	3,095	42,656	3,808	14,846	436	9,178	849	480	12,023	79,065

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

The table is part of the notes to the consolidated financial statements, for more information, please refer to Section 4.2 Segment reporting in the notes to the consolidated financial statements.

4 — NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 — GENERAL DISCLOSURES

STS Group AG (also referred to as the "Company" and together with its subsidiaries as the "Group") is a listed stock corporation based in Germany with its registered office at Zeppelinstraße 4, 85399 Hallbergmoos. It is entered in the commercial register of the Local Court of Munich under HRB 231926. Until March 9, 2017, the Company traded under the name mutares Holding-17 AG and was based in Weißenfels, Germany.

The majority shareholder of STS Group AG is mutares AG, Munich, Germany.

The Company has been listed in the Regulated Market of the Frankfurt Stock Exchange (Prime Standard) since June 1, 2018. Its WKN (securities identification number) is A1TNU6 and its ISIN (International Securities Identification Number) is DE000A1TNU68. A total of 2,300,000 shares in STS Group AG were offered in connection with the listing. Of this amount, 1,000,000 new shares derived from an STS Group AG cash capital increase, a further 1,000,000 were placement shares and 300,000 were greenshoe shares from the holding of the previous sole shareholder mutares AG. The shares were offered at a bid price of 24.00 EUR per share. STS Group AG's share capital amounted to 6,000,000 no-par value shares at the time of the listing.

STS Group AG's consolidated financial statements as of December 31, 2018, cover STS Group AG and its subsidiaries. The Group is a globally leading system supplier of interior and exterior parts for commercial vehicles. The Group develops, produces and delivers products and solutions for acoustic and thermal insulation (called "soft trim products") and components of plastic or composite material (called "hard trim products") for the automotive and truck industry.

The Executive Board prepared the consolidated financial statements on March 31, 2019. The adjustment period ended on this date.

1.1 BASIS OF PREPARATION

The consolidated financial statements for the financial year ending on December 31, 2018, were prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as applicable in the European Union (EU) and in accordance with Section 315e (1) of the German Commercial Code (HGB). The Group therefore applies all IFRS published by the IASB and interpretations issued by the IFRS Interpretations Committee (IFRIC), which were effective as of December 31, 2018, adopted by the EU and applicable to the Group. The term IFRS also refers to all valid International Accounting Standards (IAS) and all interpretations and amendments of the International Financial Reporting Standards.

The Group's financial year comprises twelve months and ends on December 31 each.

The consolidated financial statements are prepared in euro (EUR). All amounts are rounded up or down to thousand euro (kEUR) in accordance with commercial rounding unless specified otherwise. Totals in tables are calculated on the basis of exact figures and rounded to kEUR. The Group's consolidated financial statements were prepared in accordance with uniform accounting policies and principles of consolidation for all the reporting periods shown. The consolidated financial statements were prepared on the basis of the historical cost principle, except certain financial assets and liabilities (including derivative financial instruments) and share-based payments, which were measured 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 end of the reporting period. If assets and liabilities have both current and non-current components, they are broken down into these different components and recognized as current and non-current assets or liabilities according to the structure of the statement of financial position. The consolidated income statement is prepared in line with the nature of expense method.

1.2 FAIR VALUE MEASUREMENT IN ACCORDANCE WITH IFRS 13

The fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction on a principal market at the measurement date under current market conditions (e.g. an exit price) regardless of whether the price is directly observable or estimated using another measurement process.

In accordance with IFRS 13 "Fair Value Measurement", a fair value hierarchy was specified. The fair value hierarchy divides the input factors used in the measurement techniques to measure the fair value into three levels:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.
- **Level 2:** Inputs other than quoted prices from Level 1 that are directly observable or can be indirectly derived for the asset or liability.
- **Level 3:** Unobservable inputs for the asset or liability.

In this connection, the Group determines whether transfers took place between the hierarchy levels at the end of the respective reporting period. Share-based payment components are measured at fair value but do not fall within the scope of IFRS 13.

1.3 PRINCIPLES OF CONSOLIDATION

All subsidiaries, which STS Group AG controls according to the provisions of IFRS 10 "Consolidated Financial Statements", are included in the consolidated financial statements and fully consolidated. The Group obtains control when it can exert power over the investee, is exposed to variable returns from the investment and has the ability to use its power over the investee to affect the amount of the returns. STS Group AG reviews control again if facts and circumstances indicate that one or more of the above control criteria have changed.

Intragroup transactions, balances and intragroup gains 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 a subsidiary acquired or sold during the year are recognized in the consolidated income statement and consolidated statement of comprehensive income with effect from the actual acquisition date or up to the actual disposal date.

Scope of consolidation

As of December 31, 2018, the scope of consolidation comprised the parent company and 14 (prior year: 13) fully consolidated subsidiaries. The change in the reporting period resulted from the formation of a new subsidiary. Besides the parent company, two additional companies were based in Germany and twelve companies were based abroad.

As of December 31, 2018, the scope of consolidation comprised STS Group AG and the following fully consolidated subsidiaries:

		Ownership interest in %	
Company	**Domicile**	**December 31, 2018**	**December 31, 2017**
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	–
STS MCR Holding SAS	Tournon, France	100	100
MCR SAS	Tournon, France	100	100

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

Business combinations and goodwill

Business combinations are accounted for using the purchase method in accordance with IFRS 3 "Business Combinations". The consideration transferred in an acquisition corresponds to the fair value of the assets given up, the equity instruments issued, and the liabilities incurred or assumed as of the transaction date. In addition, it includes the fair values of any recognized assets or liabilities resulting from a contingent consideration agreement. Acquisition-related costs are recognized as expenses when incurred. On initial consolidation, identifiable assets, liabilities and contingent liabilities from a business combination are measured at their fair values at the acquisition date.

The value resulting from the excess of the acquisition costs, the amount of non-controlling interests in the acquiree and the fair value of any previously held equity interests at the acquisition date over the Group's share in the net assets measured at fair value is reported as goodwill and tested for impairment at least annually. If the acquisition costs are lower than the net assets of the acquired subsidiary measured at fair value, the difference is recognized directly in the consolidated income statement after another review.

The deferred taxes required by IAS 12 "Income Taxes" were recognized on temporary differences from consolidation.

Acquisitions

In the last financial year on June 30, 2017, the Group acquired all capital shares of the Dolmen Group consisting of the five legal entities STS Composites France SAS, MCR SAS, STS Composites Germany GmbH, Inoplast Trucks S.A. de C.V. and STS Plastics Co., Ltd. At the acquisition date, the purchase price amounted to 10,630 kEUR and was divided as follows:

in kEUR	Purchase price
Intangible assets	19,420
Land and buildings	20,098
Technical equipment and machinery	20,091
Other non-current assets	3,701
Non-current assets	**63,310**
Inventory	12,047
Trade and other receivables	48,871
Other current assets	7,703
Current assets	**68,621**
Other non-current liabilities	–13,911
Deferred tax liabilities	–2,878
Non-current liabilities	**–16,789**
Current liabilities	**–62,547**
Net assets	**52,595**
Bargain purchase gain	**41,965**
Total purchase consideration	**10,630**

There was no new information in the financial year 2018, with regard to the provisional purchase price for the Dolmen acquisition as of December 31, 2017. In this respect, the provisional purchase price allocation presented in the consolidated financial statements as of December 31, 2018, equals the final purchase price allocation as of December 31, 2017.

In addition, the Group acquired all capital shares of the Opus Group consisting of STS Brasil Ltda. (formerly Minas Têxteis – Fabricação de Peças e Partes Automotivas Ltda.) and STS Brazil Holding GmbH on September 30, 2017. At the acquisition date, the purchase price amounted to 2,684 kEUR and was divided as follows:

in kEUR	Purchase price
Land and buildings	3,485
Technical equipment and machinery	3,932
Other non-current assets	172
Non-current assets	**7,589**
Inventory	250
Trade and other receivables	793
Other current assets	924
Current assets	**1,967**
Deferred tax liabilities	–1,003
Non-current liabilities	**–1,003**
Current liabilities	**–877**
Net assets	**7,676**
Bargain purchase gain	**4,992**
Total purchase consideration	**2,684**

1.4 CURRENCY TRANSLATION

Functional currency and reporting currency

The consolidated financial statements were prepared on the basis of the functional currency concept. Functional currency is the primary currency of the economic environment in which STS Group AG operates. It is the euro, which is also the presentation currency of the consolidated financial statements. The functional currency of the subsidiaries is usually the local currency of the economic environment in which the subsidiaries operate independently. The exceptions to this rule are the Polish and Mexican subsidiaries, whose functional currencies are the prevailing currencies for their independent operations in their primary economic environments. The functional currency for the Polish subsidiary is the euro, for the Mexican subsidiary the US dollar, for the Brazilian subsidiary the real and for the Chinese subsidiary the renminbi yuan.

Transactions and balances

In the financial statements of individual Group companies, transactions in foreign currencies are translated into the functional currency using the exchange rate applicable at the time of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency at average rates at the end of the reporting period (closing rates). Non-monetary items that are measured in relation to their historical cost in a foreign currency are translated using the exchange rates at the date of the original transaction. Foreign currency gains and losses resulting from these transactions are recognized in the consolidated income statement under other operating income or other operating expenses. This process also applies to the translation of the Mexican subsidiary from the Mexican peso into the functional currency the US dollar and for the Polish subsidiary from the Polish zloty into the functional currency the euro. When preparing the consolidated financial statements, the assets and liabilities of foreign subsidiaries whose functional currency is not the euro are translated into euro at the exchange rates applicable at the end of the reporting period. Income and expenses are translated at the average exchange rate in the period unless the exchange rates are subject to considerable fluctuation during the period. In this case, the exchange rates at the date of the transaction are used. Translation differences from the translation of currencies into the Company's functional currency are recognized directly in other comprehensive income in equity until the subsidiary is disposed of.

Goodwill arising on the acquisition of a foreign operation and any adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rate at the end of the reporting period.

The exchange rates used for currency translation were as follows:

		Spot rate		Average rate	
1 EUR in	Code	December 31, 2018	December 31, 2017	2018	2017
Brazil	BRL	4.444	3.973	4.421	3.823
China	CNY	7.875	7.804	7.842	7.811
Mexico	USD	1.145	1.199	1.138	1.176

2 — NOTES ON THE CONSOLIDATED INCOME STATEMENT

2.1 REVENUE

In the financial year 2018, the Group generated revenue of 401,228 kEUR (2017: 309,993 kEUR), which is broken down as follows:

in kEUR	2018	2017
Revenues from sales	399,384	309,557
Revenues from services	4,203	1,531
Revenue deductions	−2,359	−1,095
Revenues	**401,228**	**309,993**

In the financial year 2018, the Group expanded its business activities on the heels of the acquisitions it made. This was the reason for the rise in revenue. It has to be taken into account that the revenue was consolidated for a full year for the first time in the financial year 2018 and was considered for the comparative period only from the time of acquisition.

Revenue development by region and product group is described in the segment reporting in accordance with IFRS 8, please refer to Section 4.2. All sales recognized as revenue resulted from revenue from contracts with customers.

2.2 INCREASE OR DECREASE OF FINISHED GOODS AND WORK IN PROGRESS

The changes in inventories in the financial year 2018 reflected the change in work in progress and unfinished services as well as finished goods and goods for resale.

2.3 OTHER OPERATING INCOME

in kEUR	2018	2017
Capitalized self-produced assets	1,232	372
Income from other services	970	452
Income from subsidies	721	0
Income from raw material and waste recycling	480	336
Income from exchange rate differences	331	104
Income from the disposal of fixed assets	76	40
Bargain purchase gain from business combination	0	46,957
Income from tax indemnification claim	0	7,102
Income from the reversal of valuation allowances on receivables	0	66
Miscellaneous other operating income	664	306
Other operating income	**4,474**	**55,735**

Capitalized self-produced assets relate to the capitalization of expenses incurred in connection with the development of process techniques. Income from subsidies relates to grants for industrial research. Income from other services mainly comprises additional incurred production costs chargeable to customers and reimbursed costs from the former shareholder of STS Composites France S.A.S.

The decrease in other operating income is primarily due to the bargain purchase gain from business combination in 2017 (please refer to 1.3 Principles of consolidation, section on acquisitions) and income from tax indemnification claim in the previous year. The income was consolidated for a full year for the first time in 2018, which – adjusted for one-time effects from bargain purchases and from tax indemnification claims – resulted in an increase in other operating income. The prior year includes only the income from the date of acquisition for the acquired companies.

2.4 MATERIAL EXPENSES

in kEUR	2018	2017
Cost of raw materials, consumables and supplies	199,973	162,036
Cost of purchased services	33,817	28,519
Material expenses	**233,790**	**190,555**

2.5 PERSONNEL EXPENSES

Personnel expenses are broken down as follows:

in kEUR	2018	2017
Wages and salaries	77,510	55,714
Social security	26,392	19,905
Personnel expenses	**103,902**	**75,619**

The increase in personnel expenses can be explained by the fact that the comparative period includes only the expenses from the date of acquisition for the acquired companies.

Expenses for pension amount to 3,764 kEUR (2017: 1,662 kEUR).

In the financial year 2018 and 2017, an average of 2,564 persons were employed. The employee break-down is as follows:

Average number of employees by group	2018	2017
Production	2,208	2,256
Administration	356	308
Total	**2,564**	**2,564**

2.6 OTHER OPERATING EXPENSES

In the financial year 2018, other operating expenses amounted to 61,921 kEUR (2017: 46,967 kEUR) and included the following expenses:

in kEUR	2018	2017
Legal and consulting costs	12,000	6,954
Maintenance and repairs	10,904	6,075
Packaging materials and outgoing freight	7,917	8,617
Rental and leasing	7,154	4,353
Services received from related parties	5,191	4,800
Administration	4,932	1,345
Occupancy costs	3,215	2,743
Advertising and travel expenses	2,926	1,756
Base levies and other taxes	2,705	1,614
Research and development expenses	1,767	180
Fees and contributions	767	248
Fleet	761	729
Insurance premiums	740	505
Expenses from foreign currency translation	475	133
Occupational health and safety	411	311
Low-value assets	208	297
Additions to allowances on current assets	190	297
Losses from the disposal of assets	49	168
VAT prior years	0	2,197
Tax penalties	0	2,075
Additions to allowances on receivables	0	443
Losses from claims and onerous contracts	–1,333	563
Miscellaneous other operating expenses	942	564
Other operating expenses	**61,921**	**46,967**

In the financial year 2018 expenses were consolidated for a full year for the first time, which caused an increase in other operating expenses. The prior year includes only the expenses from the date of acquisition for the acquired companies.

Income from losses from claims and onerous contracts can be explained by the reversal of provisions for onerous contracts amounting to 1,348 kEUR (2017: 0 EUR).

PricewaterhouseCoopers GmbH was appointed as the Group's auditor for the financial year ending December 31 2018 and 2017. The total fee of 2,155 kEUR (2017: 733 kEUR), which is included in the item legal and consulting costs , is broken down into the following services:

in kEUR	2018	2017
Audits of financial statements	1,235	715
Other attestation services	687	0
Other services	233	18
Total	**2,155**	**733**

The non-audit services include other attestation services which consist of the issue of a comfort letter and review of pro forma financial information and other services which consist of the supervision of the IFRS conversion.

Please refer to Section 4.6.1 for details on related party services.

2.7 DEPRECIATION AND AMORTIZATION EXPENSES

in kEUR	2018	2017
Depreciation of property, plant and equipment	8,460	6,105
Amortization of intangible assets	3,643	2,072
Impairments	1,105	0
Depreciation and amortization expenses	**13,208**	**8,177**

Please refer to section 3.2 regarding impairments.

2.8 INTEREST AND SIMILAR INCOME AND INTEREST AND SIMILAR EXPENSES

Interest and similar income and interest and similar expenses break down as follows:

in kEUR	2018	2017
Miscellaneous interest and similar income	89	56
Interest and similar income	**89**	**56**
Interest expense from banks/lenders	885	580
Interest expense from factoring	409	496
Interest expense from discounting provisions	328	650
Interest expense from finance leases	30	9
Miscellaneous interest and similar expenses	450	1,337
Interest and similar expenses	**2,102**	**3,072**

Interest expenses from discounting provisions include interest expenses for pensions.

In the past financial year, miscellaneous interest and similar expenses mainly included interest for liabilities from tax audits.

2.9 INCOME TAXES

Income taxes are broken down as follows:

in kEUR	2018	2017
Current income tax expense	–4,026	–3,284
Deferred tax income	2,565	6,405
Income tax income (+)/expense (–)	**–1,461**	**3,121**

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

Based on the German tax rate that actually applies to the consolidated profit or loss for the period, including a corporation tax rate of 15.0% (2017: 15.0%) plus the solidarity surcharge of 5.5% on tax liabilities and trade tax of 11.2% (2017: 11.2%), results in a total tax rate of 27.03% (2017: 27.03%).

in kEUR	2018	2017
Earnings before income taxes	**–3,342**	**43,844**
Weighted average tax rate (in %)	27.03%	27.03%
Tax income (+)/expense (–) at the weighted average tax rate	**902**	**–11,851**
Causes of surplus amount/deficit:		
Tax rate differences and tax rate changes	709	–641
Usage of unrecognized loss carryforward	610	717
Effects from change in unrecognized deferred taxes on temporary differences and tax loss carryforwards	–3,894	4,168
Other non tax-deductible expenses including withholding tax	–607	–683
Expenses for the capital increase recognized directly in equity	366	0
Tax effect from gain of bargain purchase	0	12,692
Tax-exempt income	496	452
Additional payment of taxes and refunds from previous years	0	–1,672
Other effects	–43	–61
Reported income tax expense (–)/income (+)	**–1,461**	**3,121**

The tax rates applicable for the Group companies range between 19.0% and 34.0% (2017: 19.0% and 34.0%).

2.10 EARNINGS PER SHARE

Earnings per share are broken down as follows:

		2018	2017
Net income attributable to owners of STS Group AG	in kEUR	–4,803	46,965
Weighted average number of ordinary shares to calculate earnings per share			
Undiluted	Number	3,996,731	50,000
Diluted	Number	3,996,731	50,000
Earnings per share			
Undiluted	in EUR	–1.20	939.30
Diluted	in EUR	–1.20	939.30

As the share-based performance threshold of potentially dilutive share options (please refer to section 4.7 Share-based payment) was not exceeded on any day during the reporting period, no dilutive effects were reflected in earnings per share in the reporting period.

3 — NOTES ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

3.1 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	Total
Historical cost						
Balance as of January 1, 2017	**182**	**4,531**	**0**	**385**	**0**	**5,098**
Additions through business combinations	0	7,059	11,600	761	0	19,420
Additions	0	0	0	2,127	316	2,443
Reclassifications	0	0	0	98	0	98
Disposals	0	0	0	−87	−126	−213
Balance as of December 31, 2017	**182**	**11,590**	**11,600**	**3,284**	**190**	**26,846**
Additions	567	0	88	3,187	368	4,210
Reclassifications	749	0	0	−559	251	441
Disposals	0	0	−126	0	0	−126
Exchange rate differences	−7	170	−2	−1	−7	153
Balance as of December 31, 2018	**1,491**	**11,760**	**11,560**	**5,911**	**803**	**31,525**
Cumulative amortization and impairment						
Balance as of January 1, 2017	**−87**	**0**	**0**	**−155**	**0**	**−242**
Amortization	−36	−949	−850	−237	0	−2,072
Disposals	0	0	0	36	0	36
Balance as of December 31, 2017	**−123**	**−949**	**−850**	**−356**	**0**	**−2,278**
Amortization	−163	−1,499	−1,297	−684	0	−3,644
Reclassifications	−41	0	0	37	0	−4
Disposals	0	0	126	0	0	126
Exchange rate differences	1	−41	2	−123	0	−161
Balance as of December 31, 2018	**−326**	**−2,489**	**−2,019**	**−1,127**	**0**	**−5,960**
Net carrying amounts						
As of December 31, 2017	59	10,641	10,750	2,928	190	24,567
As of December 31, 2018	1,166	9,271	9,541	4,784	803	25,565

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

No impairment losses or reversals of impairment losses were recognized in the reporting periods shown.

3.2 PROPERTY, PLANT AND EQUIPMENT

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

in kEUR	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under development	Total
Historical cost					
Balance as of January 1, 2017	**18,238**	**96,085**	**2,961**	**240**	**117,524**
Additions through business combinations	23,583	18,035	1,133	4,857	47,607
Additions	162	6,329	486	2,616	9,593
Reclassifications	674	3,025	115	–3,912	–98
Disposals	0	–1,664	–95	–217	–1,976
Exchange rate differences	–212	–291	–13	–1	–517
Balance as of December 31, 2017	**42,445**	**121,519**	**4,587**	**3,583**	**172,133**
Additions	512	4,955	503	4,401	**10,371**
Reclassifications	608	769	–6	–1,813	**–442**
Disposals	–41	–2,172	–27	–10	**–2,250**
Exchange rate differences	–276	–376	–15	10	**–657**
Balance as of December 31, 2018	**43,248**	**124,695**	**5,042**	**6,171**	**179,156**
Cumulative depreciation and impairment					
Balance as of January 1, 2017	**–892**	**–84,769**	**–2,760**	**0**	**–88,422**
Depreciation	–1,061	–4,792	–252	0	–6,105
Disposals	0	1,344	91	0	1,435
Exchange rate differences	2	7	0	0	9
Balance as of December 31, 2017	**–1,951**	**–88,210**	**–2,921**	**0**	**–93,084**
Depreciation	–1,500	–6,503	–457	0	–8,460
Impairment	0	–1,105	0	0	–1,105
Reclassifications	0	4	0	0	4
Disposals	12	2,112	11	0	2,134
Exchange rate differences	1	14	2	0	18
Balance as of December 31, 2018	**–3,438**	**–93,688**	**–3,365**	**0**	**–100,492**
Net carrying amounts					
As of December 31, 2017	40.494	33.309	1.666	3.583	79.049
As of December 31, 2018	39.812	31.007	1.677	6.171	78.664

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

On account of difficult economic conditions, the Group carried out a review of the recoverable amount for a cash generating unit (CGU) in the financial year ending December 31, 2018. The CGU is a plant in the Acoustics segment that still operates independently. The review resulted in the recognition of an impairment loss of 1,105 kEUR (prior year: 0 EUR) in profit or loss. It was assigned to technical equipment and machinery. The discounting factor applied to determine the value in use was 13.4% p.a. The value in use of the CGU as of December 31, 2018, was 5,495 kEUR. No impairment test was carried out in the financial year ending December 31, 2017, as there was no indication of an impairment loss.

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

3.3 OTHER CURRENT AND NON-CURRENT FINANCIAL ASSETS

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

	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**

	December 31, 2017		
in kEUR	Non-current	Current	Total
Supplier bonuses	0	699	699
Security deposits	209	1	210
Receivable from factorer	0	203	203
Miscellaneous other financial assets	58	0	58
Loans to affiliated companies	0	5,000	5,000
Receivable from former shareholder	0	7,148	7,148
Other financial assets	**267**	**13,051**	13,318

Refer to section 4.6.1 for details on loans to affiliates.

As of December 31, 2018, and December 31, 2017, receivables from factorer company mainly comprised amounts temporarily withheld from assigned receivables.

The receivable from former shareholder as of December 31, 2017, is primarily the result of a tax indemnification claim of 7,102 kEUR with respect to the former shareholder of STS Acoustics SpA from the purchase agreement of STS Acoustics SpA. This relates to a number of tax audits and tax assessments for STS Acoustics SpA for the financial years 2006 through 2011. According to the final tax audit report, STS Acoustics SpA had to pay income taxes for prior years of 1,673 kEUR, value-added taxes of 2,197 kEUR, tax penalties of 2,075 kEUR and interest of 1,157 kEUR. The Group had a tax asset of the same amount with respect to the former shareholder of STS Acoustic SpA.

3.4 CURRENT AND NON-CURRENT INCOME TAX RECEIVABLES

Non-current income tax receivables amounted to 97 kEUR as of December 31, 2018. As of December 31, 2017, income tax receivables amounted to 1,579 kEUR and related primarily to STS Composites France S.A.S.

Current income tax receivables came to 1,162 kEUR as of December 31, 2018 (December 31, 2017: 0 EUR).

3.5 OTHER CURRENT AND NON-CURRENT NON-FINANCIAL ASSETS

	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**

	December 31, 2017		
in kEUR	Non-current	Current	Total
VAT receivables	68	3,059	3,127
Other tax refund claims	459	0	459
Miscellaneous other non-financial assets	123	146	269
Prepaid expenses	0	396	396
Advance payments on salaries	117	0	117
Social benefit receivable	0	7	7
Prepayments social security	1	205	206
Other non-financial assets	**768**	**3,813**	**4,581**

3.6 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities as of December 31, 2018, and December 31, 2017, are broken down as follows:

	December 31, 2018		December 31, 2017	
in kEUR	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	212	4,215	319	4,595
Property, plant and equipment	1,584	2,481	1,908	3,180
Other financial assets	0	20	0	14
Inventories	478	1	338	0
Non-current trade and other receivables and contract assets	0	23	0	0
Current trade and other receivables and contract assets	257	3,103	403	0
Current other non-financial assets	51	15	5	0
Pensions and similar obligations	2,881	0	2,635	0
Non-current other provisions and liabilities	492	196	451	0
Current other provisions and liabilities	4,272	532	355	2,059
Loss carryforwards	4,313	0	5,016	0
Deferred taxes before netting	**14,540**	**10,586**	**11,430**	**9,848**
Netting	−6,587	−6,587	−2,866	−2,866
Deferred taxes netted	**7,953**	**3,999**	**8,564**	**6,982**

Deferred tax assets on deductible temporary differences and tax loss carryforwards are to be recognized for companies that have sufficient taxable income in future periods to benefit from tax advantages from temporary differences and loss carryforwards.

Netting relates to the settlement of deferred tax assets and liabilities within individual entities or tax groups where these relate to the same tax authorities.

Of the total tax loss carryforward of 78,413 kEUR (2017: 52,304 kEUR), an amount of 17,384 kEUR (2017: 18,278 kEUR) is expected to be usable within a reasonable period. Deferred tax assets of 4,313 kEUR (2017: 5,016 kEUR) were recognized at the same amount of the expected usable tax loss carryforwards.

Loss carryforwards of 16,194 kEUR will lapse in 2020 through 2023 if they are not used.

As of December 31, 2018, deferred taxes of 192 kEUR (2017: –112 kEUR) from the measurement of the defined benefit obligation in accordance with IAS 19 were charged to equity.

Deferred tax liabilities on differences of 51,467 kEUR (2017: 59,797 kEUR) for undistributed profits of Group subsidiaries were not reported on the basis of the existing control defined in IAS 12.39.

3.7 INVENTORIES

Inventories are broken down as follows:

in kEUR	December 31, 2018	December 31, 2017
Raw materials, consumables and supplies	14,284	14,454
Work in progress	11,125	6,087
Finished goods and goods for resale	4,280	7,202
Prepayments for inventories	245	381
Inventories	**29,934**	**28,124**

The measurement of inventories accounts for marketability, age and all identifiable price, quality and storage risks.

The cost of individual inventories is determined based on weighted average costs.

In the financial year 2018 inventories recognized as an expense totaled 199,973 kEUR (2017: 190,555 kEUR) and are included in material expenses.

In the financial year 2018 inventory write-downs constitute waste of 1,061 kEUR (2017: 846 kEUR) and write-downs to net realizable value of 700 kEUR (2017: 423 kEUR). These items are included in materials expenses. This was offset in material expenses by reversals of impairment losses amounting to 847 kEUR (2017: 0 EUR) that are the result of changed economic circumstances and indicate an increase in net realizable value.

3.8 CONTRACT ASSETS AND CONTRACT LIABILITIES

The following table contains the opening and closing balances of contract assets and contract liabilities from contracts with customers:

in kEUR	December 31, 2018	January 1, 2018
Trade receivables from contracts with customers	80,403	99,064
Non-current contract assets	91	0
Current contract assets	5,014	6,011
Non-current contract liabilities	1,120	1,454
Current contract liabilities	4,669	894

There were no impairment losses on contract assets according to IFRS 9 in the financial year 2018. The change in contract assets during the current period is mainly due to changes in series production inventories, which meet the criteria for revenue recognition over time.

Of the contract liabilities at the start of the reporting period, revenue of 849 kEUR from contracts with customers was recognized in the current reporting period. An overall transaction price of 12,383 kEUR is assigned to contractual obligations that were fully or partially unsatisfied at the end of the reporting period. The Group estimates recognition of these contract liabilities at 8,596 kEUR in the following period and at 3,787 kEUR in subsequent periods. The specified transaction prices relate primarily to costs for first series tools. The transaction price is not specified for contract liabilities with a term of one year or less in accordance with IFRS 15.

3.9 TRADE AND OTHER RECEIVABLES

in kEUR	December 31, 2018
Trade and other receivables before risk allowances	82,652
Less risk allowances – bucket 2	–87
Less risk allowances – bucket 3	–1,515
Trade and other receivables	**81,050**

Trade and other receivables do not bear interest 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 recognized in allowance accounts, unless it can already be assumed when the reason for the write-down arises that the receivable will be fully or partly uncollectible. In these cases, the carrying amounts of the receivables are amortized directly to profit or loss.

Please refer to section 4.3.2 for determining impairment.

Impairment losses on trade receivables measured at fair value through other comprehensive income amounted to 998 kEUR.

Development of expected credit losses for trade and other receivables

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

Assignment of trade receivables

The Group sells trade receivables to factoring companies in return for the granting of rights of recourse. These trade receivables are not derecognized from the statement of financial position as the Group retains substantially all the risks and rewards incidental to ownership of an underlying asset. This primarily relates to the credit risk. The amounts received from the sale of trade receivables are recognized as liabilities. Depending on the agreement with the respective factoring company, customers settle any outstanding items directly with the Group, which subsequently forwards the amounts received on to the factoring companies. The carrying amount of trade receivables that are not derecognized came to 38,930 kEUR as of December 31, 2018 (2017: 41,114 kEUR). The relevant liabilities totaled 36,211 kEUR as of December 31, 2018 (2017: 37,159 kEUR). Due to the current nature of the sold trade receivables and the related liabilities, the fair value approximates the carrying amount. The net position is 2,719 kEUR (2017: 3,955 kEUR).

The Group also sold trade receivables with a carrying amount of 5,397 kEUR (2017: 1,034 kEUR) to third parties on the basis of factoring agreements, for which there are no remaining material risks and rewards for the Group. These receivables were therefore derecognized in accordance with IFRS 9.3.2.6 (a). The Group recognized the advance received from the factoring company for the assigned receivables under other current financial assets at an amount of 680 kEUR as of December 31, 2018 (2017: 75 kEUR). Due to the current nature of the sold trade receivables and the advances received, the fair value approximates the carrying amount. If the customer defaults on payment, the Group is exposed to a residual payment risk of 15 kEUR (2017: 9 kEUR) with respect to the factoring company. The amounts to be paid back to the factoring company would be classed as current and represent the maximum exposure to loss for the Company.

The following disclosures in accordance with IFRS 7 as amendment to IAS 39 are relevant for the prior period:

Age structure of trade receivables

in kEUR	December 31, 2017
Not overdue and not impaired	79,015
Overdue but not impaired	
Overdue 1 to 30 days	14,116
Overdue 31 to 60 days	4,244
Overdue 61 to 90 days	317
Overdue 91 to 180 days	409
Overdue more than 180 days	736
Total overdue but not impaired	19,822
Amount of impaired trade receivables less valuation allowance	498
Book value of trade and other receivables	**99,335**

As of December 31, 2017, there were no indications of significant defaults on trade receivables, which were neither past due nor impaired.

With regard to receivables for which impairment losses were not recognized and which are not past due, there were no indications that the debtors will not meet their payment obligations.

Development of impairment allowances for trade receivables

in kEUR	
Balance as of January 1, 2017	**606**
Addition	740
Utilization	0
Reversal	–66
Currency translation and other effects	0
Balance as of December 31, 2017	**1,280**

3.10 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Bank balances were not pledged as of December 31, 2018, and December 31, 2017.

Restricted cash relates to a security deposit for a bank overdraft.

Please refer to section 4.3.2 Financial risk management “credit and default risk” for details on credit risks.

3.11 EQUITY

The individual components of equity and their development in the financial years 2018, and 2017, are shown in the consolidated statement of changes in equity.

Subscribed capital

STS Group AG's subscribed capital amounted to 6,000 kEUR on December 31, 2018 (2017: 50 kEUR) and consists of 6,000,000 (2017: 50,000) no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR.

On April 13, 2018, the extraordinary General Meeting of the Company resolved to increase the share capital from the Company's reserves by 1,000 kEUR, from 50 kEUR to 1,050 kEUR, in accordance with the provisions of the German Stock Corporation Act (Sections 207 et seq. AktG) by converting part of the capital reserves. The capital increase was carried out by issuing 1,000,000 new no-par value bearer shares with a notional interest in the Company's share capital of EUR 1.00. The sole shareholder mutares AG subscribed for all new shares. The new shares have a full dividend entitlement from January 1, 2018. The completion of the capital increase was registered in the commercial register on April 24, 2018.

On April 25, 2018, the extraordinary General Meeting of the Company resolved to carry out a cash capital increase of the Company's share capital by 3,950 kEUR, from 1,050 kEUR to 5,000 kEUR, through the issue of 3,950,000 new no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR. The sole shareholder mutares AG subscribed for all new shares. The new shares have a full dividend entitlement from January 1, 2018. The completion of the capital increase was registered in the commercial register on April 30, 2018.

On May 8, 2018, the extraordinary General Meeting of the Company resolved to carry out a cash capital increase with shareholders' subscription rights disapplied to create 1,000,000 new ordinary bearer shares with no notional amount at an issue amount of 1.00 EUR per bearer share. The completion of the capital increase was registered in the commercial register on May 30, 2018.

On June 1, 2018, STS Group was listed in the Regulated Market of the Frankfurt Stock Exchange (Prime Standard). At the start of trading, the Company's share capital was 6,000 kEUR and was divided into 6,000,000 no-par value bearer shares.

STS Group AG's subscribed capital is fully paid up.

Each share carries one vote at the General Meeting.

Authorized capital

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by up to 2,500 kEUR on one or more occasions in the period up to May 2, 2023, by issuing up to 2,500,000 new no-par value bearer shares in exchange for cash and/or non-cash contributions ("Authorized Capital 2018/I"). Shareholders are to be granted subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply shareholders' subscription rights for one or more capital increases from Authorized Capital 2018/I,

(i) in order to exclude fractional amounts;
(ii) where this is necessary to grant subscription rights for new no-par value bearer shares of the Company to the bearers or creditors of bonds with conversion or option rights or obligations that were or will be issued by the Company or a direct or indirect affiliate thereof in the extent to which they would be entitled as shareholders following the exercise of the conversion or option rights or the fulfillment of the conversion or option obligations;
(iii) to issue shares in exchange for cash contributions where the issue price of the new shares is not significantly lower than the stock exchange price of the shares already listed within the meaning of Sections 203 (1) and (2), 186 (3) Sentence 4 AktG and the proportionate amount of the share capital attributable to the new shares issued with shareholders' subscription rights disapplied in accordance with Section 186 (3) Sentence 4 AktG does not exceed 10% of the share capital in total;
(iv) to issue shares in exchange for non-cash contributions, particularly for the purposes of – but without being limited to – the acquisition of parts of companies, equity investments in companies or other assets (including indirectly) or the servicing of bonds issued in exchange for non-cash contributions.

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

Contingent capital

Contingent Capital 2018/I
By resolution of the General Meeting on May 3, 2018, the share capital of the Company is contingently increased by up to 2,000 kEUR through the issue of up to 2,000,000 new no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR (Contingent Capital 2018/I). Contingent Capital 2018/I is to be exercised in order to grant shares to the bearers or creditors of convertible bonds, bonds with warrants, profit participation rights and/or profit participation bonds issued in accordance with the authorization resolution of the General Meeting on May 3, 2018 (or combinations of these instruments) when the respective option or conversion rights are exercised or the option or conversion obligations are fulfilled. Further details can be found in the authorization resolution and in Article 4 (3) of the Articles of Association of STS Group AG.

Contingent Capital 2018/II
By resolution of the General Meeting on May 3, 2018, the share capital of the Company is contingently increased by up to 500 kEUR through the issue of up to 500,000 new no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR (Contingent Capital 2018/II). Contingent Capital 2018/II is to be exercised only to the extent that subscription rights are issued under

the 2018 stock option plan in accordance with the resolution of the General Meeting on May 3, 2018, these subscription rights are exercised by the holders and the Company does not grant treasury shares in fulfillment of subscription rights. The total volume of subscription rights is distributed among the authorized groups of persons in accordance with these rules:

- Executive Board members may receive a maximum of 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 Article 4 (4) of the Articles of Association of STS Group AG.

Capital reserves

As of December 31, 2018, capital reserves amounted to 22,193 kEUR (2017: 1,615 kEUR). The increase in capital reserves is essentially a result of the IPO. Gross issue proceeds of 24,000 kEUR were generated for the new 1,000,000 shares placed as part of the IPO. Transaction costs in direct connection with the IPO of 1,480 kEUR were recognized in other comprehensive income under capital reserves. Capital reserves from the recognition of share-based payment also increased. For further information on share-based payment, please refer to Section 4.7.

Retained earnings

Retained earnings totaled 55,266 kEUR as of December 31, 2018 (2017: 59,802 kEUR). The Company did not pay any dividends in the financial year ending December 31, 2018. Dividends of 1,710 kEUR were paid in the financial year ending December 31, 2017. This equated to a dividend of 34.20 EUR per share.

Other reserves

Other reserves comprise the revaluation surplus for pension obligations and the translation reserve. The overall changes in the financial year 2018, and 2017 are shown in the consolidated statement of changes in equity.

Acquisition of treasury shares

On November 21, 2018, the Executive Board, with the approval of the Supervisory Board, resolved using the authorization of the General Meeting on May 3, 2018, a share buy-back program (not including ancillary acquisition costs) of up to 1,000 kEUR ("Share Buy-Back Program 2018/I"). The authorization provides that the Executive Board, with the approval of the Supervisory Board, may acquire own shares of the Company up to an amount of 10% of the respective share capital until May 2, 2023. The shares may be acquired on the stock exchange, by means of a public purchase offer or by means of a public invitation to submit offers for sale. The authorization provides that the Executive Board may use its own shares for any permissible purpose. The Management Board is also authorized to acquire own shares using derivatives.

In the Share Buy-Back Program 2018/I, a total of up to 50,000 of the Company's own shares are to be bought back in the period between November 22, 2018, and May 21, 2019. In the period from November 22, 2018, to December 31, 2018 (last acquisition on December 13, 2018), a total of 4,763 shares were acquired as part of the share buy-back. This corresponds to a nominal 5 kEUR or 0.08% of the share capital. The shares were acquired at an average price of 12.51 EUR per share, within a range of 10.77 EUR to 13.60 EUR.

3.12 NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Non-current and current financial liabilities are broken down as follows:

	December 31, 2018			December 31, 2017		
in kEUR	Non-current	Current	Total	Non-current	Current	Total
Liabilities from factoring	0	36,211	36,211	0	37,159	**37,159**
Liabilities to banks	4,901	9,040	13,941	9,663	7,094	**16,757**
Third party loans	5,733	3,222	8,955	6,645	1,097	**7,742**
Liabilities from finance leases	2,471	723	3,194	819	237	**1,056**
Other financial liabilities	46	29	75	0	26	**26**
Total	**13,151**	**49,225**	**62,376**	**17,127**	**45,613**	**62,740**

Liabilities to banks

Scheduled repayments reduced liabilities to banks from 16,758 kEUR to 13,941 kEUR. This was offset by taking up two new fixed-interest loans totaling 1,000 kEUR.

The Company did not abide by a covenant on a bank loan with a carrying amount of 2,668 kEUR (December 31, 2017: 3,600 kEUR) and a standard term until 2021. Because the outstanding amount may become due if there is a breach of the covenant, the loan is accounted for in full as a current liability. An agreement with the bank regarding a waiver on breach of contract not being sanctioned was not yet final at the time the consolidated financial statements were prepared.

Third party loans

Third party loans relate to fixed-interest loans from a former shareholder with interest rates of between 1.0% and 5.0%.

As of December 31, 2018, the item also includes 2,150 kEUR for a subsidiary that is expecting to receive a tax credit in France and sought pre-financing from a third party in advance. The interest rate is 1 month Euribor plus 3%.

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

in kEUR	December 31, 2018	December 31, 2017
Property, plant and equipment	14,291	15,245
Inventories	2,830	2,830
Other non-financial assets	2,599	0
Restricted cash	2,000	0
Pledged assets	**21,720**	**18,075**

Liabilities from factoring

For information on liabilities from factoring, please refer to section 3.9.

Lease liabilities

The Group leases various technical equipment and machinery under finance leases. As of December 31, 2018, the net carrying amount of the leased assets totaled 3,355 kEUR (2017: 1,098 kEUR), thereof 1,427 kEUR (2017: 1,098 kEUR) for technical equipment and machinery and 1,928 kEUR (2017: 0 EUR) for software. An amount of 30 kEUR (2017: 9 kEUR) was recognized as an interest expense in connection with these finance leases in the financial year 2018. Lease liabilities are paid back over the lease term.

Finance lease payables have a remaining term of four to five years. There are no finance leases with a remaining term of more than five years.

All leases contain a purchase option.

in kEUR	December 31, 2018	December 31, 2017
Total future minimum lease payments (gross investment)	**3,373**	**1,152**
due within one year	785	257
due within one to five years	2,588	895
Present value of minimum lease payments	**3,194**	**1,056**
due within one year	723	253
due within one to five years	2,471	803
Finance charge included in minimum lease payments	**179**	**96**

3.13 PROVISIONS

Provisions are broken down as follows:

in kEUR	December 31, 2018	December 31, 2017
Pensions and similar obligations	19,020	19,985
Other provisions	2,242	4,528
Provisions	**21,262**	**24,513**

3.13.1 Pensions and similar obligations

Defined benefit plans

Pension provisions are based on country-specific legal obligations in Italy, France and Mexico. They are determined primarily by employees' compensation and length of service. In France and Mexico, this takes the form of lump-sum payments when the employee retires. In the case of Italy, the obligation concerns only pension entitlements from years of service before 2007. From 2007 onward, a change in legislation meant that pension plans were switched to an external plan, which was thereafter a defined contribution plan. As such, there are no further additions to provisions aside from the change resulting from interest rate and actuarial assumptions. The pension plans are classed as defined benefit plans in all three countries. These are unfunded pension plans whose obligations the Company itself meets as soon as they are due.

Provisions for pensions and similar obligations are 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, 2018.

The following table shows the development of the defined benefit obligation (DBO) as of December 31, 2018.

in kEUR	2018	2017
DBO as of January 1	19,985	10,675
Service costs	129	370
current service costs	689	370
gains (–)/losses (+) from curtailments	–560	0
Interest expenses	311	221
Actuarial gains (–)/losses (+)	–682	384
from changes in experience assumptions	–285	179
from changes in demographic assumptions	0	–44
from changes in financial assumptions	–397	249
Benefits paid	–724	–692
Change in scope of consolidation	0	9,027
DBO as of December 31	**19,019**	**19,985**

The curtailment gains relate to employees who left the Company before reaching retirement age and thereby forfeited their entitlement.

The change in the scope of consolidation in the prior year is in connection with the acquisition of STS Composites France S.A.S and MCR S.A.S.

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

in kEUR	2018	2017
Service costs	129	370
current service costs	689	370
gains (–)/losses (+) from plan amendments	0	0
gains (–)/losses (+) from curtailments	–560	0
Interest expenses	311	221
Total amount recognized in the consolidated income statement	440	591
Actuarial gains (–)/losses (+)	–682	384
Tax effects	192	–112
Total amount recognized in the consolidated income statement of comprehensive income	**–490**	**272**

The interest expense is recognized in interest expenses from discounting provisions within interest and similar expenses.

Actuarial assumptions
Pension obligations are measured on the basis of actuarial assumptions, using the following key measurement parameters:

	Plans Italy		Plans France		Plans Mexico	
in %	2018	2017	2018	2017	2018	2017
Discount rate	1.42	1.60	1.75	1.60	9.50	7.75
Salary trend	n.a.	n.a.	2.00	1.90	4.50	4.50
Pension trend	2.63	2.63	n.a.	n.a.	n.a.	n.a.

The following tables are used for life expectancy: the generation tables 1948 (RG48) in Italy, 2012–2014 tables from the National Institute of Statistics and Economic Studies (INSEE) in France and 2009 tables from the Mexican Social Security Experience of the Active Population (EMSSA) in Mexico.

Sensitivity analysis
The following tables show the effects that changes in the key actuarial assumptions have on the DBO. In each case, the effect on the DBO of a change in one assumption 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 presented change in the DBO applies only to the specific size of the change in the individual assumptions. A straight-line effect 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, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
DBO		7,134	7,292	11,811	12,603	74	89
Discount rate	+50bp	6,908	7,047	11,120	11,840	68	86
	–50bp	7,374	7,553	12,565	13,438	79	93
Salary trend	+50bp	n.a.	n.a.	12,559	13,431	78	95
	–50bp	n.a.	n.a.	11,119	11,839	69	84
Pension trend	+25bp	7,207	7,372	n.a.	n.a.	n.a.	n.a.
	–25bp	7,062	7,214	n.a.	n.a.	n.a.	n.a.
Life expectancy	+1 year	7,155	7,308	11,884	12,681	74	90
	–1 year	7,113	7,276	11,738	12,524	73	89

When calculating the effects on the defined benefit obligation, the same calculation method was used as for the calculation of pension provisions as of December 31, 2018.

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

in kEUR	2018	2017
within 1 year	796	850
between 1 and 2 years	972	678
between 2 and 3 years	905	1,171
between 3 and 4 years	1,402	1,004
between 4 and 5 years	1,313	1,472

The average duration of the pension obligation was 10.9 years as of December 31, 2018 (2017: 11.3 years).

Defined contribution plans

For employees in Germany, France and Italy there are also defined contribution plans as part of statutory pension insurance. The expenses recognized in the consolidated income statement amounting to 3,764 kEUR (2017: 1,662 kEUR) represent the contributions due from the Group for these plans.

3.13.2 Other provisions

The following provisions are reported as other provisions in the statement of financial position under provisions:

in kEUR	Jubilee benefits	Onerous contracts	Severance payments	Other	Total
Balance as of January 1, 2018	**1,131**	**2,937**	**226**	**234**	**4,528**
current	0	2,937	226	234	**3,397**
non-current	1,131	0	0	0	**1,131**
Additions	81	76	0	9	**166**
Utilization	–99	–545	–153	–13	**–810**
Reversals	0	–1,348	–13	–225	**–1,586**
Reclassifications	0	0	–59	3	**–56**
Balance as of December 31, 2018	**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

The provision for onerous contracts relates mainly to contracts entered into by the Dolmen companies, which were acquired in 2017. The reversal is based on improvements in production during the financial year.

The jubilee provision relates to France and is accumulated according to the employee’s current length of service and discounted at a rate of 1.75% (2017: 1.60%). The provision is recognized on the basis of current employee numbers and future entitlements to payments. As in 2017, the calculated values are based on assessments that, in accordance with recognized actuarial principles and via the so-called projected unit credit method (PUC method), use a turnover rate of between 0.0% and 5.0% depending on age and the INSEE 2012–2014 mortality tables as the basis for biometric calculations.

3.14 INCOME TAX LIABILITIES

As of December 31, 2018, current income tax liabilities amounted to 143 kEUR. As of December 31, 2017, current income tax liabilities amounted to 1,673 kEUR and related to a number of tax audits and tax assessments for STS Acoustics SpA for the financial years 2006 through 2011.

3.15 OTHER CURRENT NON-FINANCIAL LIABILITIES

in kEUR	December 31, 2018	December 31, 2017
Employee related liabilities	14,420	13,962
Social security	8,305	7,786
Other levies	960	4,424
Liabilities from payroll and church taxes	717	731
VAT liabilities	2,466	4,419
Miscellaneous other non-financial liabilities	261	1,677
Advance payments received on orders	6	892
Other non-financial liabilities	**27,135**	**33,891**

Employee related liabilities primarily include variable compensation, holiday accruals and provisions for overtime. Miscellaneous other liabilities in the prior year included deferred income, which with the introduction of IFRS 15 starting in 2018 was recognized as a contract liability.

4 — OTHER DISCLOSURES

4.1 DISCLOSURES ON THE CASH FLOW STATEMENT

The income tax payments of the reporting period include income tax payments of 1,673 kEUR resulting from tax audits of prior periods before the Group affiliation of a subsidiary. A corresponding indemnification claim against the former shareholder of the subsidiary likewise affected payments received in the reporting period.

Changes in financial liabilities are broken down as follows:

in kEUR	
Balance as of January 1, 2017	**18,400**
Financing cash flow	
Proceeds from borrowings	8,565
Repayments of borrowings	−2,853
Proceeds from factoring (+)/disbursements for factoring (-)	36,437
Interest paid	−1,256
Interest received	22
Changes from financing cash flows	**40,914**
Net interest expense	1,858
New finance leases	1,252
Other changes	290
Changes from non-cash items	**3,400**
Balance as of December 31, 2017	**62,714**
Financing cash flow	
Proceeds from borrowings	12,112
Repayments of borrowings	−13,513
Repayments of finance lease liabilities	−421
Proceeds from factoring (+)/disbursements for factoring (-)	−1,356
Interest paid	−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**

4.2 SEGMENT REPORTING

IFRS 8 Operating Segments requires information to be disclosed for each business segment. The categorization of operating segments and the scope of the information supplied as part of segment reporting are based, for example, on information that is submitted regularly to the Executive Board as a whole – as the chief operating decision maker – and therefore on internal management. The former China business unit within the Plastics segment became a segment in its own right with effect from January 1, 2018. The Company's Executive Board decided to divide and manage reporting partly by product type and partly by geographic region. In line with this policy, the corporate key figures relevant for decision-making are made available to the Executive Board for the following segments:

- **Acoustics:** This segment encompasses all soft trim products. Soft trim applications have acoustic and thermal properties that reduce noise and protect against heat. Its customers include commercial vehicle manufacturers and free carriers (FCA).
- **Plastics:** This segment contains hard trim products made via injection molding and SMC thermo-compression. Hard trim applications are used for external parts (e.g. front modules and aerodynamic paneling) or interior modules ("bunk box" under the driver's bed and shelf elements) and structural components (tailgate). The business unit also has its own capacity for painting plastics.
- **China:** This segment concentrates its production of plastic parts, mainly for commercial vehicles, on the regional market in China. The product range comprises external parts (bumpers, front paneling, deflectors, fenders, step plates, etc.) and structural components, e.g. for the tailgate or battery covers. These are made with SMC compression processes and thermoplastic technologies. The business unit also has its own capacity for painting plastics.
- **Materials:** This segment comprises the production of semi-finished products, namely sheet molding compounds (SMC), bulk molding compounds (BMC) and advanced molding compounds (AMC). The semi-finished products are used within the Group for hard trim applications and are supplied to external third parties.

The Group thus manages its business in a total of four segments. Both corporate activities and consolidation are presented in the "Corporate/Consolidation" column. No operating segments were aggregated in order to reach the level of the Group's reportable segments. The prior year's figures have been adjusted to the new segment structure.

The table below sets out the segment information for the financial year for the individual operating segments within the new segment structure:

	Acoustics		Plastics		China		Materials		Corporate/ Consolidation		Group	
in kEUR	2018	2017[1]	2018	2017[1]	2018	2017[1]	2018	2017[1]	2018	2017[1]	2018	2017[1]
Revenue – third parties	124,384	132,636	198,530	137,559	48,631	25,298	29,683	14,501	0	0	401,228	309,993
Revenue – inter-segment	0	0	52	122	0	0	10,325	5,490	−10,377	−5,612	0	0
Revenue segment	**124,384**	**132,636**	**198,582**	**137,681**	**48,631**	**25,298**	**40,008**	**19,991**	**−10,377**	**−5,612**	**401,228**	**309,993**
EBITDA	−2,998	3,984	11,380	680	6,466	3,855	1,713	994	−4,681	45,522	11,879	55,037
Adjusted EBITDA	−1,241	2,725	16,677	6,368	7,160	4,145	1,927	1,249	−846	−321	23,677	14,167
Adjusted EBITDA in % of revenue	−1.0%	2.1%	8.4%	4.6%	14.7%	16.4%	4.8%	6.2%	8.2%	5.7%	5.9%	4.6%
Depreciation and amortization	−4,281	−2,730	−6,802	−4,145	−730	−633	−1,277	−638	−118	−32	−13,208	−8,177
EBIT	−7,279	1,254	4,578	−3,465	5,736	3,222	436	356	−4,799	45,490	−1,329	46,860
CAPEX	3,835	11,905	3,095	42,656	3,808	14,846	436	9,178	849	480	12,023	79,065

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

The segment information for the individual operating segments was as follows in the prior year:

	Acoustics	Plastics	Materials	Corporate/ Consolidation	Group
in kEUR	2017[1]	2017[1]	2017[1]	2017[1]	2017[1]
Revenue – third parties	132,636	162,856	14,501	0	309,993
Revenue – inter-segment	0	122	5,490	−5,612	0
Revenue segment	**132,636**	**162,978**	**19,991**	**−5,612**	**309,993**
EBITDA	3,984	4,537	994	45,522	55,037
Depreciation and amortization	−2,730	−4,778	−638	−32	−8,177
EBIT	1,254	−240	356	45,490	46,860
CAPEX	11,905	57,502	9,178	480	79,065

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

The following table breaks down revenue with third parties according to IFRS 15:

	Acoustics		Plastics		China		Materials		Group	
in kEUR	2018	2017[1]	2018	2017[1]	2018	2017[1]	2018	2017[1]	2018	2017[1]
Timing of revenue recognition										
Transferred at a point in time	2,936	132,636	17,307	137,559	46,674	25,298	29,668	14,501	96,585	309,993
Transferred over time	121,448	0	181,223	0	1,957	0	15	0	304,643	0
Revenue – third parties	**124,384**	**132,636**	**198,530**	**137,559**	**48,631**	**25,298**	**29,683**	**14,501**	**401,228**	**309,993**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

Inter-segment revenue is recognized at market transfer prices.

The same accounting policies as described in Section 5 "Accounting policies and measurement methods" applies for the segments. The key figure "Adjusted EBITDA" represents EBITDA adjusted for extraordinary effects costs of the IPO, legal and consulting costs, severance costs and TSA (transition services agreements) fees.

The reconciliation of the reported segment earnings to profit before income taxes is as follows:

in kEUR	2018	2017[1]
Adjusted EBITDA Group	**23,677**	**14,167**
Management adjustments (netted)	–11,798	40,870
EBITDA Group	**11,879**	**55,037**
Depreciation and amortization expenses	–13,208	–8,177
Earnings before interest and income taxes (EBIT)	**–1,329**	**46,860**
Interest and similar income	89	56
Interest and similar expenses	–2,102	–3,072
Finance result	–2,013	–3,016
Earnings before income taxes	**–3,342**	**43,844**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory notes in the notes to the consolidated financial statements under "Accounting policies and measurement methods".

Extraordinary effects in the prior year include income from bargain purchases and are presented in the segment reporting in the "Corporate/Consolidation" column.

Non-current segment assets broken down by the Company's registered offices are as follows:

in kEUR	December 31, 2018	December 31, 2017
Europe	78,193	76,699
France	52,068	52,633
Italy	19,943	20,294
Germany	1,301	614
Others	4,881	3,157
Rest of World	29,141	29,264
Non-current segment assets	**107,334**	**105,963**

Non-current segment assets include property, plant and equipment, intangible assets and other non-financial assets.

Revenue broken down by customer location is as follows:

in kEUR	2018
Europe	328,427
France	129,203
Italy	72,340
Germany	63,989
Others	62,895
Rest of World	72,802
China	45,537
Others	27,265
Revenue by location of customer	**401,228**

A revenue breakdown by customer location was not possible without undue expenditure in the prior year on account of the integration activities.

Revenue from four customers (2017: two customers) amounted to over 10% of overall third party revenue in the financial years 2018, and 2017. Revenue from the largest customer is attributable to the Acoustics, Plastics and China segments and amounts to 106,733 kEUR (2017: 84,176 kEUR). Revenue from the second-largest customer is attributable to the Acoustics and Plastics segments and amounts to 74,144 kEUR (2017: 72,016 kEUR). Revenue from the third-largest customer is attributable to the Plastics and China segments and amounts to 51,859 kEUR (2017: n.a.). Lastly, revenue from the fourth-largest customer is attributable to the Acoustics and Plastics segments and amounts to 48,974 kEUR (2017: n.a.).

4.3 OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

4.3.1 Financial instruments

Financial assets and liabilities can be broken down as follows into the IFRS 9 measurement categories as of December 31, 2018, and according to IAS 39 as of December 31, 2017:

	Category according to IFRS 9	Carrying amount	Valuation according to IFRS 9			Valuation according to IAS 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	31,169				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 finance leases	n.a.	2,471				2,471	2,455	Level 3
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 finance leases	n.a.	723				723	723	Level 3
Other financial liabilities	FLAC	29	29				29	
Trade and other payables	FLAC	69,963	69,963				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

	Category according to IAS 39	Book value	Valuation according to IAS 39			Valuation according to IAS 17	Fair value	
in kEUR		December 31, 2017	Amortized costs	Fair value OCI	Fair value PL		December 31, 2017	Hierarchy
Financial assets by category								
Other non-current financial assets		267						
Miscellaneous other financial assets	LaR	209	209				209	
Securities	AfS	38		38			38	Level 3
Derivate instruments	FAHfT	20			20		20	Level 2
Trade and other receivables	LaR	99,335	99,335				99,335	
Other current financial assets		13,050						
Loans to affiliated companies	LaR	5,000	5,000				5,000	
Miscellaneous other financial assets	LaR	8,050	8,050				8,050	
Cash and cash equivalents	LaR	15,836	15,836				15,836	
Non-current financial liabilities								
Liabilities to banks	FLAC	9,663	9,663				9,640	Level 3
Third party loans	FLAC	6,645	6,645				7,515	Level 3
Liabilities from finance leases	n.a.	819				819	819	Level 3
Trade and other payables	FLAC	642	642				642	
Current financial liabilities								
Liabilities to banks	FLAC	7,094	7,094				7,094	Level 3
Liabilities from factoring	FLAC	37,159	37,159				37,159	
Third party loans	FLAC	1,097	1,097				1,097	Level 3
Liabilities from finance leases	n.a.	237				237	237	Level 3
Other financial liabilities	FLAC	26	26				26	
Trade and other payables	FLAC	83,847	83,847				83,847	

BOOKVALUE BY CATEGORY

in kEUR	Category	December 31, 2017
Loans and receivables	LaR	128,431
Available for sale	AfS	38
Financial assets held for trading	FAHfT	20
Financial liabilites at cost	FLAC	146,172

The three levels for determining the fair value of financial instruments are described in Section 1.2 Fair value measurement. The fair value of financial instruments is calculated based on current parameters such as interest and exchange rates as of the reporting date and on the use of accepted models like the DCF (discounted cash flow) model and accounting for the credit risk. Market values for derivatives are determined on the basis of bank measurement models.

For current financial instruments, the carrying amount is a reasonable approximation of fair value.

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

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 assets at fair value through OCI (debt instruments)	–95
From financial liabilities at amortized costs	–885
Total	**–963**

in kEUR	2017
From loans and receivables (LaR)	–674
From available for sale financial assets (AfS)	0
From financial liabilities at amortized costs (FLAC)	–1,569
From financial liabilities held for trading (FLHfT)	34
Total	**–2,208**

The net gains and net losses from financial instruments are based on changes in fair value for financial instruments measured at fair value through profit or loss, expenses and income for expected credit losses and interest expenses for financial liabilities measured at amortized cost and expenses and income for expected credit losses for financial assets (debt instruments) measured at fair value without any effect on profit or loss.

Overall interest income and interest expenses are broken down as follows:

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

in kEUR	2017
Financial assets not measured at fair value through profit or loss	19
Financial liabilities not measured at fair value through profit or loss	–838

4.3.2 Financial risk management

The management of the Group monitors and manages the financial risks associated with the Group's businesses by means of internal risk reporting, in which the Group analyses risks according to their scale and scope. These risks include credit risk, liquidity risk and market price risk (foreign currency risk and interest rate risk).

In some cases, the Group minimizes the effects of these risks with derivative financial instruments. The use of financial derivatives is governed by guidelines set by the Group management, which contain requirements for the management of currency, interest rate and default risks. In addition, basis rules are laid down for the use of derivative and non-derivative financial transactions and for the investment of excess liquidity. Compliance with the guidelines and risk limits is monitored continuously. The Group does not contract or trade financial instruments, including derivative financial instruments, for speculative purposes.

Credit and default risk

There are credit risks with regard in particular to trade receivables and other receivables including cash deposits. Credit risks, particularly in the area of trade receivables, are monitored on the basis of a regular analysis of receivable due and the collection of current information on the individual credit situation of the customer. A corresponding ceiling is established by limiting and constantly monitoring the individual receivables. There are no particular rating risks with the customers. Risks from deterioration in customers' solvency and credit rating are already actively countered and monitored on an ongoing basis. There have been no major defaults in the past. For details on revenue concentration, please refer to Section 4.2.

In applying the expected credit loss model pursuant to IFRS 9.5.5, the Group uses the general approach for for bank balances and financial assets and the simplified approach for trade receivables and contract assets. To do this default probabilities are calculated for individual customers or customer groups. These are based either on individual rating information on the customer or the customer group, to which an appropriate default probability is allocated. Because these default probabilities are related to a specific date, no future-related adjustments of these data are considered necessary. To determine the specific credit loss, not only the default probability but also the loss on default is used. Generally the group measures this at 100% in line with the experience of the Group in relation to the default level.

Based on these risk classifications, the gross carrying amounts per rating class are as follows:

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 rating categories are based not only on an individually allocated default probability, but also a risk classification for individual customer groups with a comparable risk structure. The following table shows the default probabilities/rating classes given to the individual rating levels.

	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

Impairment of trade receivables changed as follows:

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 change of the impairment is due essentially to an increased classification into level 3.

The maximum default risk of the recognized assets is their carrying amount.

Liquidity risk

Liquidity risk comprises the following risks:

- Not being able to meet potential payment obligations when they are due.
- Not being able to procure sufficient liquidity at the expected conditions, when required (refinancing risk).
- Not being able to wind up, extend or close transactions or only at losses or with excessive costs due to market inadequacies or market disruptions (market liquidity risk).

Prudent liquidity management includes holding a sufficient reserve of cash and cash equivalents as well as the option for financing via committed credit lines. Due to the dynamics of the business environment in which the Group operates, the Group Finance department aims to maintain the necessary financing flexibility by maintaining sufficient unutilized credit lines and deploying factoring.

The solvency and provision of liquidity in the STS Group is secured at all times by rolling liquidity planning, a liquidity reserve in the form of cash and confirmed credit facilities. Free liquidity is usually deposited in current accounts and term deposits at commercial banks.

In specific countries (e.g. China and Brazil), the Group can only dispose of local payment instruments on a cross-border basis in compliance with the currency transfer regulations in force. There are no other significant restrictions.

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

in kEUR	December 31, 2018 Up to 1 year	1 – 5 years	More than 5 years	Total	December 31, 2017 Up to 1 year	1 – 5 years	More than 5 years	Total
Cash outflows from non-derivative financial liabilites	125,364	11,974	4,681	142,019	113,162	15,748	4,456	133,366
Cash outflows from derivative financial liabilites	27	64	23	114	31	81	38	150
Total	**125,391**	**12,038**	**4,704**	**142,133**	**113,193**	**15,829**	**4,494**	**133,516**

Here it should be taken into account that the counterposition of cash outflows from derivative liabilities of kEUR 114 (2017: kEUR 150) is cash inflows from derivatives with gross fulfillment of kEUR 3 (2017: kEUR 7).

Market price risk

Generally the activities of the Group expose it to low financial risks from the change in foreign exchange and interest rates. On a selective basis the Group concludes derivative financial instruments to manage its existing interest and currency risks.

Currency risk

The operating business of the Group is subject to low currency risks in relation to the euro and US dollar.

If foreign exchange rates rates change, this would have the following impact on earnings before income taxes.

The impact of a foreign exchange rate change against the euro is as follows:

in kEUR	10% increase of foreign currency 2018	2017	10% decrease of foreign currency 2018	2017
USD	42	–183	–51	180
PLN	1	10	–1	–13
CNY	129	0	–158	0
BRL	56	0	–69	0
Total	**228**	**–173**	**–279**	**167**

The impact of a foreign exchange rate change against the US dollar is as follows:

	10% increase of foreign currency		10% decrease of foreign currency	
in kEUR	2018	2017	2018	2017
MXN	100	0	–122	0
CNY	–47	0	57	0
Total	**53**	**0**	**–65**	**0**

The existing risk positions are monitored on an ongoing basis and mitigated by offsetting cash flows in foreign currency. Due to the low currency exposure, at the present moment there is no active foreign exchange risk management on the basis of deploying derivative financial instruments.

Interest rate risk

The Group is subject to the risk of interest rate risk both from floating rate loans and also an interest rate risk for fixed-interest loans at the point in time of refinancing.

in kEUR	December 31, 2018	December 31, 2017
Book value fixed interest loans	12,233	12,211
Book value variable interest loans	10,663	12,288
Total	**22,896**	**24,499**

Loans with variable interests are based on 1-month, 3-month and 6-month EURIBOR.

The risk from floating rate loans is partially hedged though the using of interest swaps with matching durations and conditions. Hedge accounting in line with IAS 39 and IFRS 9 is not applied. In addition, the development of the interest rate and possibly expiring loans is monitored on an ongoing basis by the management. In line with the individual situation, the management concludes transactions to mitigate the risk position.

These is also an interest rate risk from the floating rate liabilities from factoring.

If interest rates change, this would have the following impact on earnings before income taxes and equity.

	2018		2017	
in kEUR	–100bp	+100bp	–100bp	+100bp
Effect on profit and loss before tax	–16	–313	–125	98

4.4 CAPITAL MANAGEMENT

The Group's objectives with regard to capital management are on the one hand to secure the business as a going concern in order to continue providing shareholders with returns and the other stakeholders with the deliverables owed, and on the other hands to maintain an optimum capital structure in order to reduce the cost of capital. As required, the Group maintains or changes the capital structure by adjusting the dividend payments to shareholders, making capital repayments to shareholders or selling assets in order to repay liabilities.

	December 31, 2018		December 31, 2017	
	in kEUR	in %	in kEUR	in %
Equity	82,409	38.3	60,666	29.2
Current financial liabilities	119,118	55.3	129,459	62.3
Non-current financial liabilities	13,919	6.5	17,769	8.5
Financial liabilities	133,037	61.8	147,228	70.8
Total equity and financial liabilities	**215,446**	**100.0**	**207,894**	**100.0**

4.5 CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

Contingent liability

A liability of 1,700 kEUR to the previous shareholder could result from a sale, transfer or other disposal with respect to a Group company before July 2034, for which the Company and mutares AG would be jointly and severally liable.

Other obligations

The Group has concluded leases for various properties, vehicles, and operating and office equipment. These leases have a term of between three and twenty years and do not, as a rule, contain options for extension.

As of December 31, 2018, the future minimum lease payment obligations from non-cancelable operating leases were as follows:

in kEUR	December 31, 2018	December 31, 2017
Up to 1 year	5,155	4,499
1 – 5 years	12,201	7,427
More than 5 years	3,341	0
Total	**20,697**	**11,927**

Expenses from operating leases of 7,154 kEUR (2017: 4,353 kEUR) were recognized in 2018.

4.6 RELATED PARTIES

In accordance with IAS 24, related parties of the Group comprise:
- the parent company mutares AG, Munich, and its subsidiaries and material investments outside the Group;
- other parties that can be influenced by or can influence the reporting entity, such as
  - the members of the Company's Executive Board and Supervisory Board;
  - the members of mutares AG's Executive Board and Supervisory Board;
  - investments held by the Company's or mutares AG's Executive Board and Supervisory Board members in companies outside the Group and the mutares Group.

Balances and transactions between the Company and its subsidiaries that are related parties were eliminated in the process of consolidation and are not described in these notes. Details on transactions between the Group and other related parties are given below.

4.6.1 Business relations with mutares AG and other subsidiaries and investments not belonging to the Group

As of December 31, 2018, Group companies conducted the following transactions with related parties not covered by the scope of consolidation. Transactions were as follows as of December 31, 2018, and 2017:

in kEUR	2018	2017
Goods and services received from		
mutares AG	3,844	3,256
subsidiaries and other investments of mutares AG not belonging to the STS Group	1,348	1,657
of which: Expenses for management services received from		
mutares AG	3,844	3,143
subsidiaries and other investments of mutares AG not belonging to the STS Group	1,348	1,657
Dividends paid to		
mutares AG	0	1,710
Receivables from		
mutares AG	3	5,000
Commitments to		
mutares AG	211	1,373
subsidiaries and other investments of mutares AG not belonging to the STS Group	58	1,347
Collateral received from		
mutares AG	0	5,750
mutares AG – jointly and severally	1,700	1,700

The goods and services purchased from related parties primarily include the Group's other operating expenses vis-à-vis mutares AG and mutares France S.A.S, a subsidiary of mutares AG.

In the financial year ending December 31, 2018, goods and services totaling 3,844 kEUR (2017: 3,256 kEUR) were purchased from mutares AG and goods and service totaling 1,348 kEUR (2017: 1,657 kEUR) were purchased from mutares France S.A.S.

The goods and services of 3,844 kEUR (2017: 3,143 kEUR) purchased from mutares AG mainly comprise management services for personnel provision at a day rate, management fees and travel expenses. The item also included a small portion of interest expenses in the prior year.

The goods and services of 1,348 kEUR (2017: 1,657 kEUR) purchased from mutares France S.A.S mainly cover management and consulting services.

No dividend was paid to mutares AG in the 2018 financial year; the dividend paid in the financial year 2017, came to 1,710 kEUR.

Trade receivables to mutares AG in the amount of 3 kEUR (prior year: 5,000 kEUR) resulted from a loan granted by the Company to mutares AG. The balance comprised a cash deposit made by the Company to an account of mutares AG, which was used temporarily as collateral for acquisition financing for the transaction described in Section 1.3 Principles of consolidation (acquisition).

In the financial year ending December 31, 2018, the Group's obligations related exclusively to ongoing commercial obligations to mutares AG and its subsidiaries mutares France S.A.S and mutares Holding 24 AG. The obligations are not secured and no guarantees were given. No write-downs were performed for uncollectible or doubtful receivables from related parties in the current or in the prior year.

The Group had received limited-term collateral of up to 5,750 kEUR from mutares AG. It served to secure contractual obligations to two business partners outside the Group and the mutares Group until it expired in December 2018. In addition, the Group has received limited-term joint and several collateral of 1,700 kEUR from mutares AG to safeguard against third-party claims. This collateral remains the same as of December 31, 2018.

Furthermore, mutares AG had provided two limited-term letters of comfort to a company of the Group, which expired in March and December 2018.

4.6.2 Business relations with and payments to members of the Executive Board and the Supervisory Board

The following business relations existed with members of the Executive Board in the reporting period:

COMPENSATION TO MEMBERS OF THE MANAGEMENT BOARD

in kEUR	2018	2017
Short-term benefits	2,386	793
Share-based payment	40	21
Total compensation	**2,426**	**814**

The short-term payments of 2,386 kEUR relate to compensation paid out to the members of the Executive Board in 2018.

Parts of the short-term payments due to the Executive Board are borne by the majority shareholder mutares AG and charged to the Company.

OBLIGATIONS TO MEMBERS OF THE MANAGEMENT BOARD

in kEUR	December 31, 2018	December 31, 2017
Obligations to members of the Management Board	**507**	**448**

Obligations to members of the Executive Board are in connection with the bonus provision as of December 31, 2018, and December 31, 2017.

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 grant date.

in kEUR	2018	2017
Short-term compensation		
Fixed compensation	787	420
Variable performance-related compensation	507	367
Total	**1,295**	**787**
Long-term compensation		
Long-term performance-related compensation	40	22
Total	**40**	**22**
Total compensation	**1,334**	**809**

Individualized disclosures on Executive Board compensation and the IPO “Participation Bonus” paid out by mutares AG are included in the combined management report in the chapter “Compensation report”.

Compensation of the Supervisory Board

The total emoluments of the Supervisory Board amounted to 131 kEUR (2017: 0 EUR). Services totaling 5 kEUR were also compensated. In the prior year and in the reporting year until the compensation system came into effect, the Supervisory Board was not compensated separately by the Company. Two Supervisory Board members were delegated to the Board by the majority shareholder mutares AG.

Individualized disclosures on Supervisory Board compensation are included in the combined management report in the chapter "Compensation report".

There were no receivables to members of the Executive Board and the Supervisory Board as of December 31, 2018, and December 31, 2017.

In the periods presented, the Group neither granted nor received loans to or from members of the Executive Board and the Supervisory Board.

There were no pension obligations to members of the Executive Board and the Supervisory Board as of December 31, 2018, and December 31, 2017.

4.7 SHARE-BASED PAYMENT

4.7.1 Share option plan 2018

For executives of the Company, members of the management of subsidiaries, employees of the Company and employees of subsidiaries, STS Group AG established a share option plan in financial year 2018. An Annual General Meeting resolution of May 3, 2018 authorized the Company's representatives up to May 2, 2023 to grant a total of up to 500,000 options to 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 in the context of the plan provide entitlement to subscribe to equity instruments. An option grants the right to subscribe to one share of the Company. At the exercise date, shares in the Company that the Company has acquired or that the Company holds as treasury shares can be issued instead of satisfying the obligations with the contingent capital created for that purpose.

The maximum term of the individual options is seven years from the start of the individual allocation. It is planned to have an individual allocation of the options each year at the beginning of July in a total of five tranches until 2022. As vesting period before the initial exercise there is a vesting period of four years from the grant date. In addition, at the time of exercise, the option holder must be in an active employment relationship with a company in the Group which has not been terminated.

In line with the objective of a long-term increase in the value of the Company, as performance target and additional exercise condition the share option plan determines that the closing price of the Company in Xetra trading within a respective period of 12 months on a total of 60 stock exchange trading days for the period from July 1, 2018 to June 30, 2019 is at least 20% higher than the issue amount, and then from July 1, 2019 to June 30, 2027 respectively always at least 30% over the issue amount. If the performance target is not achieved in one year, this can be compensated for in the following year by achieving the performance target. Otherwise the relevant tranche of the option granted lapses.

Under this share option plan, a first tranche totaling 68,000 share options with an issue price of 18.77 EUR was issued to the beneficiaries as of July 2, 2018. The exercise price equates to 80% of the share's average, volume-weighted market price of the last 20 trading days before being granted.

SHARE OPTION PLAN

	2018
Number of options outstanding as of January 1, 2018	0
+ new options granted as of July 2, 2018	68,000
– exercised options	0
– forfeited options	0
Number of options outstanding as of December 31, 2018	68,000
thereof exercisable	0

Fair value of granted options in the financial year
The weighted average fair value of outstanding share options at the time they were granted was 3.18 EUR. Due to the relatively complex exercise conditions described, the value was calculated on the basis of the "Monte-Carlo simulation" option price valuation model, where possible paths are determined on the basis of a random number for all identifiable variables impacting the option price on the basis of an interval previously defined as plausible.

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

Due to the short history of the listed company, assumptions on volatility were made on the basis of historical revenue and income trends, taking into account benchmark companies.

The share option program was classified and measured as equity-settled in line with IFRS 2. In financial year 2018, staff costs from the share option plan of kEUR 27 (2017: EUR 0) were recognized in profit or loss.

4.7.2 Share option plan 2016

The shareholder mutares AG launched the mutares AG share option plan 2016 for employees by resolution of the General Meeting on June 3, 2016. It also covers members of the Management Board of its affiliated companies. The mutares AG option plan is dated October 13, 2016. Instead of a delivery and creation of new shares, the share options can be settled either with a corresponding number of treasury shares or in cash (difference between the exercise price and the reference price). As of December 31, 2018, there is no agreement according to which the Group has to pay compensation to mutares AG.

The share options have a term of six years. The options can be exercised after a vesting period of four years. They can be exercised after the vesting period at fixed times during the next two years (exercise period).

With the approval of the Supervisory Board, the Executive Board of mutares AG determines which employees are granted share options and how many share options they are to be granted.

There was only one option tranche of share-based payment agreements for members of the Company's Executive Board during 2018, and prior 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 as of the grant date of 1.28 EUR were granted to three members of the Company's Executive Board.

Fair value of share options granted in the reporting period
The weighted average fair value of the share options granted in 2018, was 3.02 EUR. The options were measured using a binomial option pricing model. The calculation of the expected option term included, if relevant, the management's best estimate of the following influencing factors: non-transferability, restrictions on exercise (including the probability that the market conditions coupled to the option will be met) and assumptions regarding exercise behavior. The expected volatility is based on the development of share price volatility in the last six years. With regard to the exercise date, it was assumed that the program participants will on average exercise the options at the end of the exercise period of two years, which equates to 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 reporting period, there was no change in share options with respect to the number of options or the weighted average exercise price.

The share options granted are not entitled to dividends and grant no voting rights. In accordance with IFRS 2, the share-based payments are treated as equity-settled share-based payment transactions. Personnel expenses recognized in 2018, amounted to 30 kEUR (2017: 21 kEUR).

4.8 EXECUTIVE BOARD AND SUPERVISORY BOARD

Members of the Executive Board

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

Chairman of the Board of Directors 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 Executive Board of:
STS Brazil Holding GmbH
STS Composites Germany GmbH

Stephan Vrublovsky
Chief Financial Officer (CFO)
Degree in economics

Member of the Board of Directors of:
STS Acoustics SpA

Member of the Executive 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 Board of Directors 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

Robin Laik
Chairman
Degree in business administration
CEO of mutares AG

Member of the Supervisory Board of:
mutares Automobilguss AG i.L.
mutares Holding-02 AG
mutares Holding-09 AG i. L.
mutares Holding-10 AG
mutares Holding-11 AG
mutares Holding-12 AG
mutares Holding-13 AG
GeesinkNorba Group AG (formerly: mutares Holding-14 AG)
mutares Holding-15 AG
mutares Holding-18 AG
mutares Holding-19 AG
mutares Holding-20 AG
mutares Holding-21 AG
mutares Holding-28 AG

Dr. Kristian Schleede
CRO mutares AG
Mechanical Engineering graduate

Member of the Supervisory Board of:
mutares Holding-03 AG
mutares Holding-08 AG i. L.
mutares Holding-11 AG
mutares Holding-12 AG
mutares Holding-13 AG
GeesinkNorba Group AG (formerly: mutares Holding-14 AG)
mutares Holding-15 AG
mutares Holding-18 AG
mutares Holding-20 AG
mutares Holding-30 AG i.L.
Zanders GmbH GmbH (until May 16, 2018)

Bernd Maierhofer (since May 3, 2018)
Degree in electrical engineering

Member of the Executive Board of:
VOSS Automotive GmbH

Dr. Wolf Cornelius (until May 2, 2018)
Degree in mechanical engineering
COO mutares AG

Member of the Supervisory Board of:
mutares Automobilguss AG i. L.
mutares Holding-02 AG
mutares Holding-03 AG
mutares Holding-08 AG i. L.
mutares Holding-09 AG i. L.
GeesinkNorba Group AG (formerly: mutares Holding-14 AG)
mutares Holding-22 AG
mutares Holding-26 AG
mutares Holding-27 AG
mutares Holding-29 AG
Zanders GmbH (until May 16, 2018)

Member of the Executive Board of:
mutares AG
Balcke-Dürr GmbH
Balcke-Dürr Italiana S.R.L.
Donges SteelTech GmbH

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

Declaration of compliance

The Executive Board and Supervisory Board of STS Group AG have provided the declaration of compliance required under Section 161 of the German Stock Corporation Act (AktG) and have made it available to shareholders on the STS Group website. The complete declaration of compliance can be found on the STS Group website https://ir.sts.group/websites/stsgroup/English/5300/corporate-governance.html.

Group affiliation

The Group is included in the consolidated financial statements of mutares AG, Munich, which prepares the consolidated financial statements for the smallest and largest group of companies. The consolidated financial statements of mutares AG are available at its headquarter in Munich and are published in the electronic Federal Gazette.

5 — ACCOUNTING POLICIES AND MEASUREMENT METHODS

5.1 SIGNIFICANT CHANGES OF ACCOUNTING POLICIES AND MEASUREMENT METHODS

The initial application of IFRS 9 and IFRS 15 since January 1, 2018, has resulted in transitional effects for the Group in the areas described below, which have led to a change in accounting policy. The Group has applied the modified, retrospective approach for the transition to IFRS 9 and IFRS 15.

The following table shows the changes from December 31, 2017, to January 1, 2018, resulting from the initial application of IFRS 9 and IFRS 15.

in kEUR	January 1, 2018	Effects IFRS 15	Effects IFRS 9	December 31, 2017
ASSETS				
Deferred tax assets	8,590	0	26	8,564
Non-current assets	**114,820**	**0**	**26**	**114,794**
Inventories	24,243	–3,881	0	28,124
Finished goods and goods for resale	4,796	–2,406	0	7,202
Work in progress	4,612	–1,475	0	6,087
Contract assets	6,011	6,011	0	0
Trade and other receivables	98,005	–1,227	–103	99,335
Current assets	**160,959**	**903**	**–103**	**160,159**
Total assets	**275,779**	**903**	**–77**	**274,953**
EQUITY AND LIABILITIES				
Retained earnings	60,069	341	–74	59,802
Total equity	**60,933**	**341**	**–74**	**60,666**
Contract liabilities	1,454	1,454	0	0
Deferred tax liabilities	7,089	110	–3	6,982
Non-current liabilities	**47,428**	**1,564**	**–3**	**45,867**
Contract liabilities	894	894	0	0
Other non-financial liabilities	31,995	–1,896	0	33,891
Current liabilities	**167,418**	**–1,002**	**0**	**168,420**
Total equity and liabilities	**275,779**	**903**	**–77**	**274,953**

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" has replaced IAS 39 "Financial Instruments: Recognition and Measurement". The new requirements of IFRS 9 firstly introduce a new model for categorizing financial assets. It makes categorization dependent on the type of business model used to manage the financial assets (business model criterion) and on the type of contractual cash flows of the financial assets (cash flow criterion). In association with this, IFRS 9 also introduces new categories for financial assets, which therefore replace the categories in IAS 39. The categorization for financial liabilities is essentially retained. Secondly, IFRS 9 introduces a new model for calculating impairment losses, which is based on expected credit losses. Under this model, impairment losses for expected credit losses are recognized in accordance with IFRS 9.5.5 for financial assets measured at amortized cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments. Expected credit losses are updated on each closing date on the basis of information available. The requirements for hedge accounting are also changed by IFRS 9.

The Group applied the new requirements of IFRS 9 "Financial Instruments" for the classification and measurement of financial instruments retrospectively in a modified manner in the reporting period, and made use of the exemption not to adjust comparative information from prior periods. Consequently, only the opening balance sheet as of January 1, 2018, was adjusted.

Classification and measurement of financial assets
In accordance with the new requirements of IFRS 9, the Group classifies financial assets in the new categories:

- amortized cost,
- fair value through other comprehensive income (debt instruments),
- fair value through profit or loss and
- fair value through other comprehensive income (equity instruments).

The changes to the requirements for categorization have had the following impact on categorization within the Group. Most financial assets are allocated to the "hold" business model and are measured at amortized cost. The Group still allocates trade receivables, which are sold as part of a factoring agreement without the receivables being disposed of as part of the sale of the receivables, to the "hold" business model and consequently to the "amortized cost" category. Within the business model criterion, the Group defines a sale as an actual sale that results in a disposal on the statement of financial position. According to the Group's interpretation, a purely legal sale without disposal is not a selling business model in accordance with IFRS 9. Receivables portfolios that are subject to the possibility of factoring involving the disposal of the receivables in question are allocated to the "hold and sell" category and measured at fair value through other comprehensive income (FVTOCI).

Securities previously categorized as "available for sale" under IAS 39 are measured at fair value through profit or loss (FVTPL), since they are debt instruments for which the cash flow criterion is not met.

Derivatives previously categorized as "held for trading" under IAS 39 are measured at fair value through profit or loss (FVTPL).

The other financial assets are allocated to the "amortized cost" category based on the differentiation criteria for categorization.

Impairment model for financial assets
IFRS 9.5.5 introduces a new impairment model. This applies to financial assets measured at amortized cost and at fair value through other comprehensive income (debt instruments), contract assets, loan commitments and financial guarantees. The previous model (incurred loss model) determined impairment on the basis of incurred losses, while the new model (expected loss model) is based on expected credit losses.

The Group applies the simplified approach according to IFRS 9 in order to measure expected credit losses; accordingly, full lifetime expected credit losses are recognized for all trade receivables and contract assets.

To measure the expected losses, financial assets were grouped on the basis of shared credit risk characteristics or individual default information was consulted. In any case, the calculation is based on current default probabilities as of the respective reporting date.

For the Group, this resulted in a transitional effect that decreased retained earnings by 74 kEUR as of January 1, 2018 (including deferred taxes in the amount of 29 kEUR). This is attributable exclusively to changed impairment allowances for trade receivables.

For the other assets under the scope of IFRS 9's altered impairment model, which are subject to the general approach, financial assets were grouped on the basis of shared credit risk characteristics or individual default information was consulted to measure the expected losses. In any case, the calculation is based on current default probabilities as of the respective reporting date. There were no material effects from this.

The table below contains a reconciliation of the carrying amounts of financial instruments. Changes in the carrying amounts result from changed impairment and are attributable exclusively to the "amortized cost" category, which was previously classified as "loans and receivables (LaR)". They are broken down by class of the consolidated statement of financial position and category according to IFRS 9 compared with the previous categories according to IAS 39.

in kEUR	December 31, 2017		January 1, 2018			
Financial assets by category	**Category according to IAS 39**	**Book value**	**Reclassi-fication**	**Revaluation**	**Book value**	**Category according to IFRS 9**
Other non-current financial assets		267			267	
Security deposits	LaR	209			209	AC
Securities	AfS	38			38	FVPL
Derivate instruments	FAHfT	20			20	FVPL
Trade and other receivables	LaR	99,336	–32,400	–103	66,833	AC
Trade and other receivables			32,400		32,400	FVOCI
Other current financial assets		13,050			13,050	
Loans to affiliated companies	LaR	5,000			5,000	AC
Miscellaneous other financial assets	LaR	8,050			8,050	AC
Cash and cash equivalents	LaR	15,836			15,836	AC
Financial liabilities by category						
Non-current financial liabilities						
Liabilities to banks	FLAC	9,663			9,663	FLAC
Third party loans	FLAC	6,645			6,645	FLAC
Liabilities from finance leases	n.a.	819			819	n.a.
Trade and other payables	FLAC	642			642	FLAC
Current financial liabilities						
Liabilities to banks	FLAC	7,094			7,094	FLAC
Liabilities from factoring	FLAC	37,159			37,159	FLAC
Third party loans	FLAC	1,097			1,097	FLAC
Liabilities from finance leases	n.a.	237			237	n.a.
Other financial liabilities	FLAC	26			26	FLAC
Trade and other payables	FLAC	83,847			83,847	FLAC

The reconciliation of the carrying amounts per category results as follows:

in kEUR	Category	December 31, 2017	January 1, 2018
Loans and receivables	LaR	128,431	
Available for sale	AfS	38	
Financial assets held for trading	FAHfT	20	
Financial liabilites at cost	FLAC	146,172	
Financial assets through profit and loss	FVPL		58
Financial assets through OCI	FVOCI		32,400
Financial assets at cost	AC		95,928
Financial liabilites at cost	FLAC		146,199

Because of the application of the new impairment model, there have been the following changes to impairments as a consequence of initial application of IFRS 9:

in kEUR	Impairment according to IAS 39 as of December 31, 2017	Revaluation	Impairment according to IFRS 9 as of January 1, 2018
Loans and receivables in accordance with IAS 39/ Financial assets measured at amortized cost	1,280	103	1,383

There were no material adjustment effects for all other assets under the scope of the new impairment model required by IFRS 9.5.5.1.

IFRS 15 “Revenue from Contracts with Customers”

The Group has applied IFRS 15 since January 1, 2018. This resulted in changes to accounting policies and adjustments to amounts recognized in the financial statements. In compliance with the transitional provisions of IFRS 15, the Group applied the new requirements retrospectively in a modified manner. The new standard was applied to contracts that had not yet been fulfilled as of January 1, 2018.

Customer tools

The new rules for revenue recognition according to IFRS 15 have applied since January 1, 2018. For contracts for first series tools, this has essentially not resulted in any change to the recognition date. Revenue is primarily recognized at the point in time at which control is passed to the customer. Advance payments received on customer tools are reported as a contract liability until the performance obligation is met and no longer as other liability.

Customer-specific products

The new requirements of IFRS 15 mean that customer-specific products have been subject to revenue recognition over time since January 1, 2018, if the products have no alternative use according to their specifications and the Group has an enforceable right to payment equal at least to a refund of the costs incurred due to the services already performed including an appropriate profit margin. This has resulted in inventories being realized prematurely with an appropriate margin, which are then reported as contract assets.

For the Group, the transition resulted in a transitional effect that increased retained earnings by 341 kEUR as of January 1, 2018.

The table below gives an overview of the effects of IFRS 15 on the consolidated financial statements as of December 31, 2018:

IFRS 15 – IMPACT ON CONSOLIDATED STATEMENT OF PROFIT OR LOSS

in kEUR	2018	Effects IFRS 15	2018 without application of IFRS 15
Revenues	401,228	251	400,977
Increase or decrease of finished goods and work in progress	5,790	−253	6,043
Earnings before income taxes	**−3,342**	**−2**	**−3,340**
Income taxes	−1,461	−14	−1,447
Net income	**−4,803**	**−16**	**−4,787**

IFRS 15 – IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in kEUR	December 31, 2018	Effects IFRS 15	December 31, 2018 without application of IFRS 15
ASSETS			
Contract assets	91	91	0
Deferred tax assets	7,953	–110	8,063
Non-current assets	**115,624**	**–19**	**115,643**
Inventories	29,934	–4,568	34,502
Finished goods and goods for resale	4,280	–2,969	7,249
Work in progress	11,125	–1,599	12,724
Contract assets	5,014	5,014	0
Trade and other receivables	81,050	–97	81,147
Current assets	**158,220**	**349**	**157,871**
Total assets	**273,844**	**330**	**273,514**
EQUITY AND LIABILITIES			
Retained earnings	55,266	324	54,942
Total equity	**82,409**	**324**	**82,085**
Contract liabilities	1,120	1,120	0
Deferred tax liabilities	3,999	13	3,986
Non-current liabilities	**39,171**	**1,133**	**38,038**
Contract liabilities	4,669	4,669	0
Other non-financial liabilities	27,135	–5,796	32,931
Current liabilities	**152,264**	**–1,127**	**153,391**
Total equity and liabilities	**273,844**	**330**	**273,514**

5.2 NEW STANDARDS AND INTERPRETATIONS

5.2.1 New standards and interpretations applicable for the first time

The following standards and interpretations were applicable by the Group for the first time in the financial year 2018:

Standard/ Interpretation		Issued by IASB	Endorsement by EU	First-time application in EU
IFRS 9	Financial Instruments	24.7.14	22.11.16	1.1.18
IFRS 15	Revenue from Contracts with Customers	28.5.14	22.9.16	1.1.18
Clarifications to IFRS 15	Revenue from Contracts with Customers	12.4.16	31.10.17	1.1.18
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	20.6.16	26.2.18	1.1.18
Amendments to IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	12.9.16	3.11.17	1.1.18
Amendments to IAS 40	Transfer of investment property	8.12.16	14.3.18	1.1.18
IFRIC 22	Foreign Currency Transactions and Advance Consideration	8.12.16	28.3.18	1.1.18
	Annual Improvements to IFRS Standards 2014 – 2016 Cycle	8.12.16	7.2.18	1.1.18

5.2.2 New standards and interpretations applicable in future

The following new or amended standards and interpretations have already been published by the IASB, but have not yet taken effect or have not yet been adopted into European law. The Company has not applied the standards early.

Standard/ Interpretation		Issued by IASB	Endorsement by EU	Mandatory application	Impacts
IFRS 16	Leases	13.1.16	31.10.17	1.1.19	significant impacts
Amendments to IFRS 3	Business Combinations	22.10.18	no	1.1.20	no material impacts expected
Amendments to IFRS 9	Features with Negative Compensation	12.10.17	22.3.18	1.1.19	no material impacts expected
Amendments to IAS 1 and IAS 8	Definition of materiality	31.10.18	no	1.1.20	no impacts
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	7.2.18	no	1.1.19	no material impacts expected
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	12.10.17	8.2.19	1.1.19	no material impacts expected
IFRIC 23	Uncertainty over Income Tax Treatments	7.6.17	23.10.18	1.1.19	no material impacts expected
IFRS 17	Insurance Contracts	18.5.17	no	1.1.21	no impacts
	Changes in Conceptual Framework in IFRS Standards	29.3.18	no	1.1.20	no impacts
	Annual Improvements to IFRS Standards 2015 – 2017 Cycle	12.12.18	no	1.1.19	no material impacts expected

IFRS 16 "Leases"

IFRS 16 was published in January 2016; it replaces IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Legal Transactions in the Legal Form of a Lease" and application is mandatory for financial years beginning on or after January 1, 2019.

IFRS 16 includes a comprehensive model for identifying leases and for accounting by lessors and lessees.

IFRS 16 applies to all leases. According to the standard, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lessees no longer have to classify each lease as an operating lease or a finance lease. Instead, lessees have to recognize a right to use the leased asset (right-of-use (RoU) asset) and a corresponding lease liability. The only exceptions to this are short-term leases and leases for low-value assets. The RoU asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. In subsequent periods, the RoU asset (apart from two exceptions) is measured at amortized cost. The lease liability is initially measured at the present value of the lease payments payable over the lease term. Subsequently, interest is added to the carrying amount of the lease liability at the rate used for discounting and reduced by the lease payments made. Changes in the lease payments result in remeasurement of the lease liability.

In contrast, lessors still have to distinguish between finance and operating leases as per the accounting known from IAS 17 Leases. The criteria for evaluating a finance lease were carried forward unchanged from IAS 17.

In addition, the disclosure obligations for lessees and lessors in IFRS 16 are much more extensive than in IAS 17. The objective of the disclosures is for information to be provided to users of financial statements so that they can better understand the effects of leases on financial position and financial performance.

The Group plans to apply the new IFRS 16 standard governing leases retrospectively in a modified manner. For the transition to IFRS 16, it will make use of the option of measuring RoU assets at the same value as lease liabilities. Extension and termination options will also be measured on the basis of current information as a result of the conversion to IFRS 16. For the transition, IFRS 16 will not be applied to contracts that were not previously classified as leased assets in accordance with IFRIC 4 or IAS 17.

The Group plans to make use of the simplification options of IFRS 16 for low value assets and for short term leases (leases with a term of less than 12 months). A reference value of 5 kEUR is used for low value assets.

The Group has also decided to apply IFRS 16 to other intangible assets. Lease and service components must be shown separately at STS. A uniform interest rate is also applied to similar leased assets combined as portfolios (e.g. combined according to value, term, credit spread, country, currency or collateral).

The following key assumptions were made to determine matched-maturity interest rates, which are used to calculate the present value of lease liabilities:

Benchmark interest rates:

- In principle, benchmark interest rates are based, if available, on the yields of government bonds with the same maturities, which can be downloaded from the Bloomberg financial information system.
- In cases where original returns on government bonds in the desired currency were not available, synthetic yields are deduced based on available yield curves in USD or EUR, country risk premiums (to take account of country-specific credit quality) and inflation differentials (for translation into the target currency).
- Country risk premiums are based on the credit default swap spreads of the respective countries, which can be downloaded from the Bloomberg financial information system.
- Inflation differentials are based on data from the "World Economic Outlook Database October 2018", which was published by the International Monetary Fund (IMF).

Entity-specific credit risk premiums:

- Specific credit ratings were carried out for the segments using the "S&P Credit Analytics" financial information system.
- The synthetic rating grades (as per S&P Credit Analytics) of the individual segments fall within a range of B+ to B-.
- Rating-dependent credit risk premiums were determined (for reasons of availability) on the basis of US corporate bonds and US government bonds.
- Since there are scarcely any differences in the interest rates determined for the individual segments, a uniform credit risk premium was applied to all segments.

Contract-specific adjustments:

- No account was taken of contract-specific adjustments.

The effects of IFRS 16 on the Group were analyzed during the last financial year. The effects expected from the initial application of IFRS 16 are presented below:

Effects (shown as increase/decrease) at the level of statement of financial position items as of December 31, 2018:

in kEUR	
Assets	
Right of use leased asset	+20,502
Liabilities	
Lease liabilities	+20,502
thereof non-current lease liabilities	+17,146
thereof current lease liabilities	+3,356

The application of the low-value exemption affects assets with historical costs totaling 966 kEUR as of December 31, 2018.

The following weighted average incremental borrowing rates (IBR) were used for discounting as of December 31, 2018:

in %	weighted average IBR
Company	
Inoplast Trucks S.A. de C.V.	9.728
STS Brazil Ltda.	9.030
STS Poland Sp. z o.o.	5.624
STS Plastics Co., Ltd. (China)	5.202
STS Acoustics SpA	5.089
STS Composites France SAS	2.391
STS Group AG	2.369
MCR SAS	2.118
STS Plastics SAS	1.457
STS Composites Germany GmbH	1.167

The application of IFRS 16 will increase EBITDA in future especially because of cases in which the Group acts as lessee. Interest and similar expenses will also increase as a result of the conversion. The increase in total assets will be another effect.

For leases for which the Group is the lessor, the Executive Board assumes that the application of IFRS 16 will not have significant effects on the consolidated financial statements.

IFRS 17 "Insurance Contracts"

In May 2018, the IASB published IFRS 17 "Insurance Contracts", which invalidates the previous IFRS 4 "Insurance Contracts". The new standard aims to ensure that insurance contracts are accounted for in a consistent, principles-based manner and requires insurance liabilities to be measured at a current settlement amount. This leads to more uniform measurement and presentation of all insurance contracts. IFRS 17 is applicable for the first time for financial years beginning on or after January 1, 2021. In principle, first-time application must be retrospective. The Group does not expect it to have any effects on the consolidated financial statements because it does not hold any corresponding insurance contracts.

IFRS 9 "Financial Instruments"

In October 2017, the IASB published amendments to IFRS 9 "Financial Instruments" concerning prepayment features with negative compensation. The amendments to the standard allow entities to measure certain prepaid financial assets with negative compensation at amortized cost or at fair value through other comprehensive income – instead of fair value measurement through profit of loss – if the negative compensation constitutes adequate compensation for the premature termination of the contract and the financial asset is allocated to the “hold” business model. The amendments to IFRS 9 are applicable for the first time to financial years beginning on or after January 1, 2019. For the Group, this will have no material effects on the consolidated financial statements.

IFRIC 23 “Uncertainty over Income Tax Treatments”

In June 2016, the IASB published IFRIC 23 “Uncertainty over Income Tax Treatments”. The interpretation explains how deferred and current tax assets and liabilities are to be accounted for and measured if there are uncertainties about their tax treatment. Although there are no new disclosures, the entity must review its accounting judgments and estimates when facts or circumstances change. IFRIC 23 becomes effective for reporting periods beginning on or after January 1, 2019. The application of IFRIC 23 may affect the consolidated financial statements if there are transactions with uncertain income tax treatment.

IAS 19 “Employee Benefits”

In February 2018, the IASB published amendments to IAS 19 “Employee Benefits” concerning a plan amendment, curtailment or settlement. In future, if a defined benefit pension plan is being amended, curtailed or settled, recalculation, taking account of current actuarial assumptions, the current service cost and net interest for the remaining financial year, which were used for the requisite revaluation of the net liability (asset), will be mandatory. Additions are also included to clarify the effect that a plan amendment, curtailment or settlement would have on the requirements for the asset ceiling. The amendments to IAS 19 are applicable for the first time to financial years beginning on or after January 1, 2019. The amendments to IAS 19 may affect the consolidated financial statements if such plan amendments, curtailments or settlements occur in the future.

IAS 28 “Investments in Associates and Joint Ventures”

In October 2017, the IASB published amendments to IAS 28 “Investments in Associates and Joint Ventures” concerning non-current investments in associates and joint ventures. The amendments make clear that an entity is obliged to apply IFRS 9 “Financial Instruments” including its impairment provisions to non-current investments in associates or joint ventures, which essentially constitute part of the net investment in the associate or joint venture and cannot be recognized in accordance with the equity method. Application of IFRS 9 therefore takes precedence over application of IAS 28. The amendments to IAS 28 are applicable for the first time to financial years beginning on or after January 1, 2019. The Group currently does not expect it to have any material effects on the consolidated financial statements.

IFRS 3 “Business Combinations”

In October 2018, the IASB published amendments to IFRS 3 “Business Combinations”. The amendments aim to solve the problems that arise when an entity determines whether it has acquired a business or a group of assets. The amendments to IFRS 3 are applicable for the first time to financial years beginning on or after January 1, 2019. The amendments to IFRS 3 may affect the consolidated financial statements if such transactions are carried out in the future.

5.3 INTANGIBLE ASSETS

Acquired intangible assets, including software and licenses and internally generated intangible assets, are recognized at cost.

To determine the recognition of internally generated intangible assets, research and development expenses are to be separated. Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized as an expense in the period it is incurred.

The recognition of internally generated intangible assets is based on the cumulative fulfillment of IAS 38 recognition criteria : The technical feasibility of the development project and a future economic benefit from the development project must be demonstrated and the Company must have the intent and the ability to complete the intangible asset, to use it or sell it. Furthermore, adequate technical, financial and other resources must be available to complete and it must be possible to reliably determine the attributable expenditure for the intangible asset during its development.

The recognized costs cover the directly attributable costs for the development process and development-related overheads. According to IFRS, borrowing costs that are directly attributable to the acquisition, construction or production of a so-called qualifying asset should be recognized as part of cost. In the reporting and comparative period, no qualified assets were acquired or generated for which it would have been necessary to recognize borrowing costs

If a useful life can be determined, then these intangible assets are amortized on a straight-line basis over the useful life. The following useful lives are used for depreciation:

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	1 – 20

Currently, the Group has no intangible assets with indefinite useful lives.

5.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized at cost less accumulated depreciation, if the asset is depreciable, and impairments.

The cost of an item of property, plant and equipment covers all costs directly attributable to the acquisition of the asset. Repairs and maintenance are recognized in the consolidated income statement as an expense in the reporting period in which they are incurred. Initially internally generated assets are recognized with the directly attributable production costs and production-related overheads.

Depreciation is recognized on a straight-line basis over the estimated useful life in the consolidated income statement.

The following useful lives are mainly used:

FIXED ASSETS

	Useful life in years
Land and buildings	1 – 40
Technical equipment and machinery	1 – 20
Operating and office equipment	1 – 13

Assets leased under finance leases are depreciated over the shorter of the lease term and its useful life. Land is not depreciated.

To the extent there are material elements of property, plant and equipment that contain components with considerably deviating using lives, then these are recognized separately and depreciated over the respective useful life.

According to IFRS, borrowing costs that are directly attributable to the acquisition, construction or production of a so-called qualifying asset should be recognized as part of cost. In the reporting and comparative period, no qualified assets were acquired or generated for which it would have been necessary to recognize borrowing costs.

The residual values and economic useful lives are checked to the end of every reporting period and adjusted where appropriate. The economic useful lives are based on estimates and to a large extent on experience in relation to historical use and technical development.

Gain and loss arising from disposals of assets shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss.

If there are indications of an impairment loss and if the carrying amount of property, plant and equipment exceeds the recoverable amount, impairment losses are recognized. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If the reason for impairment taken no longer applies, a reversal to historical cost is undertaken.

5.5 IMPAIRMENT

For assets with a specific useful life, in accordance with IAS 36 a test is made at the end of the reporting period if there are indications of material impairment e.g. specific events or market developments which indicate a possible loss in value. In the reporting and prior period, there were no indications of impairment on depreciable intangible assets. A review of the recoverable amount for a CGU in the financial year showed indications of impairment on property, plant and equipment (please refer to Section 3.2 Property, plant and equipment).

Intangible assets with indefinite useful lives and internally generated assets under construction must be tested for impairment at the end of each reporting period. In the reporting period, there were no intangible assets with indefinite useful lives.

In the case of indications for impairment or during the obligatory annual impairment test for intangible assets with indefinite useful lives, the recoverable amount of the asset is determined. The recoverable amount of an asset is the higher of the fair value of the asset or CGU less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from 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 a group of assets are allocated until an aggregation of assets that generates largely independent cash inflows is established. This is also the case for goodwill. Goodwill resulting from a business combination is allocated from the date of acquisition to the CGU or group of cash-generating units that is expected to benefit from the synergies of the combination and at which level the goodwill is monitored for internal management purposes. The Group has seven CGUs, two of which are in the Acoustics segment, three of which are in the Plastics segment. The China segment and the Materials segment both constitute a separate CGU.

To determine the value in use, the expected cash flows are discounted to the present value on the basis of a pre-tax discount rate reflecting the current market assessments with respect to the interest effect and the specific risks of the asset. In determining the value in use, account is taken of the current and future expected income level as well as technological, economic and general development trends on the basis of approved financial budgets. To determine the fair value less costs to sell, account is taken of any recent market transactions.

If the carrying amount exceeds the recoverable amount of the asset or the CGU, an impairment loss is recognized in profit and loss at the level that the carrying amount exceeds the recoverable amount.

For goodwill, if the impairment requirement is higher than the carrying amount of the goodwill of the CGU, then the goodwill is first fully amortized and the remaining impairment requirement distributed to the other assets of the CGU. Account is taken of the necessary impairment on individual assets of the CGU in advance of goodwill impairment testing. There is currently no goodwill.

Reversals on the new recoverable amount are made, except for goodwill, when the reasons for the impairment in previous year no longer apply. The upper limits for reversals are the depreciated historical costs which would have resulted if no impairments has been recognized in previous years. In the reporting and comparative period, there were no reversals on intangible assets or property, plant and equipment.

5.6 RECOGNITION OF LEASES

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The companies of STS Group AG conclude contracts only as a lessee.

Leases are classified as a finance lease if the leasing conditions transfer substantially all the risks and rewards incidental to lessor. Assets that are rented or leased and whose economic ownership is at the respective group company ("finance lease") are recognized at the lower of fair value or present value of the future leasing payments at the beginning of the contract. Correspondingly, liabilities at the same level are recognized in the statement of financial position against the lessor under "financial liabilities". In measuring present value, the interest rate underlying the agreement is used – and if not available – the marginal refinancing rate. The depreciation of these assets and the reversal of the liability take place across the contract period. If the useful life of the asset is shorter than the contract period, then this is relevant for determining the depreciation period. While the leased asset is subject to straight-line depreciation over the term of the leasing agreement, the relevant leased liability is amortized on a progressive basis using the effective interest method. As a result, during the period of the leasing agreement there is a difference between the leasing obligation and the carrying amount of the leasing object.

Lease payments under an operating lease are recognized as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Operating leases exist mainly for buildings, office space, technical equipment and machinery, office equipment as well as vehicles and hardware.

The Group does not appear as a lessor.

5.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash, immediately disposable bank assets and short-term deposits at banks, all of which have an original term below three months. Utilized bank overdrafts are recognized under current finance liabilities.

5.8 FINANCIAL INSTRUMENTS

In accordance with IAS 32, a financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. According to IFRS 9, they can include non-derivative financial instruments, such as trade receivables and payables, as well as derivative financial instruments.

Upon initial recognition, financial assets and financial liabilities are designated at fair value, which generally corresponds to the transaction price. Transaction costs which are directly attributable to the acquisition or issue of the financial instrument are only then recognized at carrying amount if the corresponding financial instrument is not measured at fair value through profit or loss. In the case of trade receivables that do not have a significant financing component, the transaction price set out in IFRS 15 is consistently applied. Subsequent measurement depends on the classification of the financial instruments.

In principle, regular way purchases or sales of financial assets and liabilities are recognized on the trading day.

Financial assets and liabilities are only netted if offsetting is legally enforceable at the present time and there is an intention to actually offset. These conditions are not met. Global netting agreements or similar agreements also do not exist, so that STS Group neither has balance sheet netting nor circumstances arise in which netting is possible.

5.8.1 Financial assets

A financial asset is any asset that is in particular:

- Trade and other receivables,
- Other financial assets and
- Cash and cash equivalents

Financial assets with a remaining term of more than twelve months are presented separately as non-current financial assets.

Financial assets are classified on the basis of the underlying business model and the cash flow criterion, which stipulates that the contractual cash flows of a financial asset may consist solely of interest and repayment of the outstanding principal amount of the financial instrument. The cash flow criterion is always checked at the level of the individual financial instrument. The assessment of the business model relates to the question of how financial assets to generate cash flows are managed. Management may either aim to hold assets, sell assets or a combination of the two.

The Company splits financial assets into one of the following categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through other comprehensive income with recycling (debt instruments)
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income without recycling (equity instruments)

Financial assets at amortized cost (debt instruments)

The most significant category of financial assets for the Group is the category of assets measured at amortized cost in relation to debt instruments. Measurement at amortized cost is chosen if both of the following conditions are met:

- The business model for managing these financial instruments is geared towards holding them to achieve the underlying contractual cash flows and
- The contractual cash flows achieved herefrom consist solely of payments of principal and interest on the principal amount outstanding.

Subsequent measurement of these financial assets takes place in accordance with the effective interest rate and is subject to the provisions for impairment specified in IFRS 9.5.5 et seq. Within the Group, essentially trade receivables, other assets and bank balances are allocated to this category. For further details, please refer to Section 4.3.1 Financial instruments.

The Group still allocates trade receivables, which are sold as part of a factoring agreement without the receivables being disposed of as part of the sale of the receivables, to the “hold” business model and consequently to the “amortized cost” category. Within the business model criterion, the Group defines a sale as an actual sale that results in a disposal on the statement of financial position. According to the Group’s interpretation, a purely legal sale without disposal is not a selling business model in accordance with IFRS 9. Receivables portfolios that are subject to the possibility of factoring involving the disposal of the receivables in question are allocated to the “hold and sell” category and measured at fair value through other comprehensive income (FVTOCI).

Financial assets at fair value through other comprehensive income with recycling (debt instruments)

Measurement at fair value through other comprehensive income with recycling is chosen for debt instruments if both of the following conditions are met:

- The business model for managing these financial instruments is geared towards holding them to achieve the underlying contractual cash flows and also towards selling them.
- The contractual cash flows achieved herefrom consist solely of payments of principal and interest on the principal amount outstanding.

For these financial assets, interest, foreign currency measurement effects and expense and income associated with impairment losses are recognized in the income statement through profit or loss. The remaining changes are recognized in other comprehensive income and reclassified to profit or loss on disposal (recycling) according to the provisions of IFRS 9.

Within the Group, essentially receivables, which are associated with a factoring agreement with disposal of the relevant receivables, are allocated to this category.

Financial assets at fair value through profit or loss
The category comprises financial assets, which are held for trading purposes, financial instruments subject to application of the fair value option, financial assets for which measurement at fair value is compulsory and equity instruments measured at fair value through other comprehensive income. They are deemed to be held for trading purposes if a purchase or sale is envisaged in the short term. Derivatives that are not part of a hedge are always held for trading purposes. Financial assets, which do not meet the cash flow criterion, are always measured at fair value through profit or loss regardless of the underlying business model. The same measurement ensues for financial assets subject to a "sell" business model.

The fair value option for financial assets is not used.

Any changes to the fair value of these instruments is recognized in profit or loss.

Financial assets at fair value through other comprehensive income without recycling (equity instruments)
When recognizing an equity instrument for the first time, the Group has the irrevocable option of measuring it at fair value through other comprehensive income. To do so, it must be an equity instrument as defined in IAS 32, which is not held for trading purposes and is not a contingent consideration within the meaning of IFRS 3. The option is exercised separately for each equity instrument.

Gains or losses from such a financial asset are not reclassified in profit or loss on disposal (no recycling). Dividends from such instruments are recognized through profit or loss. Equity instruments, which are measured at fair value through other comprehensive income, are not subject to the provisions for impairments.

5.8.2 Impairment of financial assets

Financial assets with the exception of financial assets measured at fair value through profit or loss, contract assets in accordance with IFRS 15, lease receivables, loan commitments and financial guarantees are subject to the impairment model required by IFRS 9.5.5. Accordingly, the Group recognizes an impairment loss for these assets based on the expected credit losses. Expected credit losses result from the difference between the contractually agreed cash flows and the expected cash flows, measured at present value with the original effective interest rate. The expected cash flows also include revenue from the sale of collateral and other credit enhancements that are an integral component of the respective contract.

Expected credit losses are recognized in three levels. For financial assets for which no significant increase in the default risk has ensued since initial recognition, the impairment is measured at an amount equal to 12-month expected credit losses (level 1). In the case of a significant increase in the default risk, the expected credit loss for the remaining term of the asset is established (level 2). In principle, the Group assumes that the credit risk has increased significantly if it is past due by 30 days. This principle can be refuted if, in the respective individual case, dependable and reliable information indicates that the credit risk has not increased. If there is objective evidence of impairment, the underlying assets must be allocated to level 3. Objective evidence of impairment is assumed when the past due figure is larger than 90 days, unless in the respective individual case, dependable and reliable information indicates that a longer past due figure is more suitable. In addition, payment refusal and similar is regarded as objective evidence.

The class of assets of relevance to the Group for the application of the impairment model are trade receivables and contract assets. For these, the Group applies the simplified approach in accordance with IFRS 9.5.15. Subsequently, the loss allowance is always measured at an amount equal to the lifetime of expected credit losses. For further details on determining impairment, please refer to Section 4.3.1 Financial instruments.

For financial assets, which are measured at fair value through other comprehensive income as a debt instrument, the Group considers all reasonable and dependable information that is available without undue cost and effort to review a possible significant increase in the expected credit risk. To do so, it relies in essence on the associated probability of default. Rating information is used to determine the probability of default. The Group only holds instruments where the default risk is low.

For the other assets under the scope of IFRS 9's altered impairment model, which are subject to the general approach, financial assets were grouped on the basis of shared credit risk characteristics or individual default information was consulted to measure the expected losses. In any case, the calculation is based on current default probabilities as of the respective reporting date.

In principle, the Group assumes a default if the contractual payments are more than 90 days past due. In addition, it consults internal or external information in individual cases, which indicate that the contractual payments may not be made in full. Financial assets are derecognized if there is no justifiable expectation of future payment.

5.8.3 Financial liabilities

Financial liabilities establish a repayment obligation in cash or 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 initial recognition of financial liabilities, please refer to the description of financial assets. Financial liabilities are measured in principle at amortized cost using the effective interest rate method (financial liabilities through amortized cost, FLAC). All financial liabilities held for trading purposes fall under the category of financial liabilities at fair value through profit or loss (FLtPL). These include derivatives that are not part of a hedge and financial instruments for which the fair value option was exercised.

The liability is classified as current because, at the end of the reporting period date, the entity does not have an unconditional right to defer its settlement to at least twelve months after the balance sheet date.

The fair value option for debt instruments in accordance with IFRS 9 is not used.

5.8.4 Derecognition of financial assets and liabilities

Financial assets are derecognized if the rights to payments have expired or been transferred and the Group transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

Financial liabilities are derecognized if the liability is extinguished, meaning that the contractual obligation is discharged, canceled or expires.

5.8.5 Derivative financial instruments

Within the Group, derivative financial instruments are used to manage risks from interest rate changes. Derivative financial instruments are initially measured as financial assets or liabilities at their fair value in the category of financial assets, which are measured at fair value through profit or loss, or financial liabilities, which are measured at fair value through profit or loss. Attributable transaction costs are recognized as an expense in the period in which they are incurred. With the exception of derivatives used as hedging instruments that are designated as hedging instruments in a cash flow hedge, all derivatives are measured at fair value through profit or loss. They are reported as “Other financial assets” or “Other financial liabilities” in the consolidated balance sheet.

The Group currently does not undertake any hedge accounting.

5.9 INVENTORIES

Inventories are measured at the lower of cost and net realizable value. Cost of raw materials, consumables and supplies is determined using the rolling average In addition, incidental acquisition costs are taken into account: Work in progress and internally generated finished goods are recognized at cost. Cost includes, not only material, production and special individual costs of production, plus an allocation of appropriate parts of 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 of completion and the estimated costs necessary to make the sale.

5.10 CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets accrue from the recognition of revenue over time. This is primarily the case for the Group if the products have no alternative use according to their specifications and there is an enforceable right to payment equal at least to a refund of the costs incurred due to the services already performed including an appropriate profit margin. In these cases, the Group recognizes revenue on the basis of the input-oriented cost-to-cost method (applied for customer tools) or an output method (applied for series production). Since revenue is recognized before the date on which the Group has an unconditional right to receive consideration, a contract asset is recognized. If the Group is not able to determine the amount of the margin with sufficient certainty, revenue is recognized in accordance with the zero profit margin method. The margin is not recognized until the end of the project.

Contract liabilities result in essence from advance payments received from customers if these are associated with a customer order and the products have not yet been delivered or the service not yet supplied.

Contract assets and contract liabilities are netted at contract level. Depending on the remaining term, they are reported as current or non-current.

The impairment provisions of IFRS 9 are applied to contract assets.

5.11 PENSIONS AND SIMILAR OBLIGATIONS

The Group has pension obligations from defined benefit pension plans. Pension obligations are measured in accordance with IAS 19 using the projected unit credit method on the basis of actuarial reports. Recognized here are not only pensions known and vested at the end of the reporting period but also expected future increases of pensions and salaries.

Net interest expense of the reporting period is determined by multiplying the net obligation and the underlying discount rate.

Actuarial gains and losses from the measurement of the defined-benefit gross obligation and adjustments are recognized in other comprehensive income and presented separately in the statement of comprehensive income. Expenses from unwinding performance obligations are recognized in the financial result. Current service costs is recognized in staff costs, with past service cost from plan changes recognized immediately through profit and loss.

5.12 OTHER PROVISIONS

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (please refer to IAS 37.14).

The provision amount is recognized at the expected settlement amount. Non-current provisions are discounted on the basis of the relevant market interest rates to the end of the reporting period.

5.13 RECOGNITION OF INCOME AND EXPENSE

Sales are recognized as revenue at the fair value of the consideration received or receivable, less any returns, trade discounts and volume rebates.

5.13.1 Sale of goods

The Group recognizes revenue when control over goods or services that are distinct passes to the customer. The customer must therefore have the ability to direct the use of, and obtain substantially all of the remaining benefits from it. The basis for this is a contract between the Group and the customer. The parties must have approved the contract and the individual agreements contained therein, the individual obligations of the parties and the payment terms must be ascertainable, the contract must have commercial substance and it must be likely that the Group will receive consideration for the service supplied. There must therefore be enforceable rights and obligations. The transaction price typically corresponds to revenue. If the contract contains more than one distinct performance obligation, the transaction price will be allocated to the individual performance obligations on the basis of the relative stand-alone selling prices. If no stand-alone selling prices are observable, the Group will estimate them. The individual identified performance obligations are either recognized over a particular period of time or at a 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 to the customer. The projects have an average term of six to 24 months. Typically, the Group receives advance payments from customers for these performance obligations on the basis of an agreed advance payment plan over the term of the project. The Group judges that these do not currently include a significant financing component based on the term that has to be accounted for separately. If the Group has no alternative use for the customer tools according to their specifications and there is an enforceable right to payment equal at least to a refund of the costs incurred due to the services already performed including an appropriate profit margin, revenue is recognized over a period of time. However, the zero profit margin method is used because of the uncertainty with regard to the margin to be realized. Should there be no enforceable right to payment including an appropriate margin, revenue is recognized at the date control is transferred to the customer through acceptance.

Customer-specific products
The new requirements of IFRS 15 mean that customer-specific products have been subject to revenue recognition over time since January 1, 2018, if the products have no alternative use according to their specifications and the Group has an enforceable right to payment equal at least to a refund of the costs incurred due to the services already performed including an appropriate profit margin. For the Group, this applies to large parts of series production of customer-specific parts. Typically, payments are due no later than 90 days after customer acceptance.

Other goods
Revenue from the sale of other goods is recognized when control is transferred to the buyer. Depending on the respective customer contract and the respective order, the time of revenue recognition regularly is the same at the time of delivery or acceptance. Typically, payments are due no later than 90 days after customer acceptance.

5.13.2 Other income and expenses

Interest is recognized on an accrual base as income or expense using the effective interest method. Interest income and interest expense accrue mainly from bank balances, loans as well as leases and factoring agreements. Dividend income is recognized at the date that the right to receive the payment arises.

Expenses are recognized when the service is used or as of the date on which they occur.

Research costs are recognized through profit or loss in the period in which they are incurred. Expenses for development are recognized in profit and loss when incurred, unless they are development costs which must be recognized as intangible assets as a result of the relevant conditions according to IAS 38 being present.

5.14 INCOME TAXES

Income taxes are the amount of current and deferred taxes.

5.14.1 Current taxes

Current taxes are calculated on the basis of the taxable income for the year. Taxable income is different from the net profit from the consolidated statement of comprehensive income due to expenses and revenue which in subsequent years or never are taxable or deductible for tax purposes. Group liabilities for current taxes are calculated on the basis of existing tax rates or tax rates soon to be applied from the perspective of the reporting date.

5.14.2 Deferred tax

In accordance with IAS 12, deferred taxes are determined on the basis of the internationally used balance sheet liability method. Deferred tax items are established for all temporary differences between the tax bases and the tax bases in the consolidated statement of financial position and for tax loss carry-forwards.

Deferred taxes on these calculated differences are only recognized when they result in deferred tax liabilities. Deferred tax assets are only considered when it is probable that the relevant tax advantages are also realized. Deferred tax assets and liabilities are also recognized on temporary differences which occur in the framework of business combinations, with the exception of temporary differences on goodwill, to the extent these are ignored for tax purposes.

To calculate deferred tax, the tax rates of future years are used to the extent they are already legally stipulated or the legislative process has been largely completed. Changes of deferred tax in the statement of financial position result in deferred tax income or deferred tax expenses. If certain facts which result in a change in deferred taxes are recognized directly in equity, then the change in deferred taxes is also recognized directly in equity.

5.15 GOVERNMENT GRANTS

Government grants, including non-monetary grants at fair value, shall not be recognized until there is reasonable assurance that:
a) the enterprise will comply with the conditions attaching to them and
b) the grants will be received.

Grants are recognized as income over the periods in which the related costs where there are intended to compensate are incurred. Grants received as compensation for expenses incurred are recognized through profit in loss in the period in which they are incurred.

Government grants in connection with STS MCR S.A.S, France, amounting to 93 kEUR in the financial year ending December 31, 2018 (2017: 156 kEUR) reduced the cost of the underlying building and are reported as reduced depreciation over the useful life of the underlying building.

5.16 CRITICAL ESTIMATES AND JUDGMENTS

In the process of applying the accounting policies, Group management made judgments that significantly influence the amounts recognized in the consolidated financial statements. Accordingly, the preparation of the consolidated financial statements requires to a certain degree assumptions and estimates that affect the amount and disclosure of the assets and liabilities, income and expenses, and contingent liabilities recognized for the reporting period. They relate primarily to the assessment of the recoverability of assets, the Group's uniform definition of economic useful lives for property, plant and equipment and the recognition and measurements provisions.

The assumptions and estimates are premised on the knowledge currently available. In particular, the expected future business performance was based on the circumstances at the time the consolidated financial statements were prepared and the future development of the environment estimated to be realistic. If these framework conditions develop differently than assumed and outside of the management's sphere of influence, the actual amounts achieved can differ from the original estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, due to which there is a significant risk that an adjustment to the carrying amounts of assets and liabilities will be necessary in upcoming reporting periods, are described below.

5.16.1 Estimates in purchase price allocation

Business combinations generally involve estimates relating to the calculation of the fair value of the acquired assets and liabilities. Land, buildings, technical equipment and machinery are usually valued by an independent expert, while marketable securities are carried at their market value. Appraisals of the market values of property, plant and equipment are subject to an element of uncertainty due to the use of necessary assumptions. For intangible assets, the fair value is determined using suitable measurement methods, which are generally based on a forecast of all future cash flows. Depending on the type of asset and the availability of information, various measurement techniques are used that can be categorized as based on cost, market price or capital value. The method based on capital value is important because of its particular significance in measuring intangible assets. For example, licenses are measured using the relief-from-royalty method, which among other things estimates the cost savings that result from the Company holding the brands and licenses itself and not having to pay fees to the licensor. After discounting, the resulting saving gives the carrying amount for the intangible asset. Calculations of the values of intangible assets particularly require estimates of their economic useful lives, which are subject to an element of uncertainty due to the use of assumptions. The calculation of fair values of contingent liabilities likewise requires assumptions about their probable occurrence. These assumptions are by nature also subject to an element of uncertainty.

5.16.2 Definition of the useful lives of property, plant and equipment and of software and licenses

The Company bases its estimates of the useful lives of assets on past experience. However, accelerated technological progress means that, for example, faster depreciation and amortization may be necessary.

5.16.3 Classification as operating or finance lease

Lease classification depends primarily on estimates of the economic useful life of the leased asset, its fair value at the date of classification and assumptions or estimates of the discount rate to be used.

5.16.4 Expected credit losses

Please refer to Section 4.3.2 Financial risk management sub-section Credit and default risk for a description of the estimates and assumptions underlying expected credit losses.

5.16.5 Recognition of deferred tax assets and deductible temporary differences

Deferred tax assets are recognized for tax loss carryforwards and deductible temporary differences provided the realization of the associated tax advantage through future taxable profit is considered likely on the basis of the management's profit forecasts for Group companies.

5.16.6 Provisions

Provisions differ from other liabilities in terms of uncertainties regarding the timing or amount of expenditures required in the future. A provision must be recognized when the Company has a present obligation (legal or constructive) as a result of an event in the past, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (please refer to IAS 37.14).

There are considerable recognition and measurement uncertainties due to differing economic and legal assessments and the difficulties of determining the probability of occurrence.

The measurement of pension provisions requires actuarial assumptions. These assumptions depend on individual estimates by the management.

5.16.7 Revenue recognition

In accordance with IFRS 15, determination of the amount and timing of revenue from contracts with customers is subject to the entity's accounting judgment. For contracts for first series tools, which are fulfilled over a period, the cost-to-cost input method is usually used as, in the opinion of the Company, the rate at which costs are incurred during the projects conveys an accurate picture of progress. Contracts for series products, which meet the criteria for revenue recognition over time are, in contrast, measured in accordance with the output method, as in these cases units produced or units delivered convey an accurate picture of progress. For services over time, revenue is recognized when the service is supplied. For contracts that are satisfied at a specific point in time, revenue is recognized when control over the asset is transferred. As a role, the agreed Incoterms provide guidance in determining when control is transferred.

Events after the reporting period

On February 25, 2019, the Supervisory Board appointed Dr. Ulrich Hauck to the Company's Executive Board with effect from April 1, 2019. He assumed the position of Chief Financial Officer (CFO) from Mr. Stephan Vrublovsky, whose contract ended on March 31, 2019.

There were no further events taking place after December 31, 2018, that are required to be reported under IAS 10.

Hallbergmoos, March 31, 2019

Andreas Becker (CEO) **Stephan Vrublovsky (CFO)** **Patrick Oschust (COO)**

5 — FURTHER INFORMATION

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that, in accordance with the applicable accounting policies, the consolidated financial statements present a true and fair view of the Group's results of operations, financial position and net assets and that the combined management report presents a true and fair view of the business performance, including the business results and the position of the Group, and describes the material opportunities and risks of the Group's expected development.

Hallbergmoos, March 31, 2019

Andreas Becker (CEO) **Stephan Vrublovsky (CFO)** **Patrick Oschust (COO)**

"INDEPENDENT AUDITOR'S REPORT

To STS Group AG, Hallbergmoos

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of STS Group AG, Hallbergmoos and its subsidiaries (the Group), comprising the consolidated statement of financial position as at December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the Group management report of STS Group AG, which is combined with the management report of the Company, for the fiscal year from January 1 to December 31, 2018. In accordance with German legal requirements, we have not audited the content of the Group management report stated in the "Other information" section of our audit opinion.

In our opinion, based on the findings of our audit,
- the attached consolidated financial statements comply in all material respects with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB and, in accordance with these requirements, give a true and fair view of the Group's net assets and financial position as of December 31, 2018, and of its results of operations for the fiscal year from January 1 to December 31, 2018, and
- the attached Group management report as a whole presents an accurate view of the Group's position. The Group management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our opinion on the Group management report does not cover the content of the "Other Information" section of the Group management report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 HGB, the EU Audit Regulation (No. 537/2014; hereinafter "EU-AR"), and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these regulations and standards is described in further detail in the "Responsibility of the Auditor for the Audit of the Consolidated Financial Statements and the Group management report" section of our auditor's report. We are independent of the consolidated companies in compliance with the provisions of European law, German commercial law and professional law and have fulfilled our other German professional obligations in compliance with these requirements. In addition, we declare pursuant to Article 10 (2) lit. f) EU-AR that we have provided no prohibited non-audit services referred to in Article 5 (1) EU-AR. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the consolidated financial statements and the Group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are such matters that, in our professional judgment, were the most significant in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2018. These matters were considered in connection with our audit of the consolidated financial statements as a whole and the formulation of our audit opinion; we do not provide a separate audit opinion on these matters.

In our judgment, the following matters were the most significant in our audit:
❶ IPO of STS Group AG
❷ Impact of the initial application of IFRS 15 on accounting for revenue

We have structured our presentation of these particularly important audit matters as follows:
① Audit matters and problem
② Audit approach and findings
③ Reference to further information

We present the key audit matters below:

❶ IPO of STS Group AG

① The shares of STS Group AG have been listed in the Regulated Market of the Frankfurt Stock Exchange in the Prime Standard segment since June 1, 2018. In the course of the IPO, a total of 2,300,000 shares were placed with new investors, of which 1,000,000 shares from a capital increase, 1,000,000 shares from the holding of the sole shareholder mutares AG and 300,000 shares from greenshoe option, likewise from the placement of existing shares. As issue proceeds from the capital increase, cash totaling 24mEUR was generated. As a result of the IPO, the share of the majority shareholder in STS Group AG declined from 100% to 63.8%.

The IPO positively impacted Group equity (in the balance sheet item "Capital reserves"), due particularly to the 23mEUR premium transferred to capital reserves as a result of the capital increase implemented. 1mEUR from the capital increase from company funds and 1.48mEUR from costs of capital procurement resulted in the countervailing reduction of the capital reserves in comparison to the previous year. The item "Cash flows from financing activities" in the cash flow statement and the resulting change of the "Cash and cash equivalents" balance sheet item are also influenced chiefly by the IPO and the issue proceeds generated and capital procurement costs. Particularly the categorization of the costs directly allocable to the equity transactions, which otherwise could have been avoided, represents a complex accounting issue. In light of this, and in view of the size of this transaction, we believe this matter was particularly significant for our audit.

② In our audit of Group equity, cash and cash equivalents as well as the cash flow statement, we also obtained evident on the amount of the issue proceeds and the impact on Group equity. Here we relied primarily on bank statements and commercial register excerpts and well as resolutions from STS Group AG executive bodies. In addition, we assessed the appropriate consideration of costs for the IPO. In our view, the accounting policies and measurement methods used by the legal representatives are overall appropriate and suitably map the impact of the STS Group AG IPO in the consolidated financial statements.

③ The Company's disclosures on the impact of the IPO of STS Group AG are included in the notes to the consolidated financial statements in Sections 2.1 and 3.11.

❷ Impact of the initial application of IFRS 15 on accounting for revenue

① In the consolidated financial statements of the Company, revenue of 401.2 mEUR is recognized in the consolidated income statement. Revenue results primarily from selling products. For the relevant revenue recognition and revenue categorization, the Company established extensive systems and processes across the Group. In this fiscal year, the initial application of the new accounting standard on revenue recognition (IFRS 15) had a material impact on revenue recognition and revenue categorization.

The initial application of IFRS 15 resulted in a charge of revenues of 0.3mEUR (0.06% of revenue), due mainly to the recognition of revenue over time for series production in Brazil and Italy and thus to a shift of the point in time revenue is recognized and required a new assessment of existing contracts throughout the Group. In addition, the initial application of IFRS 15 resulted in a considerable expansion of disclosures.

This items which are important in terms of amount are based to a large extent on estimates and assumptions of the legal representatives. Furthermore, the relevant revenue recognition and revenue categorization on the basis of the new IFRS 15 accounting standards is to be considered as complex. In light of this, accounting of revenue was particularly significant for our audit.

② As part of our audit, we also performed an assessment including the appropriateness and effectiveness of the Group's internal control system and the processes and controls adjusted to IFRS 15 for revenue recognition and revenue categorization during the entire fiscal year.

In addition, in our audit we verified the impact from the initial application of IFRS 15 with the support of our internal CMAAS specialists. With the knowledge that the determination of the initial application effects is based chiefly on the estimates and assumptions made by the legal representatives and that these have a considerable impact on the level of the revenue recognized, we verified especially the underlying data and the appropriateness of the method used to calculate the impact from the initial application of IFRS 15. As part of our audit, we obtained an understanding on the various performance components in line with the five-stage model in IFRS 15 and on the shift of the point in time revenue is recognized. In addition to discussions with Company employees, inspecting the Incoterms and the assessment of analyses of possible additional performance components and of specialist summaries of the Company, we also viewed the customer contracts, verified the identification of performance obligations and assessed whether this performance was provided over a period of time or at a point in time. Here in connection with the disclosures from the initial application of IFRS 15, we also verified the appropriateness of the methods used, including the assessment of the impact analyses used in the Group and the estimates and assessments made by the legal representatives on revenue recognition and revenue categorization.

We were able to satisfy ourselves that the established systems and processes adjusted for IFRS 15 are appropriate and that the estimates and assumptions made by the legal representatives are sufficiently documented and substantiated to provide an appropriate accounting of revenue in line with the initial application of IFRS 15.

③ The company's disclosures on revenues and the impact of the initial application of IFRS 15 are included in Sections 2.1 and 5.1 of the notes to the consolidated financial statements.

OTHER INFORMATION

The legal representatives are responsible for the other information. Other information includes: the following parts of the Group management report, the contents of which were not audited:

- The declaration on corporate governance pursuant to Section 289 and Section 315d HGB in the "Corporate Governance Declaration in accordance with Section 289 f HGB" in the Group management report
- The Corporate Governance Report in accordance No. 3.10 of the German Corporate Governance Code
- The separate non-financial report pursuant to Section 289b (3) HGB and Section 315b (3) HGB

Other information also includes the other parts of the annual report – without further references to external information – with the exception of the audited consolidated financial statements and audited Group management report and our auditor's report.

Our audit opinions regarding the consolidated financial statements and the Group management report do not extend to the other information, and accordingly we provide neither an audit opinion nor any other form of audit conclusion in this regard.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- exhibits material discrepancies with the consolidated financial statements, the Group management report or the knowledge we have obtained during our audit, or
- otherwise seems significantly incorrect.

RESPONSIBILITY OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects comply with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls that they deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless they intend to liquidate the Group or discontinue its business operations, or there is no realistic alternative.

Moreover, the legal representatives are responsible for preparing the Group management report, which as a whole provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a Group management report in compliance with applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the Group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the Group management report.

RESPONSIBILITY OF THE AUDITOR FOR THE AUDIT OF 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 due to fraud or error, and whether the Group management report as a whole provides an accurate view of the Group's position and is in all material respects consistent with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing our audit opinions regarding the consolidated financial statements and the Group management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB, the EU-AR and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the consolidated financial statements and Group management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition,

- we identify and evaluate the risk of material misstatements, whether due to fraud or error, in the consolidated financial statements and the Group management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.
- we gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the Group management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems.
- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.
- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the consolidated financial statements and in the Group management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean that the Group is no longer a going concern.
- we evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315a (1) HGB.
- we obtain sufficient appropriate audit evidence for the company's accounting information or business activities within the Group in order to provide audit opinions regarding the consolidated financial statements and the Group management report. We are responsible for directing, monitoring and implementing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- we evaluate the consistency of the Group management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.
- we conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the Group management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives' forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that we find during our audit.

We issue a statement to the monitors to the effect that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence and the safeguards put in place to protect against this.

From among the matters that we have discussed with the monitors, we determine which matters were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions preclude their public disclosure.

OTHER STATUTORY AND LEGAL REQUIREMENTS

OTHER DISCLOSURES PURSUANT TO ARTICLE 10 EU-AR

We were elected as the auditor of the consolidated financial statements by the Annual General Meeting on May 3, 2018. We were engaged by the Supervisory Board on December 21, 2018. We have been the auditor of the consolidated financial statements of STS Group AG, Hallbergmoos without interruption since fiscal year 2018.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Audit Committee according to Article 11 EU-AR (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Dietmar Eglauer."

Munich, March 31, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer German Public Auditor	Christoph Tübbing German Public Auditor

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