

STS Group AG



Annual Financial Statements

of STS Group AG as of December 31, 2018

2018

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COMBINED MANAGEMENT REPORT

The management report of STS Group AG and the Group management report are combined in accordance with Section 315 (5) HGB in connection with Section 298 (2) HGB and are published in STS Group AG's Group annual report for 2018.

The annual financial statements and the management report combined with the Group management report of STS Group AG for the 2018 financial year have been submitted to the operator of the Federal Gazette and published in the Federal Gazette.

The annual financial statements of the STS Group AG and the Group annual report for the 2018 financial year are available on the internet at: <https://ir.sts.group/websites/stsgroup/English/3100/financial-reports.html>

STATEMENT OF PROFIT OR LOSS

FROM JANUARY 1 TO DECEMBER 31, 2018

in EUR	2018	2017
1. Revenues	9,642,733.27	3,285,566.10
2. Other operating income	438,567.10	17,061.07
3. Personnel expenses		
a) Wages and salaries	-2,659,785.46	-1,245,260.73
b) Social security, post-employment and other employee benefit costs	-146,950.93	-74,582.25
<i>thereof relate to pension costs</i>	-14,446.54	-7,431.00
4. Amortization of intangible assets and depreciation of tangible assets	-117,524.74	-31,646.89
5. Other operating expenses	-12,409,037.59	-2,273,956.91
6. Income from equity investments	2,742,204.16	0.00
<i>thereof from affiliated companies</i>	2,742,204.16	0.00
7. Other interest and similar income	389,235.11	173,017.06
<i>thereof from affiliated companies</i>	389,235.11	173,017.06
8. Interest and similar expenses	-1,579,166.24	-370,945.15
<i>thereof relate to affiliated companies</i>	-618,756.60	-370,945.15
9. Taxes on income	-51,063.73	-16,849.00
10. Profit after taxes on income	-3,750,789.05	-537,596.70
11. Other taxes	-1,537.50	-242.00
12. Net loss for the year	-3,752,326.55	-537,838.70
13. Retained accumulated losses/profits carried forward	-523,189.87	14,648.83
14. Accumulated losses carried forward	-4,275,516.42	-523,189.87

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018

in EUR

December 31, 2018

December 31, 2017

ASSETS**A. Fixed assets**

I. Intangible assets

Concessions, industrial and similar rights and assets and assets
and licences in such rights and assets

943,835.10

275,031.71

II. Tangible assets

1. Other equipment, factory and office equipment

190,452.00

0.00

2. Advance payments and assets under construction

45,318.04

172,806.00

III. Financial assets

1. Shares in affiliated companies

5,651,320.89

5,651,320.89

2. Loans to affiliated companies

9,538,281.49

7,622,980.16

15,189,602.38

13,274,301.05

16,369,207.52**13,722,138.76****B. Current assets**

I. Receivables and other assets

1. Receivables from affiliated companies

7,883,448.38

7,058,775.59

thereof are owing from shareholder

0.00

5,000,000.00

2. Other assets

1,507,989.12

152,699.87

9,391,437.50

7,211,475.46

II. Cash and cash equivalents

10,921,999.75

990,695.35

20,313,437.25**8,202,170.81****C. Prepaid expenses****116,452.00****53,995.72****Total assets****36,799,096.77****21,978,305.29**

in EUR

	December 31, 2018	December 31, 2017
EQUITY AND LIABILITIES		
A. Share Equity		
I. Subscribed capital	6,000,000.00	50,000.00
<i>Contingent capital</i>	2,500,000.00	0.00
II. Treasury shares	-4,763.00	0.00
III. Capital Reserve	23,535,196.91	1,590,000.00
IV. Revenue reserve: Legal reserve	5,000.00	5,000.00
V. Accumulated losses carried forward	-4,275,516.42	-523,189.87
	25,259,917.49	1,121,810.13
B. Provisions		
1. Provision for taxation	16,849.00	16,849.00
2. Other provisions	2,532,190.43	580,400.00
	2,549,039.43	597,249.00
C. Liabilities		
1. Liabilities to banks	220.40	0.00
2. Trade payables	1,652,891.49	1,062,567.97
3. Liabilities to affiliated companies	7,207,686.22	19,028,769.07
4. Other liabilities	129,341.74	167,909.12
<i>thereof relate to taxes</i>	114,870.93	44,872.46
<i>thereof relate to social security</i>	8,476.82	788.53
	8,990,139.85	20,259,246.16
Total equity and liabilities	36,799,096.77	21,978,305.29

1 — GENERAL DISCLOSURES

STS Group AG (also referred to as the “Company”) is a company listed in Germany with its headquarters in Zeppelinstrasse 4, 85399 Hallbergmoos. It is entered in the Commercial Register of the Local Court of Munich under number HRB 231926. Until March 9, 2017, the company traded under the name of mutares Holding-17 AG and was based in Weissenfels, Germany.

The majority shareholder of the 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. The WKN (German Securities Identification Number) is A1TNU6, the ISIN (International Securities Identification Number) DE000A1TNU68. In connection with the listing, a total of 2,300,000 shares from an STS Group AG were offered. Of these, 1,000,000 new shares were issued by STS Group AG from a capital increase against cash contribution, a further 1,000,000 sale shares and 300,000 over-allotment shares were issued by the former sole shareholder mutares AG. The shares were offered at a bid price of 24.00 EUR per share. The share capital of STS Group AG amounted to 6,000,000 no-par value shares at the time of the IPO.

The annual financial statements of the STS Group AG were prepared in accordance with Sections 242 ff. and Sections 264 ff. of German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). According to Section 264d HGB, the Company is publicly traded and thus according to Section 267 (3) Sentence 2 HGB is considered a large corporation. The income statement was prepared in accordance with the total cost (nature of expense) method in line with Section 275 (2) HGB.

The financial year of the Company is the calendar year.

2 — ACCOUNTING POLICIES

The financial statements of the Company were prepared unchanged in line with the following accounting policies and on the assumption of the continuation of the company as a going concern.

Purchased **intangible assets** are capitalized at acquisition cost and amortized on a straight-line basis over their expected useful life of 3–5 years, in the year of addition on a pro rata temporis basis.

Tangible assets are valued at their acquisition or manufacturing cost minus scheduled depreciation. Depreciation is recognized on a straight-line basis within the time periods permitted by commercial accounting regulations. Depreciation on additions to tangible assets takes place pro rata temporis. The scheduled depreciation for furniture and fixtures is based on a useful life of 3–13 years.

Low-value independently usable movable tangible assets which are subject to depreciation are immediately recognized as an expense and written off in full in the year of acquisition if the acquisition or manufacturing costs for the individual asset does not exceed 800 EUR.

Financial assets are measured at acquisition cost. Write-offs to the lower fair value are made if the diminution in value is permanent.

Receivables and other assets are recognized at the lower of nominal value or fair value on the balance sheet date.

Cash-in-hand and **bank balances** are recognized at nominal value as of the balance sheet date.

Prepaid expenses and deferred income relate to payments made before the balance sheet date that are incurred for a specific period after this date.

Subscribed capital is recognized at nominal value.

Other provisions are recognized at the settlement amount in line with prudent management judgment. For provisions with a remaining term of more than one year, future cost and price increases are included. In addition, provisions with a remaining term of more than one year are discounted with an average market interest rate for the past seven years corresponding to the remaining term, as published by the Deutsche Bundesbank.

Liabilities are recognized at their settlement amount.

Business transactions in foreign currency are generally recorded at the historical rate at the time of the initial booking.

Non-current foreign currency receivables are recognized at the foreign exchange rate when the receivable arises or at the lower fair value, based on the average spot exchange rate on the balance sheet date (impairity principle). **Short-term foreign currency receivables** (remaining maturity of one year or less) as well cash or other short-term assets denominated in foreign currencies are translated at the middle spot rate on the balance sheet date.

Stock options to members of the Management Board are not recognized at the time of issue. If the options are exercised in conjunction with the use of contingent capital, the subscribed capital is increased by the number of shares exercised multiplied by the nominal value and the capital reserve is increased by the amount of the paid-in premium.

Deferred taxes are calculated on temporary differences between the carrying amounts of assets, liabilities and prepaid expenses under commercial law and their tax base, as well as on tax loss carryforwards. However, loss carryforwards may only be included insofar as offsetting against taxable income within the statutory period of five years is possible. Deferred tax assets and liabilities are netted. An overall resulting tax charge is recognized in the balance sheet as deferred tax liabilities. In the case of a tax relief, the option to capitalize the deferred tax asset is exercised and the deferred tax asset is not recognized in the balance sheet.

3 — STATEMENT OF PROFIT OR LOSS

3.1 SALES

Sales in the financial year 2018 of 9,643 kEUR (2017: 3,286 kEUR) result entirely from fees for management and corporate services invoiced to the subsidiaries.

3.2 OTHER OPERATING INCOME

The other operating income in the amount of 439 kEUR (2017: 17 kEUR) relates to the current financial year in the amount of 76 kEUR and primarily contains the offsetting of other remuneration in kind for the private use of a car. Other operating income in the amount of 363 kEUR is attributable to the previous year and includes the reversal of the provision for bonus payments.

3.3 PERSONNEL EXPENSES

Personnel expenses within the meaning of Section 275 (2) No. 6 HGB break down as follows:

PERSONNEL EXPENSES

in kEUR	2018	2017
Wages and salaries	2,660	1,245
Social security, pension and other benefit costs	147	75
thereof for pensions	14	7
Personnel expenses	2,807	1,320

In the financial year 2018, there was an average of 14 employees (2017: 6), assigned to administration. This does not include members of the Executive Board.

3.4 DEPRECIATION, AMORTIZATION AND WRITE-DOWNS

In the financial year 2018, amortization and write-downs of intangible fixed assets of 82 kEUR (2017: 0 EUR) and depreciation on tangible fixed assets of 35 kEUR (2017: 32 kEUR) were recognized.

3.5 OTHER OPERATING EXPENSES

Other operating expenses essentially comprise:

in kEUR	2018	2017
Legal and consulting costs	4,979	925
Financial statements and audit costs	4,184	13
Expenses to affiliated companies	1,127	727
Travel expenses	542	172
Headhunting expenses	450	134
Advertising expenses	299	29
Rental expenses (incl. motor vehicles)	183	85
Repair, maintenance and servicing	131	71
Supervisory board remuneration	131	0
Incidental expenses of monetary transactions	106	34
Office and administration costs	90	24
Insurance, contributions and other levies	64	44
Outside services and work	56	0
Occupancy costs	37	12
Vehicle costs	19	3
Miscellaneous other expenses	9	2
Other operating expenses	12,409	2,274

Other operating expenses contain expenses of extraordinary size and importance in the amount of 3,152 kEUR and due to the IPO in June 2018. As a result of the requirements placed on the company by the stock exchange listing, legal and consulting expenses rose further to 4,979 kEUR and the year-end closing and audit costs to 4,184 kEUR.

3.6 INCOME FROM LONG-TERM EQUITY INVESTMENTS

In the financial year 2018, income from long-term equity investments totaled 2,742 kEUR, resulting from dividend payments from subsidiaries (2017: 0 EUR).

3.7 FINANCE EXPENSES AND INCOME

In the financial year 2018, other interest and similar income amounted to 389 kEUR (2017: 173 kEUR), thereof 389 kEUR (2017: 173 kEUR) from affiliated companies.

In the financial year ending 2018, interest and similar expenses totaled 1,579 kEUR (2017: 371 kEUR), 619 kEUR (2017: 371 kEUR) of which from affiliated companies. The increase of 1,208 kEUR resulted primarily from the commission payment of 960 kEUR made to a syndicate bank which accompanied the IPO on June 1, 2018.

3.8 TAXES ON INCOME

In the financial year 2018, taxes on income amounted to 51 kEUR for foreign withholding taxes. In the previous year, current tax expenses amounted to 17 kEUR.

4 — BALANCE SHEET DISCLOSURES

4.1 INTANGIBLE ASSETS

As of December 31, 2018, intangible assets totaled 944 kEUR (December 31, 2017: 275 kEUR) and relate primarily to rights to use software purchased from third parties. Additions to intangible assets of 751 kEUR relate to the extension of consolidation software. For further information on intangible assets, refer to the statement of fixed assets in Annex 1 to the Notes.

4.2 TANGIBLE ASSETS

As of December 31, 2018, tangible assets totaled 235 kEUR (December 31, 2017: 173 kEUR) and related to operating and office equipment which increased by 98 kEUR in the reporting year. This rise resulted primarily from additions to office equipment and the construction of a brand showroom on space in an office unit of the administration building. For this 45 kEUR was recognized under advance payments in tangible assets. For further information on tangible assets refer to the statement of fixed assets in Annex 1 to the Notes.

4.3 LONG-TERM FINANCIAL ASSETS

As of December 31, 2018, in comparison to December 31, 2017 long-term financial assets increased by 1,915 kEUR to 15,190 kEUR.

In the reporting year as well as of December 31, 2017, shares in affiliated companies amounted to 5,651 kEUR and relate to shares in the following companies:

Name and location	Result of the last financial year in kEUR	Equity in kEUR	capital share
STS Acoustics S.p.A, Turin, Italy	1,864	4,847	100 %
STS Plastics SAS, Paris, France	535	6,941	100 %
STS Plastics Holding SAS, St. Désirat, France	-123	-98	100 %
STS MCR Holding SAS, Tournon, France	-76	-51	100 %
STS Brazil Holding GmbH, Hallbergmoos, Germany	-454	-415	100 %
STS Composites Germany GmbH, Kandel, Germany	-607	-713	100 %
Inoplast Truck S.A. de C.V., Ramos, Mexico	2,783	6,410	100 % ¹
STS Plastics Co. Ltd., Jiangyin, China	8,536	23,988	100 %

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

Loans to affiliated companies with a carrying amount of 9,538 kEUR (December 31, 2017: 7,623 kEUR) consist of loans to four subsidiaries.

For further information on long-term financial assets refer to the statement of fixed assets in Annex 1 to the Notes.

4.4 RECEIVABLES AND OTHER ASSETS

As of the reporting date, receivables and other assets amount to 9,391 kEUR (December 31, 2017). This includes receivables from shareholders of 0 EUR (December 31, 2017: 5,000 kEUR) and from affiliated companies of 7,883 kEUR (December 31, 2017: 2,059 kEUR), which include trade receivables from invoiced fees for management and corporate services. Other assets of 1,508 kEUR (December 31, 2017: 153 kEUR), mainly include value added tax receivables of 1,429 kEUR (December 31, 2017: 78 kEUR) and deposits of 48 kEUR (December 31, 2017: 48 kEUR) which have a remaining term of more than one year.

4.5 CASH AND CASH EQUIVALENTS

As of December 31, 2018, cash and cash equivalents totaled 10,922 kEUR (December 31, 2017: 991 kEUR), 2,000 kEUR (December 31, 2017: 0 EUR) of which are subject to a restriction on disposition. This relates to a security deposit of the STS Group AG at a bank in the context of financing a subsidiary.

4.6 PREPAID EXPENSES

As of December 31, 2018 prepaid expenses and deferred income amounted to 117 kEUR (December 31, 2017: 54 kEUR), relating essentially to insurance premiums, finance and IT support.

4.7 EQUITY

Equity of the STS Group AG is made up as follows:

in kEUR	December 31, 2018	December 31, 2017
Share capital	6,000	50
Own shares	-5	0
Called-in capital	5,995	50
Capital reserves	23,535	1,590
Revenue reserves	5	5
Accumulated losses carried forward	-4,276	-523
Equity	25,260	1,122

Share capital

As of December 31, 2018, subscribed capital at STS Group AG totaled 6,000 kEUR (December 31, 2017: 50 kEUR), consisting of 6,000,000 (December 31, 2017: 50,000) bearer shares each with a pro rata amount of the Company's share capital of 1.00 EUR.

On April 13, 2018, the Extraordinary General Meeting of the Company resolved the increase of the share capital from Company funds from 50 kEUR by 1,000 kEUR to 1,050 kEUR in accordance with the regulations of the (Sections 207 ff. AktG) by converting part of the capital reserves. The capital increase was implemented by issuing 1,000,000 new bearer shares with a pro rata amount in the share capital of the Company of 1.00 EUR per bearer share. mutares AG, the sole shareholder, took up all the new shares. The new shares have full entitlement to profits starting from January 1, 2018. The implementation of the capital increase was entered into the commercial register on April 24, 2018.

On April 25, 2018, the Extraordinary Annual General Meeting of the Company resolved an increase in the share capital of the Company against cash contribution from 1,050 kEUR by 3,950 kEUR to 5,000 kEUR by issuing 3,950,000 new bearer shares with a pro rata amount in the share capital of the Company of 1.00 EUR per bearer share. mutares AG, the sole shareholder, took up all the new shares. The new shares have full entitlement to profits starting from January 1, 2018. The implementation of the capital increase was entered in the commercial register on April 30, 2018.

On May 8, 2018 the Extraordinary General Meeting of the Company resolved a capital increase for cash excluding shareholders' subscription rights to create 1,000,000 new no-par bearer shares at an issue price of 1.00 EUR. The implementation of the capital increase was entered in the commercial register on May 30, 2018.

On June 1, 2018, the shares of the STS Group were listed for the first time in the regulated market (Prime Standard) of the Frankfurt Stock Exchange. When trading commenced, the share capital of the Company was 6,000 kEUR divided into 6,000,000 bearer shares.

The subscribed capital of STS Group AG is fully paid up.

Each share grants the right to cast one vote at the Annual General Meeting.

Authorized capital

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions by a total of up to 2,500 kEUR 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"). In principle shareholders should be granted subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply the shareholders' subscription rights for one or more capital increases in the context of Authorized Capital 2018/I,

- (i) in order to exempt fractional amounts from the subscription right;
- (ii) to the extent necessary to grant bearers or creditors of bonds, with conversion or option rights or conversion/option obligations and which were or will be issued by the Company or a direct or indirect investment company, a subscription right to new bearers shares of the Company in the amount they would be entitled as shareholder after exercise of the option or conversion rights/ after satisfaction of the conversion or option obligations;
- (iii) to issue shares for in cash if the issue price of the new shares is not significantly less than the stock market price within the meaning of Sections 203 (1) and (2), 186 (3) Sentence 4 AktG and excluding shareholders' subscription rights in accordance with Section 186 (3) Sentence 4 AktG amount of the share capital relating to the issued new shares does not exceed 10 % of the share capital;
- (iv) to issue shares non-cash contributions – but without restriction in this respect – for the purpose of the acquisition (also direct) of parts of companies, equity interests in company or other assets or to satisfy bonds issues against non-cash contributions.

Further details are to be found in the resolution on authorization and in Section 4 (5) of the Articles of Association of the STS Group AG.

Contingent capital

Contingent capital 2018/I

By resolution of the Annual General Meeting on May 3, 2018, the share capital of the Company was contingently increased by up to 2.000 kEUR by the issue of up to 2,000,000 new bearer shares with a pro rata amount in the share capital of the Company of 1.00 EUR per share (Contingent Capital 2018/I). Contingent Capital 2018/I serves to grant shares when exercising option or conversion rights or the fulfilment of option or conversion obligations to bearers or creditors of convertible bonds, option bonds, bonds with warrants and/or profit-sharing rights granted (or a combination of these instruments) issued on the basis of the resolution on authorization of the Annual General Meeting of May 3, 2018. Further details are to be found in the resolution on authorization and in Section 4 (3) of the Articles of Association of the STS Group AG.

Contingent capital 2018/II

By resolution of the Annual General Meeting on May 3, 2018, the share capital of the Company is was contingently increased by up to 500 kEUR by the issue of up to 500,000 new bearer shares with a pro rata amount of the share capital of the Company of 1.00 EUR per share (Contingent Capital 2018/II). The Contingent Capital 2018/II is implemented only to the extent that in accordance with the Stock Option Program 2018 in line with the resolution of the Annual General Meeting on May 3, 2018 subscription rights are issued which bearers of the subscription rights utilize their right of exercise and the Company does not grant any treasury shares to satisfy the subscription rights. The total volume of subscription rights is distributed to the authorized groups of persons as follows:

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

Further details are to be found in the resolution on authorization and in Section 4 (4) of the Articles of Association of the STS Group AG.

Purchase of own shares

On November 31, 2018, on the basis of the authorization granted at the Annual General Meeting on May 3, 2018, the Executive Board, with the approval of the Supervisory Board, to establish a Share Buy Back Program of up to 1,000 kEUR (not including ancillary acquisition costs) ("Share Buy-Back Program 2018/I"). The authorization provides that the Management Board, with the approval of the Supervisory Board, may acquire treasury shares of the Company up to a maximum of 10 % of the respective share capital by 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 to sell. The authorization stipulates that the Management Board may use its own for any permissible purpose. Likewise, the Executive 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 between November 22, 2018 and December 31, 2018 (last acquisition on December 13, 2018), a total of 4,763 shares were bought in the framework of the share buy back. This corresponds to a nominal amount of 5 kEUR or 0.08 % of the share capital. The shares were acquired at an average price of 12.51 EUR per share in a range between 10.77 EUR and 13.60 EUR.

Capital reserves

For the financial year ending December 31, 2018, capital reserves amounted to 23,535 kEUR (December 31, 2017: 1,590 kEUR). The rise in the capital reserves is due primarily to the IPO. For the 1,000,000 shares placed in the context of the IPO, gross issue proceeds of 24,000 kEUR were achieved and the premium of 23,000 kEUR was transferred to the capital reserve. This was countered by share buy backs of 55 kEUR.

Revenue reserves

As of December 31, 2018 and December 31, 2017 the legal reserve amounted to 5 kEUR.

Accumulated losses carried forward

For the financial year ending December 31, 2018, accumulated losses carried forward totaled 4,276 kEUR (December 31, 2017: 523 kEUR).

4.8 PROVISIONS

In the financial year 2018, provisions developed as follows:

RÜCKSTELLUNGEN

in kEUR	As of January 1, 2018	Utilisation	Reversal	Addition	As of December 31, 2018
Trade tax	9	0	0	0	9
Corporate income tax	8	0	0	0	8
Total tax provisions	17	0	0	0	17
Financial statements and audit costs	13	13	0	1,042	1,042
Outstanding invoices	0	0	0	758	758
Personnel expense	568	205	363	645	645
Supervisory board remuneration	0	0	0	88	88
Total other provisions	580	217	363	2,532	2,532

4.9 LIABILITIES

In the reporting period, liabilities totaled 8,990 kEUR (December 31, 2017: 20,259 kEUR). This includes trade payables of 1,653 kEUR (December 31, 2017: 1,063 kEUR) and liabilities to affiliated companies of 7,208 kEUR (December 31, 2017: 19,029 kEUR) in the context of loans extended to three subsidiaries. Other liabilities of 129 kEUR (December 31, 2017: 168 kEUR) include primarily liabilities from taxes and levies. As in the previous year, all liabilities are due within one year.

5 — OTHER DISCLOSURES

5.1 AUDITOR'S FEE

In the financial statements of STS Group AG, there is no information on the total fee for the auditors, as STS Group AG prepares consolidated financial statement and the information on the total fee for the auditors are included in these consolidated financial statements.

In the financial year, the auditor carried out non-audit services as a comfort letter and the review of Proforma financial information on other audit services and, as other service, the audit of the conversion of the financial statements to IFRS.

5.2 SUPERVISORY BOARD

In the 2018 financial year, the members of the STS Group AG Supervisory Board were as follows:

Robin Laik (Chairman)

Business Administration graduate
CEO mutares AG

Supervisory Board member 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 (previously: 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 (Deputy Chairman)

Mechanical Engineering graduate
CRO mutares AG

Supervisory Board member 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 (previously: mutares Holding-14 AG)
mutares Holding-15 AG
mutares Holding-18 AG
mutares Holding-20 AG
mutares Holding-30 AG i. L.
Zanders GmbH (until May 16, 2018)

Bernd Maierhofer (since May 3, 2018)

Electrical Engineering graduate
Executive Board member of VOSS Automotive GmbH

Dr. Wolf Cornelius (until May 2, 2018)

Mechanical Engineering graduate
COO mutares AG

Supervisory Board member 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 (previously: 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)

Executive Board member of:

mutares AG
Balcke-Dürr GmbH
Balcke-Dürr Italiana S. R. L.
Donges SteelTech GmbH

The total compensation paid to the Supervisory Board amounted to 131 kEUR (2017: 0 EUR). Individualized disclosures on the remuneration of the Supervisory Board are presented in the combined management report in the Remuneration Report section.

5.3 EXECUTIVE BOARD

In the 2018 financial year, the members of the STS Group AG Executive Board were:

Andreas Becker, CEO (Chairman)

Degree in business administration

CEO of some subsidiaries of the company

Stephan Vrublovsky, CFO, until March 31, 2019

Economics graduate

Member of the Executive Board of some subsidiaries of the company

Patrick Oschust, COO

Engineering graduate

Member of the Executive Board of some subsidiaries of the company

In the financial year 2018, the members of the Executive Board received total remuneration of 1,334 kEUR (2017: 815 kEUR). This includes the variable remuneration in the context of the Stock Option Program 2018. The Stock Option Program 2018 (Contingent Capital 2018/II of the STS Group AG) is part of the variable remuneration of the Executive Board aligned to sustained positive corporate development with the focus being on a transparent and traceable system. The economic success of the company is based not least on its ability to achieve qualified specialist and managerial staff, and achieving their long-term loyalty to the company using a success-based remuneration system. The Stock Option Program also provides an incentive to align decisions to achieving the challenging, clearly defined success targets for the Company. The remuneration component is aligned to an increase in the stock market price of the Company's share. The performance target for the exercise of the subscription rights granted is reached if the closing price of the share of the Company in a period of twelve months following the grant of the respective subscription rights, on a total of 60 stock exchange trading days exceeds a previously defined percentage of the stock price of the STS Group share on the day of allocation of the respective subscription rights.

At the time the subscription rights are exercised, the option holder must be in an active employment or service relationship (which cannot be terminated) with STS Group AG or an affiliated company.

The vesting period for the first exercise of the option is four years from the respective allocation of the options. After the vesting period has been completed, all options for which the performance target has been reached can be exercised respectively within the three subsequent years.

The members of the STS Group AG Executive Board can receive a maximum of 200,000 subscription rights across five tranches over the duration of the Stock Option Programs 2018. In the 2018 financial year, the members of the Executive Board were granted a total of 24,500 option. Of the total number of options, Stephan Vrublovsky and Patrick Oschust were each granted 7,000 items, each resulting in expenses for share-based compensation of 5,565 EUR in the financial year. Andreas Becker was granted 10,500 options, resulting in expenses of 8,347.50 EUR in 2018. At the end of the reporting period, all 24,500 option from the Share Option Plan 2018 are still outstanding.

At the time of grant, with an exercise price of 18.77 EUR the fair value of the single option was 3.18 EUR. As of December 31, 2018, the maximum contractual period of the individual options was six and a half years.

Individualized disclosures on the remuneration of the Executive Board are presented in the combined management report in the Remuneration Report section.

5.4 OTHER FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

There are other financial commitments totaling 474 kEUR (2017: 517 kEUR) from long-term leases.

A contingent liability could occur when selling, transferring or otherwise disposing of a subsidiary before July 2034. This event would result in a liability of 1,700 kEUR to the former shareholders, for which STS Group AG and mutares AG would be liable on a joint and several basis.

5.5 LIABILITY OBLIGATIONS

STS Group AG is liable at a direct subsidiary for any guarantee claims of a customer without limitation of the amount.

For three subsidiaries, STS Group AG has provided letters of comfort in which the Company undertakes the subsidiaries to grant them any financial, economic, administrative and technical support so that the subsidiaries can fulfil their contractual obligations to their customers in full. If the subsidiaries do not fulfil their contractual obligations, STS Group AG has undertaken to fulfil them.

STS Group AG has undertaken to its Italian and Polish subsidiaries, due to the losses they sustained in 2018 financial year, to maintain its financial support so that the subsidiaries can fulfil their obligations and continue their business operations.

In addition, the Company acts as a guarantor for a credit facility with a nominal amount of 35,000,000 CNY (4,444 kEUR) to a direct subsidiary. This was fully utilized in the 2018 and 2017 financial years.

For all risks mentioned above, the Company assesses the risk of possible utilization as not likely. This is due to the fact that as of the balance sheet date the existing liabilities situation of the STS Group AG had been examined in respect to the risk situation on the basis of existing knowledge on the net assets, financial position and result of operations of the business partners.

5.6 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATION ACT

In accordance with Section 161 of the German Stock Corporation Act, the Executive Board and the Supervisory Board of STS Group AG issued the required Declaration of Compliance and made it accessible to the shareholders on the STS Group AG website. The full text of the Declaration of Compliance is on the STS Group AG website: <https://ir.sts.group/websites/stsgroup/English/5300/corporate-governance.html>.

5.7 PROPOSAL FOR THE APPROPRIATION OF NET RESULT

Management proposes to carry forward to new account the net accumulated losses of 4,276 kEUR, which resulted from the net loss for the financial year of 3,752 kEUR and the net accumulated losses of 523 kEUR.

5.8 MEMBER OF A GROUP

The Company is included as a subsidiary in the consolidated financial statements of mutares AG, Munich, which prepares the consolidated financial statements for the smallest and largest consolidated group. The consolidated financial statements of mutares AG are available at the registered offices of this company in Munich and are announced in the electronic Federal Gazette.

5.9 DISCLOSURES IN ACCORDANCE WITH SECTION 160 (1) NO. 8 AKTG ON VOTING RIGHT NOTIFICATIONS

In accordance with Section 160 (1) No. 8 AktG disclosures are to be made on the existence of equity holdings about which notifications have been received in accordance with Section 20 (1) or (4) AktG or Section 33 (1) or (2) of the German Securities Trading Act (WpHG). According to these regulations, investors whose share in the voting rights of listed companies have reached, exceeded or fallen below specific thresholds are required to notify the company.

With the percentage of voting rights given, there could be changes after the stated points in time which were not notifiable to the company. As the shares of the Company are no-par bearer shares, the Company is aware of changes in shareholdings only to the extent that they are subject to notification requirements. The following stated voting right percentages are based on the mandatory notifications in accordance with Section 33 WpHG.

In what follows, the notifications received up to the reporting date in accordance with Section 26 (1) WpHG are listed. These reflect the latest notified status on shares.

MainFirst SICACV, Luxembourg, notified us that on May 30, 2018, its share in the voting rights of STS Group AG exceeded the thresholds of 3 % and 5 % of the voting rights and on this day amounted to 8.00 % (corresponding to 480,000 voting rights).

mutares AG, Munich, notified us that on May 30, 2018, its share in the voting rights of STS Group AG exceeded the thresholds of 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 % and 50 % of the voting rights and on this day amounted to 61.67 % (corresponding to 3,700,000 voting rights). Furthermore, mutares AG, Munich, notified on June 29, 2018 that its share in the voting rights of STS Group AG exceeded the threshold of 50 % of the voting rights and on this amounted to 63.80 % (corresponding to 3,827,828 voting rights).

GS&P Kapitalanlagegesellschaft S. A., Luxembourg, notified us, that on October 12, 2018, its share in the voting rights of STS Group AG exceeded the threshold of 3 % of the voting rights and on this day amounted to 3.08 % (corresponding to 185.000 voting rights).

5.10 EVENTS AFTER THE BALANCE SHEET DATE

On February 25, 2019, the Supervisory Board appointed Dr. Ulrich Hauck to the Company's Executive Board with effect from April 1, 2019. He took over the position of Chief Financial Officer (CFO) from Stephan Vrublovsky, whose contract expired on March 31, 2019.

No further significant events occurred after the end of the financial year which are not included in the profit or loss statement and the statement of financial position.

Hallbergmoos, March 31, 2019



Andreas Becker



Stephan Vrublovsky



Patrick Oschust

Appendix 1 to the Notes

MOVEMENT SCHEDULE OF FIXED ASSETS FOR THE PERIOD JANUARY 1, 2018 TO DECEMBER 31, 2018

in EUR	Acquisition and production costs			December 31, 2018
	January 1, 2018	Additions	Disposals	
I. Intangible assets				
Concessions, industrial and similar rights and assets and licences in such rights and assets	275,869.82	751,083.55	0.00	1,026,953.37
	275,869.82	751,083.55	0.00	1,026,953.37
II. Tangible assets				
1. Other equipment, factory and office equipment	203,614.79	52,890.58	0.00	256,505.37
2. Advance payments and assets under construction	0.00	45,318.04	0.00	45,318.04
	203,614.79	98,208.62	0.00	301,823.41
III. Financial assets				
1. Shares in affiliated companies	5,651,320.89	0.00	0.00	5,651,320.89
2. Loans to affiliated companies	7,622,980.16	1,915,301.33	0.00	9,538,281.49
	13,274,301.05	1,915,301.33	0.00	15,189,602.38
Sum total	13,753,785.66	2,764,593.50	0.00	16,518,379.16

Accumulated amortization and depreciation				Net book value	Net book value
January 1, 2018	Additions	Disposals	December 31, 2018	December 31, 2018	December 31, 2017
838.11	82,280.16	0.00	83,118.27	943,835.10	275,031.71
838.11	82,280.16	0.00	83,118.27	943,835.10	275,031.71
30,808.79	35,244.58	0.00	66,053.37	190,452.00	172,806.00
0.00	0.00	0.00	0.00	45,318.04	0.00
30,808.79	35,244.58	0.00	66,053.37	235,770.04	172,806.00
0.00	0.00	0.00	0.00	5,651,320.89	5,651,320.89
0.00	0.00	0.00	0.00	9,538,281.49	7,622,980.16
0.00	0.00	0.00	0.00	15,189,602.38	13,274,301.05
31,646.90	117,524.74	0.00	149,171.64	16,369,207.52	13,722,138.76

5.11 RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the management report, which is combined with the Group management report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Hallbergmoos, March 31, 2019



Andreas Becker



Stephan Vrublovsky



Patrick Oschust

5.12 “INDEPENDENT AUDITOR’S REPORT

To STS Group AG, Hallbergmoos

Report on the audit of the annual financial statements and the management report

Audit opinions

We have audited the annual financial statements of STS Group AG, Hallbergmoos, which comprise the balance sheet as at December 31, 2018, and the income statement for the fiscal year from January 1 to December 31, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we audited the management report of STS Group AG, which is combined with the consolidated management report, 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 management report stated in the “Other information” section of our audit opinion.

In our opinion, based on the findings of our audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2018 and of its financial performance for the fiscal year from January 1 to December 31, 2018, in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the “Other Information” section of the management report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

We conducted our audit of the financial statements and the 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 responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are such matters that, in our professional judgment, were the most significant in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2018.

These matters were considered in connection with our audit of the 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:

- ① Recoverability of the shares in and loans to affiliated companies and receivables from affiliated companies (total exposure)

We have structured our presentation of this particularly important audit matter as follows:

- ① Audit matters and problem
- ② Audit approach and findings
- ③ Reference to further information

We present the key audit matters below:

① Recoverability of the shares in and loans to affiliated companies and receivables from affiliated companies (total exposure)

- ① In the annual financial statements of STS Group AG in the "Financial assets" balance sheet item, shares in affiliated companies of 5.7 mEUR (15.4% of total assets) and loans to affiliated companies of 9.5 mEUR (25.9% of total assets) were recognized. In current assets, receivables from affiliated companies of 7.9 mEUR (38.8% of current assets) are recognized. Under commercial law the measurement of shares in and loans to affiliated companies is aligned to the lower of cost or fair value. Receivables from affiliated companies are to be recognized at the lower of nominal or fair value. In assessing recoverability, account is also taken of the the fair values of the indirect relationships as these can have a material impact on the fair value of the overall exposure of the STS Group AG. A determination of the respective fair value of the overall exposure / an investment takes place if there are indications of a possible impairment. In this connection, the investments are examined as to whether the investment carrying amount is not covered by corresponding (pro rata) equity of the company, the company has a loss history or there are other indicators which could result in a permanent impairment of the overall exposure or the investment. The fair value for investments is generally calculated as the present value of expected cash flows which are provided by the projections compiled by the legal representatives. Here account is taken of expectations on the future market development and assumptions on the development of macroeconomic influencing factors. The examinations for indications of impairment requirements and the fair values calculated showed that no impairment was required for the fiscal year. The result of the examinations and the assessments depends particularly on the projections, the assessment of future cash flows, as well as discount rates and growth rates, which are subject to material uncertainty. In the light of this and in view of the material importance for the net assets and results of operation of STS Group AG, these matters were particularly significant for our audit.

- ② As part of our audit, we also verified and evaluated the methodological procedure for examining the recoverability of the shares in and loans to affiliated companies and receivables from affiliated companies. On the basis of annual financial statements and reporting packages, we verified that the overall exposure to the investment is covered by the Company's equity and there is no loss history. In addition, we made inquiries to Company personnel, inspected documents for matters which could result in an impairment of the overall exposure to individual affiliated companies and in the matter also obtained information from the legal representatives. We also examined the projections for the various companies and verified that they did not lead one to conclude there was a permanent impairment of the overall exposure. We evaluated the appropriateness of the future cash flows in the projections by comparing these figures with the current budgets from the approved five-year planning of the legal representatives. For the companies with equity below the carrying amount of the investment, a loss history or other indicators which could result in a permanent impairment of the investment, we received the corresponding calculation of the fair value for this investment and assessed if the fair value was appropriately calculated and has an impact on the carrying amount of the investment.

Taking into account the available information, in our view the process used by the Company's legal representatives and the underlying measurement parameters and measurement assumptions are suitable overall to appropriately measure the investments in affiliated companies and the receivables from and loans to these affiliated companies.

- ③ The Company's disclosures on shares in affiliated companies is included in Section 2 of the notes to the annual financial statements. "Accounting Policies" and in Items 4.3 and 4.4 and in the Company's Schedule of Fixed Assets.

Other information

The legal representatives are responsible for the other information. Other information includes: the following parts of the 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"
- 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 financial statements and audited management report and our auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of management and the Supervisory Board for the annual financial statements and the management report

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of a management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the 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 arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this 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 financial statements and the 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.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. 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 conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the 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 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 annual 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 annual 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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