Annual Report
2020

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CONTENT

AT A GLANCE

RESULTS OF OPERATION

in mEUR	January 1 – December 31, 2020	January 1 – December 31, 2019[1]
Revenues	235.0	250.7
Segment Plastics	129.9	169.0
Segment China	85.0	50.4
Segment Materials	26.7	39.8
Corporate/consolidation	–6.6	–8.6
EBITDA	14.7	15.3
Adjusted EBITDA	17.7	17.9

Reconciliation to Adjusted EBITDA		
EBITDA	**14.7**	**15.3**
Adjusted for non-recurring effects	3.0	2.6
Adjusted EBITDA	**17.7**	**17.9**

BALANCE SHEET KEY FIGURES

in mEUR	January 1 – December 31, 2020	January 1 – December 31, 2019
Equity	51.1	68.6
Capital ratio	27.5%	26.8%
Total assets	185.7	256.5
Cash and cash equivalents (unrestricted)	20.0	17.2
Net Financial Debt[2]	22.9	39.1

1 The comparative period was adjusted for the disclosure of the discontinued operation.
2 Net Financial Debt = Bank Loans + Liabilities from Loans + Lease Liabilities + Recourse Factoring – Cash

The Group achieved revenues of 308.1 mEUR (including the discontinued Acoustics segment) in the 2020 financial year (2019: 362.8 mEUR) and an adjusted EBITDA margin of 4.0% (2019: 4.9%). Taking account of the Acoustics segment as discontinued operations within the meaning of IFRS 5, consolidated revenues come in at 235.0 mEUR in the financial year (2019: 250.7 mEUR) and the adjusted EBITDA margin stands at 7.5% (2019: 7.1%). The proceeds from deconsolidation amount to 3.9 mEUR and are included in the result from discontinued operations. The business figures for 2020 are set out below, in consideration of IFRS 5.

The decline of 6.2% in revenues is essentially due to the COVID-19 pandemic and the ensuing plant closures in Europe in the first six months of the year, which caused an aggregated decline of 25.0% in the Plastics and Materials segments. The strong sales growth of 68.5% in the China segment was only partly able to compensate for these adverse developments.

Adjusted EBITDA of 17.7 mEUR (2019: 17.9 mEUR) is derived from EBITDA of 14.7 mEUR (2019: 15.3 mEUR), adjusted for special expenses of 3.0 mEUR (previous year: 2.6 mEUR).

COMPANY PROFILE

STS Group AG

www.sts.group (ISIN: DE000A1TNU68), is a leading system supplier to the automotive industry. The Group employs more than 1,600 employees around the world and generated revenues of 235.0 mEUR in the 2020 financial year. The STS Group ("STS") produces and develops plastic injection moulding and components made of composite materials (Sheet Moulding Compound, SMC), such as fixed and flexible vehicle and aerodynamic cladding, comprehensive, holistic interior and exterior cladding systems, as well as lightweight and battery components for electric vehicles in a total of twelve plants and three development centres in France, Germany, Mexico, China and in future in the US as well. STS is considered a technology leader in the production of plastic injection moulding and SMC. With plants on three continents, STS commands a strong global footprint. The customer portfolio comprises leading international manufacturers of commercial vehicles, passenger cars and electric vehicles.

EMPLOYEES
>1,600

DEVELOPMENT CENTERS
3 worldwide

REVENUE 2020 (IN mEUR)
>235.0

BUSINESS SEGMENTS

Global Organisation

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 three segments.

PLASTICS

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

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.

CHINA

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

STRENGTHENED INTO THE FUTURE

As a strong partner, we are shaping the future of mobility and global transport volumes. The global megatrends are intact and even accelerating: Emission reduction, electrification and digitalization – for this we offer and develop the solutions. As a globally active systems supplier we see ourselves as a driver and designer of innovative as well as individual solutions for our customers.

In 2020, we have not only addressed the global challenges posed by the Covid-19 pandemic. We also seized the opportunities and positioned ourselves optimally for the future. As a result, we have created a solid basis for future profitable growth. We owe this above all to our international team, which even in times, has worked with competence and passion for the further development of the STS Group.

Strengthened together into the future.
For our customers. For you.

FINANCIAL CALENDAR 2021

April 7, 2021

Publication of
annual report 2020

May 17, 2021

Spring conference 2021,
Frankfurt/Main

July 23, 2021

Annual General Meeting,
Munich

August 5, 2021

Publication of
semi-annual report

November 22 to 24, 2021

German Equity Forum 2021,
Frankfurt/Main

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

1 — TO THE SHAREHOLDERS

DEAR SHAREHOLDERS,

Having joined the STS Group in 2017, I assumed the responsibilities and tasks of the STS Group's Chief Executive Officer at the beginning of July 2020. As part of the Annual Report 2020, I now would like to address you directly and provide you with a detailed account of developments in the past year.

The global commercial vehicle and passenger car markets were severely impacted by the COVID-19 pandemic in the 2020 financial year. Despite the implementation of immediate measures, the STS Group was unable to decouple from the general downtrend in the industry. Against this challenging backdrop, we were nevertheless successful in sustainably realigning the Company and in delivering important operational achievements.

The Group (including the discontinued Acoustics segment) generated revenues of 308.1 mEUR in the 2020 financial year (2019: 362.8 mEUR) and an adjusted EBITDA margin of 4.0% (2019: 4.9%). Taking account of the Acoustics segment as discontinued operations within the meaning of IFRS 5, revenues come in at 235.0 mEUR in the financial year (2019: 250.7 mEUR) and the adjusted EBITDA margin at 7.5% (2019 7.1%). The proceeds from deconsolidation amount to 3.9 mEUR and are comprised under the result from discontinued operations. The business figures for the 2020 financial year are explained in the following, taking account of IFRS 5.

The decline of 6.2% in revenues is primarily attributable to the COVID-19 pandemic and the ensuing plant closures in Europe in the first half of the year, which resulted in an aggregate decline of 25.0% in the Plastics and Materials segments. Strong growth of 68.5% in the China segment's revenue was only partly able to compensate for these adverse developments.

After application of IFRS 5, adjusted EBITDA stood at 17.7 mEUR, which is marginally lower than in the previous year (2019: 17.9 mEUR). Adjusted EBITDA is derived from EBITDA. In the reporting year 2020, EBITDA declined from 15.3 mEUR to 14.7 mEUR. As of December 31, 2020, EBITDA was adjusted to reflect special expenses of 3.0 mEUR.

Revenues, the result and the EBITDA margin therefore developed in line with the management's expectations in the period under review.

Challenges and powerful dynamics

Following a very promising start to 2020, with an order placed for battery covers in the electric mobility business, measures geared to to combatting the pandemic taken on a global scale caused numerous temporary plant closures in the automotive industry. In mid-March 2020, we adjusted production to global developments, introduced short-time work and drew up a package of rigorous measures to ensure the Company's liquidity, flanked by an extensive hygiene concept designed to protect our employees and customers. The great flexibility and commitment of the entire STS team ensured and continues to ensure that the STS Group emerges stronger from the challenging situation. Major structural changes in administrative functions were nevertheless unavoidable. Operational functions of the STS Group AG's headquarters in Germany were partly discontinued, assigned to lower level operating units or outsourced. Both the cost structure and the number of employment contracts were adjusted to market requirements in order to secure the Company's long-term success.

While production in European STS plants ceased through to the end of April, sites in China were able to resume operations at relatively short notice. Despite temporary downtime, the China segment in particular displayed impressively powerful dynamics over the full year. As the end of 2020, the segment reported revenue growth of 68.5% to 85.0 mEUR in one of the world's most important markets for the automotive and commercial vehicle industry. The EBITDA margin posted 20.5%, thereby underscoring the very profitable business with high performance components in this location. Thanks to this dynamic development we were partly able to cushion the general downtrend in revenues.

Clear focus on mobility megatrends

The STS Group's strategic realignment defines a clear overall focus on its core business, flanked by a leaner holding structure in Germany. Having conducted an in-depth analysis, we took the decision to assign more responsibility to the operating units. At the same time, consensus agreement was reached on the sale of the loss-making Acoustics segment. The process of disposal, initiated in August, had already been successfully concluded by the start of November. Going forward, STS's activities are now focused on the more promising Plastics and Materials segments in Europe where the STS Group's operational heart will beat in future, as well as on the China segment. Expanding business in North America and in the east of the US will also play a key role. The STS Group will therefore be concentrating even more strongly on the attractive injection moulding and composite technologies with the aim of further extending its competences in the field of future-oriented lightweight solutions for commercial and electric vehicles. The STS Group's strategy of deriving benefit from the current megatrends in the automotive industry is to be expedited in a targeted manner and has been strengthened through the disposal of the Acoustics segment. We have additionally reinforced our position in the strategically relevant market of electric vehicles also outside of China. This product group offers considerable growth potential in Europe as well.

We will be focusing management resources here and continuing to concentrate on forward-looking, sustainable technologies. The growth strategy will be underpinned by process optimisations, such as by the enhanced automisation of production processes, among other measures. Finding answers to tomorrow's mobility issues will take centre stage. As part of ambitious climate protection targets which entail lowering CO_2 emissions significantly, electric mobility and lightweight components are the means of choice. We have already succeeded in convincing customers of our firm promise to deliver and have won important strategic orders in these areas.

Outlook

We are confident of sustaining the recovery signalled in our business segments at the end of the year. Important decisions on strategic realignment were made, implemented and managed through to success in 2020. Further tasks lie ahead for us to address with the same confidence and strong commitment.

With a look to the financial year 2021, the Executive Board anticipates organic revenue growth in the scale of around 10% and an adjusted EBITDA margin in a high single-digit percentage range. Special expenses are not planned for the financial year. Adjusted EBITDA therefore equates to EBITDA, which is based on the assumption that business in China will remain at the robust level seen in 2020. In this context, the market can be expected to return to normal levels in the second half of the year, on the one hand, while order intake is set to remain strong, on the other. In Europe, the commercial vehicle market will most likely retain its steady recovery over the course of the year. Moreover, STS will continue to respond flexibly in adjusting production to OEM requirements and market events.

My special thanks go to our employees – in exceptional times, they have delivered outstanding achievements and guarantee our Company's success with their strong commitment. It fills me with pride and pleasure to be part of this unique team. I would also like to thank our customers, business partners and you as our valued Shareholders for the trust you have placed in us.

Hallbergmoos, March 31, 2021

Mathieu Purrey (CEO)

DEAR SHAREHOLDERS,

The performance of STS Group AG has been largely determined by the COVID-19 pandemic and the resulting uncertainty and economic impact. We kept our sights firmly on sustainable, future-oriented topics in the area of lightweight construction and electric mobility in an uncertain environment, which led to the disposal of the former Acoustic segment. These measures were flanked by changes at Executive Board level.

Monitoring and advising in constant dialogue with the Executive Board

In the 2020 financial year, 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 Company's bylaws with great care. It advised the Executive Board on corporate management, while accompanying and supervising the Company's management and business development. In the context of close cooperation, the Executive Board provided the

Supervisory Board with regular, timely and comprehensive reports in writing, by telephone and in personal discussions on the Company's current situation and prospects, its business policy, profitability and its material transactions.

In addition, the Supervisory Board also maintained personal contact with the Executive Board outside defined meetings and was involved in deliberations and decision-making in matters of fundamental importance. The Executive Board informed the Chairman of the Supervisory Board without delay about all important events which were of material significance for the assessment of the Company's situation and development and for managing the Company. All members of the Supervisory Board were provided with this information extensively at the next respective meeting at the latest.

The Executive Board also kept the entire Supervisory Board informed about relevant developments and transactions requiring 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 or in which it was to be involved by law, the Articles of Association or the bylaws.

In urgent cases, the Supervisory Board also was able to pass resolutions by way of a written circular resolution procedure where necessary. The Supervisory Board was able to fulfil its supervisory and advisory function at all times on account of the regular, prompt and detailed information provided by the Executive Board. The Supervisory Board therefore considers that the Executive Board's actions were lawful, due and proper and efficient in all respects.

Whenever necessary, the Supervisory Board also convened without the Executive Board.

Meetings

For the purpose of discharging its tasks, the Supervisory Board held nine meetings which were conducted partly also as video and telephone conferences due to conditions imposed by the coronavirus.

All members of the Supervisory Board were present in full at meetings. The table below lists participation by the Supervisory Board members:

Date	Robin Laik (Chairman until June 20, 2020)	Dr. Kristian Schleede	Bernd Maierhofer	Dr. Wolf Cornelius (Chairman since June 22, 2020)	Dr. Wolfgang Lichtenwalder
February 13, 2020	■	■	■		
March 4, 2020	■	■	■		
March 30, 2020	■	■	■		
April 6, 2020	■	■	■		
June 24, 2020			■	■	■
July 3, 2020			■	■	■
July 14, 2020			■	■	■
November 16, 2020			■	■	■
December 2, 2020			■	■	■

Moreover, the Supervisory Board complied with its statutory obligation to ratify the catalogue of transactions of STS Group AG requiring approval, also outside regular Supervisory Board meetings, through 14 written circular resolutions.

At the meetings, the Supervisory Board regularly received reports from the Executive Board, in accordance with Section 90 (1) sentence 1 item 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 promptly and at short notice.

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 item 4 AktG.

Plenary discussions also regularly focused on the areas of Finance and Controlling, Sales and Marketing, Production, Quality Management, Human Resources and Research and Development and Mergers & Acquisitions.

Key topics

The consultations of the Supervisory Board in the 2020 financial year focused on the realignment of the Company and on the associated securing of liquidity. In addition, Supervisory Board activity concentrated on monitoring STS Group AG ́s situation while taking account of the economic impact of the COVID 19 pandemic.

As part of the STS Group's strategic realignment, the Supervisory Board examined the alternatives for action presented by the Executive Board, which, along with the sale of segments, also provided for the establishing of sales companies in future target markets.

Subsequent to in-depth discussions, the Supervisory Board approved the founding of a new company in the US and the sale of the Acoustics segment. The measures required with regard to restructuring the liabilities side in the process of divesting the Acoustics segment were discussed in detail, examined and approved.

Securing the STS Group's liquidity was also a topic of intense deliberation between the Supervisory Board and the Executive Board. The Supervisory Board examined the measures proposed by the Company's Executive Board to secure liquidity. The outcome of these consultations was a concerted move to reduce personnel at STS AG in the Hallbergmoos location, as well as the implementation of a capital increase from the authorised capital under the Articles of Association. The capital increase was subscribed by Mutares SE & Co. KGaA under exclusion of subscription rights. The Supervisory Board gave the necessary approvals.

As part of the STS Group's strategic realignment, the Supervisory Board dealt in depth with the financial planning for the financial year 2021 submitted by the Executive Board, as well as the strategic medium-term planning.

Composition of the Executive Board

STS Group AG's realignment ultimately resulted in reducing the number of members on the Executive Board.

Mr. Patrick Oschust, appointed as Chief Production Officer in 2017, withdrew from the Executive Board effective May 31, 2020. Under his leadership, the STS plants were linked up, uniform standards applied, synergies leveraged and productivity successfully boosted.

Dr. Ulrich Hauck took over the Executive Board portfolio of Finance in a difficult phase in 2019 and led the Group with his expertise through the very challenging environment presented by the coronavirus. Dr. Hauck was instrumental in reorganising the STS Group and, in the context of the planned realignment of the Group and a leaner Executive Board, laid down his office effective June 20, 2020.

As of June 30, 2020, Mr. Andreas Becker withdrew as the Company's Chief Executive Officer. The Supervisory Board reached a mutual agreement with Mr. Becker as of July 14, 2020.

With effect from July 3, 2020, Mathieu Purrey was appointed as the Company's sole Executive Board member for a period of three years.

Composition of the Supervisory Board

Mr. Robin Laik and Dr. Kristian Schleede laid down their Supervisory Board mandates at STS Group AG on June 20, 2020 in order to devote themselves more intensively to their Management Board activities at Mutares SE & Co. KGaA in the challenging times of the COVID-19 pandemic.

For the purpose of ensuring the Supervisory Board's quorum, Dr. Wolf Cornelius and Dr. Wolfgang Lichtenwalder were appointed by court decision to the Supervisory Board upon an application submitted by the Company. The term of office of the court appointment was limited in accordance with good corporate governance until the Annual General Meeting of Shareholders on July 14, 2020.

Dr. Wolf Cornelius and Dr. Wolfgang Lichtenwalder were appointed as regular members of the Supervisory Board in the Annual General Meeting of Shareholders on July 14, 2020. The election of the Supervisory Board members took place through voting for the individual candidates. Dr. Wolf Cornelius was given an approval rate of 98.57%. The proposal to elect Dr. Wolfgang Lichtenwalder was adopted by the Annual General Meeting at 98.45%.

The term of the Supervisory Board mandates of Dr. Wolf Cornelius and Dr. Wolfgang Lichtenwalder is limited until the Annual General Meeting of Shareholders that decides on formal discharge for the 2020 financial year.

The Supervisory Board of STS Group AG is strengthened by Mr. Bernd Maierhofer joining it. Mr. Maierhofer was elected during the regular 2019 Annual General Meeting to serve on the Supervisory Board until the Annual General Meeting that decides on formal discharge for the financial year 2023.

Directly after the Annual General Meeting of July 14, 2020, the Supervisory Board elected Dr. Wolf Cornelius from its members as Chairman of the Supervisory Board in its constituent meeting. In addition, Dr. Cornelius exercises the function of financial expert within the meaning of Section 100 (5) of the German Stock Corporation Act (AktG). Dr. Wolfgang Lichtenwalder has assumed the position of Deputy Chairman of the Supervisory Board.

Article 10 (5) of STS Group AG's Articles of Association provides for the possibility of appointing replacement members in the event of a premature withdrawal of a Supervisory Board member. STS Group AG availed itself of this option in its Annual General Meeting of July 14, 2020 in order to guarantee a quorum and thus the Supervisory Board's capacity to act.

To this end, the Company put forward a proposal to the Annual General Meeting for the election of Mr. Johannes Laumann and Mr. Mark Friedrich – both Management Board members at Mutares Management SE – as replacement members. The proposal for electing replacement members was adopted by 97.93% in each case by the Annual General Meeting. The elections also took place in the form of electing individual candidates.

In the event of a premature withdrawal of a former Supervisory Board member, Mr. Johannes Laumann will initially join the Supervisory Board and then Mr. Mark Friedrich in second place. The term of the membership of a replacement member is also limited until the Annual General Meeting which decides on formal discharge for the 2020 financial year.

Formation of committees

In financial year 2020, the three members of the Supervisory Board chose not to form committees and dealt with upcoming issues within the full Supervisory Board.

Corporate governance and declaration of compliance

An integral part of the meetings of STS Group AG's Supervisory Board consists of implementing the German Corporate Governance Code. In 2020 as well, the Supervisory Board and Executive Board held detailed discussions on the recommendations and suggestions of the Code in its new version dated December 16, 2019. On this basis, the Supervisory Board approved the Declaration of Compliance in its meeting on January 29, 2021 in accordance with Section 161 AktG. The Declaration of Compliance has been made permanently available to our shareholders on the Company's website.

Along with the Declaration of Compliance, the corporate governance declaration has also been made available for viewing by our shareholders on STS Group AG's website.

In the spirit of good corporate governance, the Company regularly reviews the existing compliance structures. As a result of this review, the Supervisory Board approved a new version of the existing Code of Conduct in its meeting on November 16, 2020.

There were no conflicts of interest for individual members of the Executive Board and the Supervisory Board in the period under review.

Audit of the separate and consolidated financial statements for the 2020 financial year

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as the auditor of the separate and consolidated financial statements for the financial year from January 1 to December 31, 2020 by resolution of the Annual General Meeting held on July 14, 2020 and was commissioned accordingly by the Chairman of the Supervisory Board. Prior to mandating the external auditor, the Supervisory Board satisfied itself of the auditor's independence.

The subject of the audit was the separate financial statements of STS Group AG for the financial year from January 1 to December 31, 2020 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, 2020 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 separate 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 had 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 for identifying developments which threaten the Company as a going concern at an early stage.

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 questions, explanations or additional information. He took part in Supervisory Board discussions concerning the separate and consolidated financial statements and the meeting of the Supervisory Board to adopt the separate and consolidated financial statements and approve the consolidated financial statements on March 31, 2021.

The separate financial statements, the consolidated financial statements, the combined management report on the Group and the Company, the non-financial report, the dependent company report and the report of the external auditor on its audit were submitted to all Supervisory Board members in good time before the Supervisory Board's meeting on March 31, 2021 to adopt the annual accounts.

In its annual accounts meeting, the Supervisory Board discussed the financial statements of STS Group AG and the STS Group and the combined Group management report. Consultations on and the review of the non-financial Group report pursuant to Section 315b (3) HGB were also topics at this meeting.

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 on the separate and consolidated financial statements as at December 31, 2020 and of the combined Group management report on the Company and the Group, the Supervisory Board did not raise any objections. In its annual accounts meeting on March 31, 2021, the Supervisory Board approved the separate financial statements and the consolidated financial statements of STS Group AG prepared by the Executive Board for financial year 2020, together with the combined Group management report. The 2020 annual financial statements have thereby been adopted (Section 172 sentence 1 AktG).

Dependent company report

In its meeting on March 31, 2021 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 2020 (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:

"Having conducted a due and proper audit and appraisal, we hereby confirm that

- the actual disclosures contained in the reports are correct,
- the payments of the company were not inappropriately high or the disadvantages were compensated for in the legal transactions listed in the report."

The auditor submitted the audit report to the Supervisory Board in good time before its annual accounts meeting. The auditor attended this meeting of the Supervisory Board and provided information on the key findings from auditing the dependent company report.

For its part, the Supervisory Board examined the Executive Board's dependency report and the auditor's report and concurs with the findings of the audit conducted by the auditor. Having concluded its own review, the Supervisory Board approved STS Group AG's dependent company report.

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.

Valued Shareholders, the COVID-19 pandemic had a decisive impact on the course of the Company's business in the 2020 financial year. By rigorously implementing measures and clearly focusing on its core activities in the lightweight and electric mobility markets, the Company laid firm foundations in 2020 for securing the future of the STS group.

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 their contribution in 2020.

Hallbergmoos, March 31, 2021

On behalf of the Supervisory Board

Dr. Wolf Cornelius
Chairman of the Supervisory Board

STS GROUP AG ON THE CAPITAL MARKETS

SHARE FACT SHEET

Stock Exchanges	Xetra, Frankfurt, Berlin, Dusseldorf, Munich, Stuttgart, Tradegate
Symbol	SF3
Total number of shares	6,500,000
Amount of share capital	6,500,000 EUR
ISIN	DE000A1TNU68
WKN	A1TNU6
Market segment	Regulated Market
Transparency level	General Standard
Designated sponsor	mwb fairtrade Wertpapierhandelsbank AG

CAPITAL MARKET ENVIRONMENT

In 2020, the development on the global capital markets was generally determined by the impact and challenges of the coronavirus pandemic. The outbreak of the pandemic and the introduction of lock-downs sent share prices tumbling on the stock markets in the first quarter of 2020. As the stock market year progressed, improved economic data, extensive government aid and a flood of central bank liquidity resulted in an unexpectedly rapid recovery of the stock markets in the wake of easing measures to combat the pandemic. As from the third quarter of 2020, the price uptrend nevertheless slowed again. Monetary aid programs and the prospect of a vaccination against COVID-19 boosted share prices again across the board over the course of the fourth quarter of 2020. Germany's DAX climbed 3.5% to 13,718.78 points in 2020. The DAXsubsector Automotive reported even a robust increase of 4.8% in the period under review. The automotive market therefore significantly outperformed the overall market in 2020.

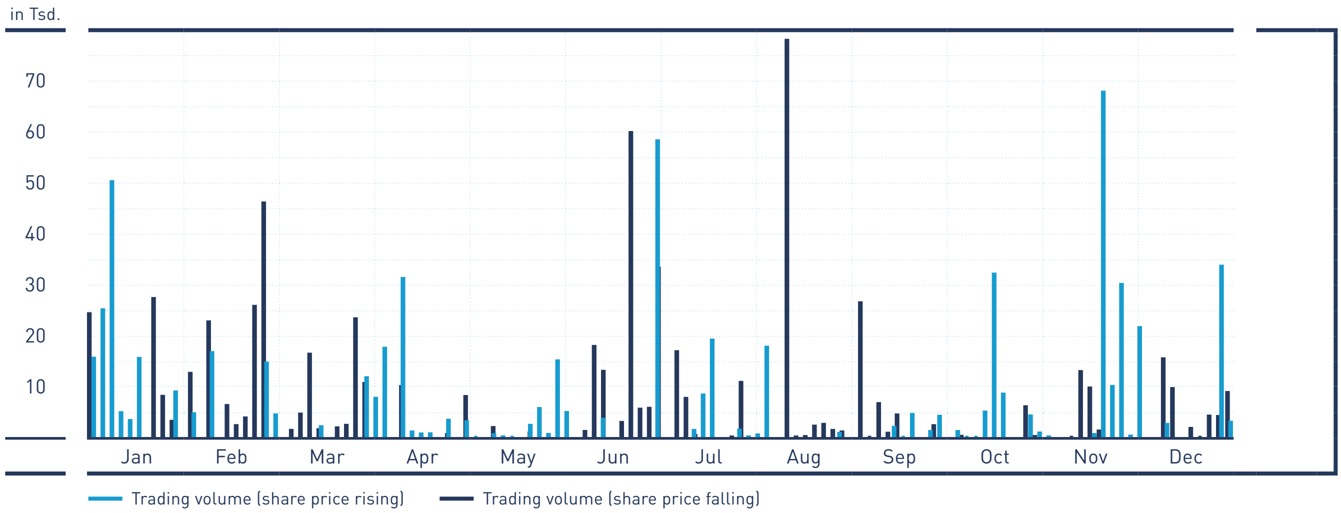
SHARE: PRICE PERFORMANCE AND TRADING VOLUME

STS share with plus of 3.3% in 2020

STS Group AG's share opened the trading year on January 2, 2020 at 5.70 EUR. Following a promising start to the year in operational terms which took the form of a strategic electric mobility order placed for the European market, the STS Group's share already reached its peak level for reporting period by January 15 at 6.96 EUR. The impact of the outbreak of the coronavirus pandemic in the first quarter on the world's economy burdened the global automotive and commercial vehicles market in particular, causing a historically unprecedented slump, with plant closures and disrupted supply chains. Capacity adjustments and revenue declines due to the pandemic led to a downtrend in the STS Group's share price which then reached its the lowest point for the year at 1.74 EUR on July 1, 2020. In the second half of 2020, the STS Group implemented extensive cost-cutting programmes and restructuring measures in the context of changes to the corporate strategy. The sale of the loss-making Acoustics segment concluded in November 2020 and the resulting focus on the Plastics segment, in conjunction with the presentation of the figures for the third quarter, marked a trend reversal in the STS Group's share price. Having staged a significant recovery, STS Group AG's share closed stock exchange trading in 2020 at a price of 5.80 EUR on December 30. Overall, the share price increased by 3.3% in a year-on-year comparison.

SHARE PRICE PERFORMANCE (JANUARY 1 TO DECEMBER 31, 2020)

TRADING VOLUME (JANUARY 1 TO DECEMBER 31, 2020)



SHARE: OVERVIEW OF PRICE PERFORMANCE

Opening price	**January 2, 2020**	**5.70 EUR**
High	January 15, 2020	6.96 EUR
Low	July 1, 2020	1.74 EUR
Closing price	**December 30, 2020**	**5.80 EUR**
Market capitalization	**December 30, 2020**	**37.7 Mio. EUR**

As of the 2020 balance sheet date, STS Group AG's market capitalisation stood at 37.7 mEUR based on 6,500,000 shares in circulation. In the previous year, the market value amounted to 33.7 mEUR with the same number of shares and a closing price of 5.62 EUR (all information based on Xetra prices). The average daily trading volume of SDS Group shares on all German stock exchanges decreased to 16,556 units in 2020 compared with 21,599 in the previous year. It should be noted that highest trading volumes took place at the end of 2020 in response to the share price recovery.

CHANGE OF SEGMENT

Change to the General Standard of the Frankfurt Stock Exchange

On May 15, 2020 STS Group AG submitted an application in accordance with Section 57 of the Stock Exchange Regulations of the Frankfurter Stock Exchange for the revocation of the listing of the Company's shares on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard). Admission to the Regulated Market (General Standard) was retained, with the shares being admitted for trading on the Regulated Market (General Standard) effective September 3, 2020. The change of segment was part of an extensive cost saving programme due to the decline in revenues caused by COVID-19. The switch to another stock exchange segment served to reduce the additional expenses incurred by the reporting and disclosure requirements associated with listing on Prime Standard. This measure was part of an extensive cost cutting programme to counteract burdens from COVID-19.

EXTRAORDINARY GENERAL MEETING

With the convocation of an extraordinary General Meeting to be held on September 25, 2020, STS Group AG gave notification on August 7, 2020 in accordance with Section 92 (1) AktG, of the loss of more than half of STS Group AG's share capital. Dropping below half of the share capital was attributable in particular to loans and receivables in respect of individual Group companies and to a valuation allowance on the Acoustic segment's investment value in conjunction with concluding the outright sale of the Acoustic segment at a negative purchase price.

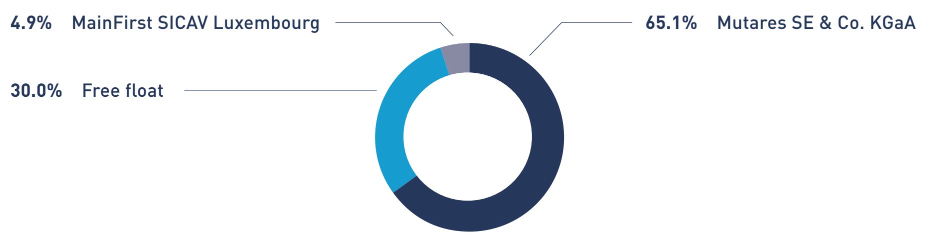
CAPITAL INCREASE

By way of partial utilisation of the Approved Capital 2018/I, STS Group AG took the decision on September 11, 2020 to raise the share capital by 500,000 EUR to 6,500,000 EUR by issuing 500,000 new shares against cash contribution under exclusion of the subscription rights. Mutares SE & Co. KGaA was solely authorised to subscribe to the new shares. At an issuing price of 3.00 EUR per share, STS Group AG received gross issuing proceeds totalling 1,500,000 EUR.

SHAREHOLDER STRUCTURE

As of December 31, 2020 the Company had a balanced relationship between free float and institutional investors. With a stake of 65.1%, Mutares SE & Co. KGaA holds the majority of shares in circulation as a strategic anchor investor. Until December 31, 2020, no further voting rights notifications have been made by Mutares SE & Co. KGaA were made, as no new relevant thresholds were exceeded or fallen below. MainFirst SICAV Luxembourg holds 4.9%. Free float accounts for 30.0% of the shares.

SHAREHOLDER STRUCTURE



ANALYST COVERAGE

As specialists for German mid-caps, SMC Research provided coverage and analysed the share of STS Group AG in the reporting period. In its most recent research update from November 23, 2020, SMC analysts Dr. Bastian Brand and Holger Steffen affirmed their recommendation (speculative buy) and raised the price target to 7.20 EUR (formerly: 5.70 EUR). The price targets and recommendations of the securities analysts reflect the upside potential of the first operational successes in particular on the back of the recovery in the Company's business in Europe, along with concentrating its business activities on the Plastics segment and the boom segment of China.

INVESTOR RELATIONS ACTIVITIES

STS Group AG's share is listed on the EU-regulated General 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.

STS Group AG's management maintains continuous, close dialogue with investors, analysts and the financial and business press. In addition, the Executive Board is also available when the results of operations are published for communication with capital market participants in regular telephone conferences.

In the 2020 reporting period, management engaged in numerous one-on-one discussions with analysts, investors and financial journalists. Due to the corona pandemic, STS Group AG's Executive Board presented the Company's business model and its strategy in discussions with investors by telephone and at virtual capital market conferences. This included the MKK Munich Capital Market Conference in April 2020 and the German Equity Forum in November 2020 in Frankfurt/Main.

INVESTOR RELATIONS OVERVIEW

February 4, 2020	Hamburg Investor Day – HIT, Hamburg
April 9, 2020	Publication of 2019 Annual Report
April 28 – 29, 2020	MKK Munich Capital Market Conference, Munich
May 13, 2020	Publication of Quarterly Statement (reporting date Q1)
July 14, 2020	Annual General Meeting, Munich
August 6, 2020	Publication of Half-Yearly Report
September 25, 2020	Extraordinary General Meeting 2020, Munich
November 16 – 18, 2020	German Equity Forum 2020, Frankfurt/Main

Hauck & Aufhäuser Privatbankiers AG (until the end of May 2020) and mwb fairtrade Wertpapierhandelsbank AG acted as designated sponsors in 2020 and continuously supported the appropriate tradability of the STS Group share with binding bid and ask prices.

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

FINANCIAL CALENDAR 2021

April 7, 2021	Publication of 2020 Annual Report
May 17, 2021	Spring Conference 2021, Frankfurt/Main
July 23, 2021	Annual General Meeting of Shareholders, Munich
August 5, 2021	Publication of Half-Yearly Report 2021
November 22 – 24, 2021	German Equity Forum, Frankfurt/Main, Germany

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

2 — COMBINED MANAGEMENT REPORT

BACKGROUND INFORMATION ON THE GROUP

BUSINESS MODEL

12
Plants worldwide

3
Research and Development Centers

>1,600
Employees

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

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

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

OVERVIEW LOCATIONS

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

BUSINESS ACTIVITIES

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

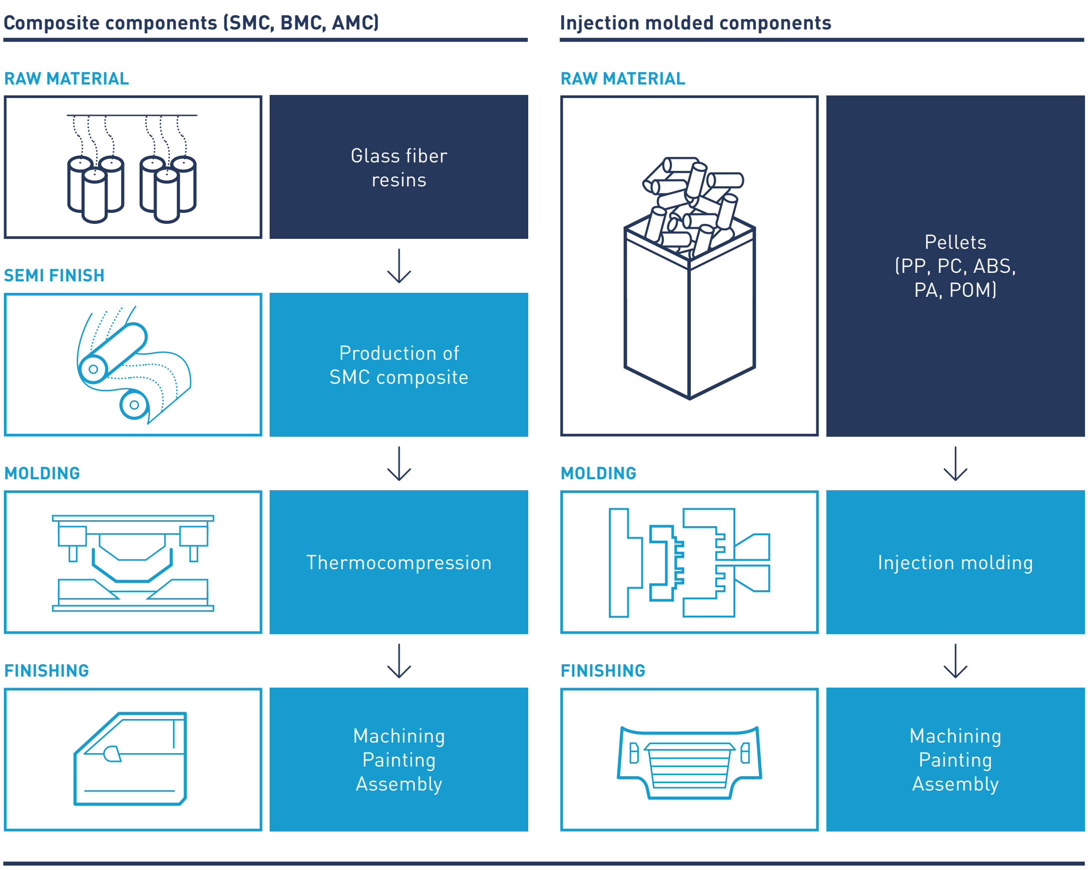
- **Plastics:** The segment manufactures a wide range of body parts and interior modules for trucks, commercial vehicles and cars. It includes hard trim products made of injection moulding and composite material, such as SMC. The semi-finished product plays an important role in automobile manufacturing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

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

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

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

THE HIGH VERTICAL INTEGRATION ENSURES AN EFFICIENT PRODUCTION PROCESS



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

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

CORPORATE STRATEGY AND MANAGEMENT

OBJECTIVES AND STRATEGY

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

4

Strategic pillars

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

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

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

MANAGEMENT AND CONTROL SYSTEM

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

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

- Regular Executive Board and Supervisory Board meetings
- Regular shareholder meetings at subsidiaries
- Risk and opportunity management
- Liquidity planning
- Management reporting

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

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

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

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

EMPLOYEES

Motivated employees expect an attractive and fair working environment in which they can act independently, contribute their ideas and develop further. Decisive for a successful and appreciative cooperation is the joint creation of an STS culture and anchoring this culture in everyday interaction.

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

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

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

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

RESEARCH AND DEVELOPMENT

Innovative products are a cornerstone of the Group's strategy and are intended to contribute to the medium-term goals of profitable and sustainable growth. In 2020, the COVID-19 restrictions resulted in constraints and delays in respect of customer programmes. The R&D budget was retained unchanged, however. The STS Group's strategy consisted of deploying the available resources of engineering centres with a view to accelerating innovation programmes.

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

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

The R&D activities resulted in major success in acquiring for our new product lines:
- Trunk lid from light composite materials for a European OEM
- Covers for battery systems of electric vehicles: two orders in the Chinese market, one in the North American market

The innovation process is fully covered by STS, including monitoring, technological development, patents management, creativity sessions, the selection of ideas, proof of concept and TRL monitoring, as well as generating new concepts developed in joint collaboration with the customers:
- Modular concept for trucks combining structural, aesthetic, passive and active aerodynamic functions.
- Joint development with truck OEM in the pursuit of solutions to challenges entailed by reducing CO_2 emissions by 2025.

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

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

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

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

ECONOMIC REPORT

MACROECONOMIC AND SECTOR CONDITIONS

MACROECONOMIC DEVELOPMENT

Global economy charting ongoing recovery

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

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

V-shaped recovery in China

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

China achieves growth in corona year

Worsening of the pandemic halts recovery

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

Second pandemic wave dampens global economic recovery

Gradual recovery in North America

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

Automotive industry in Mexico weakened by pandemic

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

SECTOR DEVELOPMENT

Commercial vehicle market with growth in the fourth quarter of 2020

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

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

Chinese truck market grows by 21.7%

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

BUSINESS DEVELOPMENT

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

In the first half of 2020, however, the spreading of the coronavirus pandemic and the ensuing containment measures severely impacted global economic development, and thus to a huge extent the automotive and commercial vehicles sector – and therefore ultimately the STS Group's performance. As early as February, STS production sites in China were closed. By contrast, STS plants in Europe and in Central and South America were only affected by plant closures in connection with the pandemic as from March. In Central and South America, the initial response to plant closures consisted of using up holiday entitlements. In Europe, however, capacities were adjusted at short notice to the situation through the use of short-time work.

First half of 2020 influenced by pandemic

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

High demand in China after plant closures

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

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

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

DEVELOPMENT OF SEGMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS BY SEGMENT

Plastics Segment

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

China Segment

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

Materials Segment

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

FINANCIAL POSITION

Principles and objectives of financial management and dividend policy

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

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

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

Cash Flow

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

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

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

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

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

Cash and cash equivalents

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

Net financial liabilities

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

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

FINANCIAL POSITION

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

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

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

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

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

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

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

OVERALL STATEMENT BY THE EXECUTIVE BOARD ON THE ECONOMIC SITUATION

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

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

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

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

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

OPPORTUNITIES AND RISK REPORT

RISK MANAGEMENT SYSTEM

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

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

RISK MATRIX[1]

1 Classification of net risk

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

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

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

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

Financial risk management

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

In some cases, the SCS Group minimises the impact of these risks by using derivative financial instruments. The use of derivative financial instruments is very limited as there are currently only very few currency and interest rate exposures. There are also guidelines for managing currency, interest rate and default risks. In addition, basic rules are defined for effecting derivative and non-derivative financial transactions and for investing excess liquidity. The STS Group does not contract or trade financial instruments, including derivative financial instruments, for speculative purposes.

MACROECONOMIC OPPORTUNITIES AND RISKS

GLOBAL ECONOMIC RECOVERY HINGES ON THE DEVELOPMENT OF THE PANDEMIC

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

CHINA – GOVERNMENT SPENDING IN AN UPTREND

Positive economic development in the People's Republic of China

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

ECONOMIC AND POLITICAL RISKS IN THE EUROZONE

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

Global trade tensions eclipsed by Corona crisis

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

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

Mexico as production location for the North American market strengthened

SECTOR OPPORTUNITIES AND RISKS

Zero-emission commercial vehicles gearing up

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

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

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

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

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

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

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

The automobile as marking progress in individual mobility

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

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

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

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

OTHER RISK AREAS, MATERIAL OPPORTUNITIES AND INDIVIDUAL RISKS

RISKS

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

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

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

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

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

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

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

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

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

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

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

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

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

- Malfunctions or prolonged production downtimes could impair the ability of the STS Group to deliver on time or to be able to deliver at all. Interruptions to operations may be triggered by internal or external circumstances. If the STS Group is unable to meet its contractual delivery obligations, this could have a negative impact on business and customer relationships. The Executive Board assesses the risk as low in terms of the extent of damage and probability of occurrence and its impact on the net assets, financial position and results of operations.

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

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

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

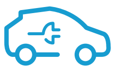
- Legal risks for the STS Group arise from conducting business. These risks can result from violations of legal or other statutory requirements. The occurrence of legal risks could have a great impact on earnings. The Executive Board assesses the risk as low in terms of the extent of damage and probability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

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

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

OPPORTUNITIES

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



Sales of electric vehicles on the rise

- The STS Group's return to a growth trajectory depends above all on its ability to follow new technology trends such as autonomous driving and e-mobility, to develop the appropriate solutions and to bring them to the market. Furthermore, the STS Group expects that the trend towards autonomous driving will require the product range to be adapted to meet the specific requirements of electronic and electrical devices. Demand in the STS Group's main target markets is increasingly influenced by a number of trends, in particular by the trends to reduce emissions and the growing concentration on e-mobility, which are primarily driven by the emission targets required in various parts of the world. The STS Group takes these trends into account through its materials which facilitate the manufacturing of lightweight products that reduce the total weight of vehicles and thus lead to lower emissions, while reducing the product costs of structural parts compared with metal products.

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

- The STS Group is able to scale its batch sizes to its customers' individual requirements. The STS Group has the advantage that it can use its technologies, such as composite materials, to produce small and large batch sizes for its customers. This enables the STS Group to address a wide range of customers for all of its products, thereby differentiating itself from larger automotive and truck parts suppliers who only focus on supporting customers with large-volume orders and are therefore exposed to economic deterioration if these key customers reduce the number of car and truck parts they purchase. The STS Group has a strong, globally integrated business in its key markets, from which it can generate further international growth. The STS Group operates 12 sites in four countries on three continents, with large sites in the most important regional markets of Europe, China and Middle America. These facilities are strategically located near or integrated into the sequencing facilities of their large OEM customers. They enable the STS Group to provide the services and products their customers need through the use of local personnel who are qualified to operate such facilities, tailored to promptly and inexpensively cater to the needs of local customers. In addition, the STS Group is able to grow organically with its key customers and to respond better to the changing needs of its international customers as they know their situation through their proximity and understanding of their customers' business.

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

Long-nose trucks in USA represent very large sales potential

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

- The Company has a lean corporate structure with direct reporting to the Executive Board. The long-standing customer relationships of more than 20 years on average (Europe > 20 years, China >10 years and America ~10 years) underpin the Company's strong position based on a high order backlog in a fiercely competitive market environment.

FORECAST

GLOBAL ECONOMY IN RECOVERY

Recovery of the world economy in the first quarter 2021

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

EXPANSION BACK TO PRE-CRISIS LEVEL IN CHINA

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

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

ECONOMIC ACTIVITY RETURNS TO NORMAL LEVELS IN THE EUROZONE

European economy expected to grow by 4.8%

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

RECOVERY IN GERMANY PRIOR TO THE SECOND WAVE

The resurgence of the corona pandemic and the measures to contain it reintroduced in November 2020 halted the recovery of Germany's economy. With progress made in the vaccination campaign, the IfW expects burdens placed by the pandemic on the economy to ease and the economy to recover at a rapid pace. As the economic losses are expected to be considerably more strongly concentrated on consumer-oriented services sector and retail than in the previous year, the overall economic impact should therefore be reduced. Against this backdrop, the export business is expected to recover further and, with the availability of an effective vaccine, companies should therefore cease postponing larger investments. Following a positive adjustment of 0.7 percentage points compared with its December forecast, the IfW expects Germany's gross domestic product to rise by 3.8% in 2021. Provided that measures to contain the pandemic are sustainably effective, a strong recovery with a significant increase in the gross domestic product of 4.8% is set to materialise over the course of the year in 2022.

SECTOR FORECAST

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

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

GROUP FORECAST FOR 2021, ACHIEVEMENT OF THE 2020 FORECAST

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

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

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

Accordingly, the Executive Board provided firm guidance:

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

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

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

General Risk Disclaimer

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

REPORT ON EVENTS AFTER THE END OF THE REPORTING PERIOD

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

TAKEOVER-RELATED DISCLOSURES

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

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

COMPOSITION OF SUBSCRIBED CAPITAL

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

Pursuant to Section 5 (2) of STS Group AG's Articles of Association, shareholders are not entitled to securitisation of their shares to the extent that this is legally permissible and securitisation is not required in accordance with the rules of the stock exchange on which the shares are admitted for trading. STS Group AG is entitled to issue individual certificates or global certificates for the shares. Entry into a share register in accordance with Section 67 (1) of the German Stock Corporation Act (AktG) is not required for bearer shares.

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

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

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

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

The shares of the Company are freely transferable in accordance with the statutory provisions concerning the transfer of bearer shares and there are no restrictions on transferability.

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

SHAREHOLDINGS WHICH EXCEED 10.0% OF THE VOTING RIGHTS

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

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROLLING POWERS

No shares with special rights conferring controlling powers were issued.

CONTROL OF VOTING RIGHTS IN THE EVENT OF EMPLOYEE PARTICIPATION

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

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

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

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

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

AUTHORITY OF THE EXECUTIVE BOARD TO ISSUE OR BUY BACK SHARES

a) Authorized Capital 2018/I

By way of resolution passed by the annual General Meeting of May 3, 2018, the Executive Board is authorised, with the approval of the Supervisory Board, to raise the share capital on or before May 2, 2023 by up to 2,000,000.00 EUR (2019: 2,500,000.00 EUR) once or several times by issuing up to 2,000,000 (2019: 2,500,000) new no-par value bearer shares against cash and/or contributions in kind ("Authorised Capital 2018/I"). On September 11, 2020, STS Group AG resolved to raise the share capital under partial utilisation and reduction of the Authorised Capital 2018/I by 500,000 EUR, to 6,500,000 EUR by issuing 500,000 new shares against cash contribution to the exclusion of subscription rights. Shareholders are to be granted subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for one or more capital increases within the scope of the Authorized Capital 2018/I,

(i) to exclude fractional amounts from subscription rights;
(ii) to the extent necessary to grant subscription rights to new no-par value bearer shares in the Company to bearers and holders of bonds with conversion or option rights or conversion or option obligations and which have been or will be issued by the Company or a direct or indirect holding company, to the extent that they are entitled to exercise the option or conversion rights or after fulfilment of conversion or option obligations as shareholders;
(iii) for the issuance of shares against cash contributions if the issue price of the new shares is not significantly lower than the stock exchange price of the shares already listed within the meaning of Sections 203 (1) and (2), 186 (3) sentence 4 of the German Stock Corporation Act (AktG) and which is based on the exclusion of subscription rights pursuant to Section 186 (3) sentence 4 AktG, the proportionate amount of share capital does not exceed a total of 10% of the share capital;
(iv) to issue shares against contributions in kind, in particular – but not limited to – for the purpose of (also indirectly) acquiring parts of the company, participations in companies or other assets or for servicing bonds issued against contributions in kind.

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

b) Conditional Capital 2018/I

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

c) Conditional Capital 2018/II

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

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

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

d) Share buyback

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

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

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

Further details can be found in the authorisation resolution.

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

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

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

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

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

REMUNERATION REPORT

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

REMUNERATION STRUCTURE FOR EXECUTIVE BOARD MEMBERS

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

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

MAIN FEATURES OF THE REMUNERATION SYSTEM

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

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

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

REMUNERATION SYSTEM OF THE STS GROUP AG

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

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

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

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

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

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

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

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

CHANGES AT EXECUTIVE BOARD LEVEL

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

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

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

REMUNERATION SYSTEM

CONSULTING SERVICE AGREEMENT FOR SECONDED EXECUTIVE BOARD MEMBERS

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

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

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

FIXED REMUNERATION FOR EXTERNAL EXECUTIVE BOARD MEMBERS

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

BENEFITS FOR EXTERNAL EXECUTIVE BOARD MEMBERS

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

ONE-YEAR VARIABLE REMUNERATION FOR EXTERNAL EXECUTIVE BOARD MEMBERS

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

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

MULTI-ANNUAL VARIABLE REMUNERATION

STS LONG TERM INCENTIVE BONUS („LTI")

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

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

Achievement of Performance Target 1 (“outperfomance components”):

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

Achievement of Performance Target 2 (“EPS component”):

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

Payment of LTI

- The net amount of the LTI determined after achievement of the objective has been determined is generally paid out in shares of STS Group AG, the sale of which is restricted for four years. The conversion of the net amount of the LTI into shares is based on the 30-day average of the closing prices of the STS Group AG share in Xetra trading on Deutsche Börse.
- To ensure compliance with the holding obligation, a lockdown is placed in the securities account of the beneficiary.
- In the 2020 financial year, no expenses were recorded under the LTI programme and no disbursement was made to the Executive Board (2019: kEUR 153). Upon dismissal of Executive Board members, all claims under the LTI programme expire. The Company’s current Executive Board is not affected by this remuneration component.

STS SHARE OPTION PLAN 2018

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

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

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

Subscription volume and term

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

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

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

Subscription rights entitlement for former Executive Board members

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

MUTARES SHARE OPTION PLAN 2016 AND 2019

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

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

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

Allocations

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

MUTARES PARTICIPATION BONUS

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

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

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

Executive Board members entitled to the Mutares Participation Bonus:

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

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

D&O INSURANCE

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

PENSION

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

LIMIT ON SEVERANCE PAYMENTS

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

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

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

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

AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL

In the event of a change of control, Mr. Becker had a non-recurrent special right to terminate his employment contract with a period of notice of three months to the end of the month and to resign from his office on the termination date. The special right of termination exists only within six months after Mr. Becker having become aware of a change of control.

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

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

LOANS TO EXECUTIVE BOARD MEMBERS

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

CLAWBACK MECHANISM

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

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

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

GENERAL PRESENTATION OF REMUNERATION PAID IN THE REPORTING PERIOD

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

BENEFITS GRANTED

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

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

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

INFLOW

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

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

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

HGB

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

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

REMUNERATION STRUCTURE FOR SUPERVISORY BOARD MEMBERS

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

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

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

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

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

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

REMUNERATION OF THE SUPERVISORY BOARD

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

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

EMOLUMENTS OF THE SUPERVISORY BOARD

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

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

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

In January 2021, the Executive Board and Supervisory Board of STS Group AG issued the declaration required under Section 161 of the German Stock Corporation Act (AktG) and made it publicly available on the Company's website at https://www.sts.group/investor-relations/corporate-governance.

DEPENDENCY REPORT

Our company, STS Group AG, has received reasonable consideration in each transaction listed in the report on relationships with affiliated companies for the reporting period from January 1 to December 31, 2020 in accordance with the circumstances known to us at the time when the transactions were carried out or not. Other measures were not taken or omitted during the period under review at the instigation of or in the interest of a dominant company or a company associated with a dominant company.

NON-FINANCIAL DECLARATION

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

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

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

STS GROUP AG

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

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

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

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

RESULTS OF OPERATIONS

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

INCOME STATEMENT OF STS GROUP AG IN ACCORDANCE WITH HGB

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

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

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

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

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

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

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

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

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

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

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

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

NET ASSETS AND FINANCIAL POSITION

BALANCE SHEET OF STS GROUP AG IN ACCORDANCE WITH HGB

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

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

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

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

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

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

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

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

OPPORTUNITIES AND RISKS

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

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

OUTLOOK

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

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

General Risk Disclaimer

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

Hallbergmoos, March 31, 2021

Mathieu Purrey (CEO)

3 — CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2020

in mEUR	Note	2020	2019[1]
Revenues	3.1	235.0	250.7
Increase or decrease of finished goods and work in progress	3.2	–1.7	5.2
Other operating income	3.3	4.0	2.7
Material expenses	3.4	–129.0	–139.5
Personnel expenses	3.5	– 61.8	–70.2
Other operating expenses	3.6	– 31.8	–33.6
Earnings from operations before depreciation and amortization expenses (EBITDA)		**14.7**	**15.3**
Depreciation and amortization expenses	3.7	–16.1	–15.9
Earnings before interest and income taxes (EBIT)		**– 1.4**	**– 0.5**
Interest and similar income	3.8	0.0	0.0
Interest and similar expenses	3.8	– 2.2	–1.6
Earnings before income taxes		**– 3.6**	**– 2.1**
Income taxes	3.9	– 3.0	– 2.4
Net income from continued operations		**– 6.6**	**– 4.5**
Result from discontinued operations	2.3	– 9.3	– 7.6
Net income		**–15.9**	**–12.1**
Thereof attributable to: Owners of STS Group AG		–15.9	–12.1
Earnings per share in EUR (undiluted)	3.10	**– 2.6**	**– 2.0**
Earnings per share in EUR (diluted)	3.10	**– 2.6**	**– 2.0**
Earnings per share in EUR from continued operations (undiluted)		**–1.1**	**– 0.8**
Earnings per share in EUR from continued operations (diluted)		**–1.1**	**– 0.8**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2020

in mEUR	2020	2019
Net income	**– 15.9**	**– 12.1**
Currency translation differences from continued operations	– 1.3	0.3
Currency translation differences from discontinued operations	– 1.1	– 0.1
Items that may be reclassified subsequently to profit or loss	**– 2.4**	**0.2**
Remeasurement of defined benefit plans from continued operations	– 0.3	– 0.9
Remeasurement of defined benefit plans from discontinued operations	– 0.4	– 0.2
Items that will not be reclassified to profit or loss	**– 0.7**	**– 1.1**
Other comprehensive income	**– 3.1**	**– 0.9**
Total comprehensive income	**– 19.0**	**– 13.0**
Thereof attributable to: Owners of STS Group AG	– 19.0	– 13.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2020

ASSETS

in mEUR	Note	December 31, 2020	December 31, 2019
Intangible assets	4.1	21.0	23.8
Property, plant and equipment	4.2	61.2	102.9
Contract assets	4.8	0.0	0.0
Other financial assets	4.3	0.2	0.3
Income tax receivables	4.4	0.0	0.0
Other non-financial assets	4.5	0.0	2.6
Deferred tax assets	4.6	3.8	6.8
Non-current assets		**86.3**	**136.4**
Inventories	4.7	23.7	32.3
Contract assets	4.8	0.2	5.2
Trade and other receivables	4.9	46.9	56.1
Other financial assets	4.3	1.6	3.8
Income tax receivables	4.4	0.6	0.0
Other non-financial assets	4.5	6.4	5.3
Cash and cash equivalents	4.10	20.0	17.2
Current assets		**99.4**	**120.0**
Total assets		**185.7**	**256.5**

EQUITY AND LIABILITIES

in mEUR	Note	December 31, 2020	December 31, 2019
Share capital	4.11.1	6.5	6.0
Capital reserve	4.11.8	5.4	22.3
Retained earnings	4.11.9	44.3	42.7
Other reserves	4.11.10	– 4.5	– 1.9
Own shares at acquisition cost	4.11.7	– 0.5	– 0.5
Equity attributable to owners of STS Group AG		51.1	68.6
Total equity	4.11	**51.1**	**68.6**
Liabilities to banks	4.12.2	11.6	3.0
Third party loans	4.12.3	2.4	5.8
Liabilities from finance leases	4.12.1	7.7	18.8
Other financial liabilities	4.12	0.4	0.1
Contract liabilities	4.8	0.0	3.1
Trade and other payables		0.0	1.0
Provisions	4.13	18.6	21.7
Deferred tax liabilities		1.0	1.4
Non-current liabilities		**41.7**	**55.0**
Liabilities to banks	4.12.2	9.1	9.5
Liabilities from factoring	4.12.6	0.0	12.1
Third party loans	4.12.3	1.4	1.9
Liabilities from finance leases	4.12.1	4.3	5.3
Other financial liabilities	4.12	6.5	0.0
Contract liabilities	4.8	7.1	5.7
Trade and other payables		45.0	69.7
Provisions	4.13	0.8	0.1
Income tax liabilities	4.14	0.7	4.6
Other non-financial liabilities	4.15	18.1	24.1
Current liabilities		**92.9**	**132.9**
Total equity and liabilities		**185.7**	**256.5**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2020

	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 mEUR					Remeasuring gains/losses from defined benefit plans	Foreign currency translation	Total		
Balance at January 1, 2019 before adjustments IFRIC 23	**5,995,237**	**6.0**	**22.2**	**55.3**	**0.3**	**– 1.3**	**– 1.0**	**– 0.1**	**82.4**
Adjustments IFRIC 23		0.0	0.0	– 0.4	0.0	0.0	0.0	0.0	– 0.4
Balance at January 1, 2019	**5,995,237**	**6.0**	**22.2**	**54.8**	**0.3**	**– 1.3**	**– 1.0**	**– 0.1**	**82.0**
Acquisition of treasury shares	– 45,237	0.0	0.0	0.0	0.0	0.0	0.0	– 0.4	– 0.4
Equity-settled share-based payment	0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Income after income tax expense	0	0.0	0.0	– 12.1	0.0	0.0	0.0	0.0	– 12.1
Other comprehensive income	0	0.0	0.0	0.0	– 1.1	0.3	– 0.9	0.0	– 0.9
Balance at December 31, 2019	**5,950,000**	**6.0**	**22.3**	**42.7**	**– 0.8**	**– 1.1**	**– 1.9**	**– 0.5**	**68.6**
Balance at January 1, 2020	**5,950,000**	**6.0**	**22.3**	**42.7**	**– 0.8**	**–1.1**	**–1.9**	**– 0.5**	**68.6**
Capital increase, cash based	500,000	0.5	1.0	0.0	0.0	0.0	0.0	0.0	1.5
Withdrawal from the capital reserve	0	0.0	–17.9	17.9	0.0	0.0	0.0	0.0	0.0
Equity-settled share-based payment	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reclassification of the remeasurement of defined benefit obligations in the context of deconsolidation	0	0.0	0.0	– 0.4	0.4	0.0	0.4	0.0	0.0
Income after income tax expense	0	0.0	0.0	–15.9	0.0	0.0	0.0	0.0	–15.9
Other comprehensive income	0	0.0	0.0	0.0	– 0.7	– 2.4	– 3.1	0.0	– 3.1
Balance at December 31, 2020	**6,450,000**	**6.5**	**5.4**	**44.3**	**–1.1**	**– 3.5**	**– 4.5**	**– 0.5**	**51.1**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2020

in mEUR	2020	2019[1]
Net income from continued operations	**– 6.6**	**– 4.5**
Income taxes	3.0	2.4
Net interest expense	2.2	1.5
Depreciation of property, plant and equipment	12.4	11.2
Amortization of intangible assets	3.7	4.6
Other non-cash income (–) and expenses (+)	– 3.7	– 1.0
Change in net working capital	– 7.8	20.1
Inventories	– 0.1	–1.2
Contract assets	0.3	– 0.6
Trade and other receivables	–13.8	23.7
Contract liabilities	1.9	1.0
Trade and other payables	3.8	– 2.9
Other receivables	1.3	–1.6
Other liabilities	– 7.7	2.4
Provisions	4.4	– 0.3
Income tax receivables and liabilities	–1.5	– 0.7
Net cash flows from operating activities of continued operations	**– 0.3**	**34.2**
Net cash flows from operating activities of the discontinued operation	–1.3	2.5
Net cash flow from operating activities	**– 1.6**	**36.7**
Proceeds from sale of property, plant and equipment	0.3	0.3
Proceeds from sale of intangible assets	0.2	0.0
Disbursements for investments in property, plant and equipment	– 8.5	– 7.8
Disbursements for investments in intangible assets	– 2.4	– 3.6
Change in the scope of consolidation	– 13.0	0.0
Disbursements for cash deposits	0.0	2.0
Net cash flows from investing activities of continued operations	**– 23.5**	**– 9.2**
Net cash flows from investing activities of the discontinued operation	– 0.2	– 5.8
Net cash flow from investing activities	**– 23.7**	**–15.0**
Proceeds from capital increase	1.5	0.0
Payment from acquisition or repurchase of shares in the company	0.0	– 0.4
Proceeds from borrowings	28.6	4.1
Repayments of borrowings	–1.1	– 5.6
Repayments of finance lease liabilities	– 4.2	– 3.1
Proceeds from factoring (+)/ disbursements for factoring (-)	– 4.5	– 25.3
Interest paid	– 0.8	–1.3
Net cash flows from financing activities of continued operations	**19.4**	**– 31.6**
Net cash flows from financing activities of discontinued operations	8.7	– 4.0
Net cash flow from financing activities of the Group	**28.1**	**– 35.6**
Effect of currency translation on cash and cash equivalents	**– 0.1**	**0.0**
Net increase/decrease in cash and cash equivalents	**2.7**	**–13.9**
Cash and cash equivalents at the begining of the period	**17.2**	**31.2**
Cash and cash equivalents at the end of the period	**20.0**	**17.2**

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

4 — NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

1 — SEGMENT REPORTING

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2020

	Plastics		China		Materials		Acoustics (IFRS 5)[1]		Corporate/ consilidation		Group	
in mEUR	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019[2]
Revenue – third parties	129.9	168.8	85.0	50.4	20.2	31.5	–	112.1	0.0	0.0	235.0	250.7
Revenue – inter-segment	0.1	0.2	0.0	0.0	6.5	8.3	–	0.0	– 6.6	– 8.6	0.0	0.0
Revenue segment	**129.9**	**169.0**	**85.0**	**50.4**	**26.7**	**39.8**	**–**	**112.1**	**– 6.6**	**– 8.6**	**235.0**	**250.7**
EBITDA	1.6	11.4	17.4	8.7	1.4	2.2	–	– 0.4	– 5.6	– 7.0	14.7	15.3
EBITDA in % of revenue	1.2%	6.7%	20.5%	17.2%	5.1%	5.5%	–	–0.4%	84.6%	84.5%	6.3%	6.1%
Adjusted EBITDA	2.3	12.6	17.4	9.0	1.6	2.4	–	0.0	– 3.6	– 6.2	17.7	17.9
Adjustments	*0.7*	*1.2*	*0.0*	*0.4*	*0.2*	*0.2*	–	*0.5*	*2.0*	*0.8*	*3.0*	*2.6*
Adjusted EBITDA in % of revenue	1.8%	7.5%	20.5%	17.9%	5.9%	6.0%	–	0.0%	54.4%	75.4%	7.5%	7.1%
Depreciation and amortization	– 9.9	– 9.5	– 4.1	– 3.7	– 1.5	– 1.5	–	– 5.2	– 0.6	– 1.2	– 16.1	– 15.9
EBIT	– 8.3	1.9	13.2	5.0	– 0.1	0.7	–	– 5.7	– 6.2	– 8.2	– 1.4	– 0.5
CAPEX[3]	3.8	6.0	6.6	4.9	0.1	0.3	–	5.9	1.0	0.3	11.6	11.4

1 Discontinued operation
2 The comparative period was adjusted for the disclosure of the discontinued operation.
3 Cash-effective

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

The Company's Executive Board decided to classify and manage reporting partly by product type and partly by geographic region. In line with this policy, the key corporate indicators relevant to the decision-making process are made available to the Executive Board for the following segments:

- **Plastics:** This segment manufactures a variety of body parts and interior modules for trucks, commercial vehicles and passenger cars. It includes hard trim products made via injection moulding and SMC thermal compression. Hard trim applications are used for external parts (e.g. front modules and aerodynamic panelling) or interior modules ("bunk box" under the driver's bed and shelf elements) and structural components (tailgate). The segment also has its own capacity for painting plastic materials.
- **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 panels, deflectors, mudguards, 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 segment also has its own capacity for painting plastics.

- **Materials:** This segment comprises the development and production of semi-finished products (sheet moulding compounds – SMC), fibre moulding compounds (Bulk Moulding Compounds – BMC) and highly developed fibre moulding compounds (Advanced Moulding Compounds – AMC). The semi-finished products are used within the Group for hard-trim applications and also supplied to external third parties. The development of these base materials offers the opportunity to affect important parameters in the final product.
- **Acoustics (IFRS 5): :** This segment was classified as a discontinued operation in 2020 and sold. The activities of the segment comprise the development and production of integrated acoustic and thermal systems. The focus is on soft-trim products; predominantly for the European and South American markets. Soft-trim applications have acoustic and thermal properties that reduce noise and protect against heat. Customers include commercial vehicle manufacturers and FCA ("Fiat Chrysler Automobiles").

The Group therefore manages its business in a total of three (2019: four) segments. In addition to corporate activities, consolidation is also presented in the "Company/Consolidation" column. No operating segments were combined to reach the level of the Group's reportable segments.

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

	Plastics		China		Materials		Acoustics (IFRS 5)[1]		Group	
in mEUR	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019[2]
Timing of revenue recognition										
Transferred at a point of time	18.2	17.1	84.1	49.6	20.2	31.4	–	3.4	122.6	98.1
Transferred over time	111.6	151.7	0.8	0.8	0.0	0.0	–	108.7	112.5	152.5
Revenue – third parties	**129.9**	**168.8**	**85.0**	**50.4**	**20.2**	**31.4**	**–**	**112.1**	**235.0**	**250.6**

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

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

In principle, the segments are subject to the same accounting principles as described in Section 6 "Accounting and measurement methods". The "Adjusted EBITDA" key indicator represents EBITDA adjusted for special expenses incurred in the 2020 financial year, of which 2.7 mEUR was accounted for by segments' severance costs as well as the restructuring of Group headquarters. A further 0.3 mEUR, on the other hand, was accounted for by consulting costs and one-off expenses in connection with the sale of the Acoustics segment. The financial year 2019 includes special expenses for severance and consulting costs as well as for restructuring measures.

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

in mEUR	2020	2019[1]
Adjusted EBITDA Group	**17.7**	**17.9**
Special items (netted)	– 3.0	– 2.6
EBITDA Group	**14.7**	**15.3**
Depreciation and amortization expenses	– 16.1	– 15.9
Earnings before interest and income taxes (EBIT)	**– 1.4**	**– 0.5**
Interest and similar income	0.0	0.0
Interest and similar expenses	– 2.2	– 1.6
Finance result	– 2.2	– 1.5
Earnings before income taxes	**– 3.6**	**– 2.1**

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

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

in mEUR	2020	2019
Europe	50.1	95.8
France	49.5	55.7
Germany	0.6	2.1
Italy	0.0	25.3
Others	0.0	12.8
Rest of world	**32.2**	**33.5**
Non-current segment assets	**82.3**	**129.3**

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

Revenues broken down by customer location are as follows:

in mEUR	2020	2019
Europe	142.3	291.5
France	88.0	117.1
Germany	33.9	54.1
Italy	0.1	63.4
Others	20.3	56.9
Rofest of world	**92.9**	**71.3**
Revenues by location of customer	**235.0**	**362.8**

In financial years 2020 and 2019, sales with four customers (2019: four customers) amounted to over 10% of total third party sales including the discontinued operation. The sales of the largest customer were generated in the Plastics and China segments, amounting to 66 mEUR (2019: 102 mEUR), those of the second largest customer also occurred in the Plastics and China segments, amounting to 32.7 mEUR (2019: 76.8 mEUR), those of the third largest customer in the China segment, standing at 31.4 mEUR (2019: 46.5 mEUR), and those of the fourth largest customer in the Plastics, China and Materials segments, in an amount of 32.6 mEUR (2019: 45.1 mEUR).

2 — GENERAL DISCLOSURES

STS Group AG (also referred to as the "Company" and together with its subsidiaries as the "Group") is a listed German stock corporation with its registered office in Hallbergmoos at Zeppelinstraße 4, 85399 Hallbergmoos, Germany. It is registered in the Commercial Register of the Local Court of Munich under HRB 231926. The Company is listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard) under Securities Identification No. ISIN DE000A1TNU68. The share capital is 6.5 mEUR (2019: 6.0 mEUR) and is divided into 6,500,000 (2019: 6,000,000) no-par value shares.

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

STS Group AG's consolidated financial statements as of December 31, 2020, include STS Group AG and its subsidiaries. The Group is a leading system supplier of interior and exterior parts for commercial vehicles. The Group develops, produces and supplies products and solutions for acoustic and thermal insulation ("soft-trim products") and components of plastic or composite material ("hard-trim products") for the automotive and truck industry.

The Executive Board prepared the consolidated financial statements on March 31, 2021. The adjustment period ended on this date.

2.1 BASIS OF PREPARATION

The consolidated financial statements for the financial year ending on December 31, 2020 were prepared on the assumption that the Company is a going concern. They were prepared in compliance with the International Financial Reporting Standards (IFRS) published 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 standards published by the IASB and interpretations issued by the IFRS Interpretations Committee (IFRIC) that were in effect as of December 31, 2020, adopted by the EU and applicable to the Group. The term IFRS also refers to all applicable International Accounting Standards (IAS) and all interpretations and amendments to the International Financial Reporting Standards.

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

The consolidated financial statements are prepared in euro (EUR). Unless otherwise stated, all amounts are rounded up or down to millions of euros (mEUR) in accordance with commercial rounding.

Amounts in tables were calculated on the basis of exact numbers and rounded to euro million. In the event of discrepancies of up to one unit (millions, %), these constitute rounding differences caused by computational effects. The Group's consolidated financial statements were prepared in compliance with uniform accounting and consolidation principles for all the reporting periods shown. The consolidated financial statements were prepared by applying the historical cost principle. This does not apply to certain financial assets and liabilities (including derivative instruments) and share-based remuneration which were stated at fair value. The Group classifies assets and liabilities as current if they are expected to be realised or settled within twelve months of the reporting date. If assets and liabilities have both current and non-current components, they are broken down by maturity component and recognised as current and non-current assets or liabilities according to the structure of the balance sheet. The consolidated income statement is prepared in line with the nature of expense method.

2.2 CONSOLIDATION PRINCIPLES

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

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

The results of a subsidiary acquired or sold during the year are recognised in the consolidated income statement and consolidated statement of comprehensive income with effect from the actual acquisition date or until the actual disposal date.

Scope of consolidation

As of December 31, 2020, the Group of fully consolidated entities comprised eight subsidiaries besides the parent company, and 14 fully consolidated subsidiaries as of December 31, 2019. Besides the parent company, one additional company was based in Germany (2019: two), and seven (2019: 12) companies abroad. The group of fully consolidated entities fell in the financial year due to the deconsolidation of the Acoustics segment which comprised five subsidiaries. By contrast, one new company was added due to the newly formed STS Group North America Inc. Two further subsidiaries no longer qualified due to the merger of two direct subsidiaries to form two indirect subsidiaries of STS Group AG.

As of December 31, 2020, the scope of consolidation comprised STS Group AG and the following fully consolidated subsidiaries:

		Ownership interest in %	
Company	**Sitz**	**December 31, 2020**	**December 31, 2019**
STS Acoustics SpA	Turin, Italy	–	100.0
STS Acoustics Poland Sp. z o.o.	Miedzyrzecz, Poland	–	100.0
STS Real Estate Srl	Turin, Italy	–	100.0
STS Brazil Holding GmbH	Hallbergmoos, Germany	–	100.0
STS Brasil Ltda.	Betim, Brazil	–	100.0
STS Plastics Holding SAS	St. Désirat, France	–	100.0
STS Plastics SAS	Paris, France	100.0	100.0
STS Composites France SAS	Lyon, France	100.0	100.0
STS Composites Germany GmbH	Kandel, Germany	100.0	100.0
Inoplast Truck S.A. de C.V.	Ramos, Mexico	100.0	100.0
STS Plastics Co., Ltd.	Jiangyin, China	100.0	100.0
STS Plastics (Shi Yan), Ltd.	Shi Yan, China	100.0	100.0
STS MCR Holding SAS	Tournon, France	–	100.0
MCR SAS	Tournon, France	100.0	100.0
STS Group North America Inc.	Wilmington (Delaware), USA	100.0	–

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 transferred, the equity instruments issued, and the liabilities incurred or assumed as of the transaction date. In addition, it includes the fair values of any recognised assets or liabilities resulting from a contingent consideration agreement. Acquisition-related costs are expensed when incurred. On initial consolidation, identifiable assets, liabilities and contingent liabilities from a business combination are measured at their fair values at the time of acquisition.

The value resulting from the surplus 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 once a year. If the acquisition costs are lower than the net assets of the acquired subsidiary measured at fair value, the difference is recognised directly in the consolidated income statement after another review.

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

Acquisitions

There were no acquisitions in the reporting period.

Disposals

For the disposal of the Acoustics segment in the reporting period, reference is made to Section 2.3. There were no disposals in the financial year 2019.

New foundation

STS Group North America Inc. was set up in the reporting year and received a contribution to its share capital of 1 kEUR.

No new companies were formed in the 2019 financial year.

2.3 DISCONTINUED OPERATIONS

On August 7, 2020, the STS Group concluded a contract of sale with the Adler Pelzer Group for the sale of the Acoustics segment comprising the companies STS Acoustics S.p.A., STS Acoustics Poland Sp. z o.o., STS Real Estate Srl, STS Brazil Holding GmbH and STS Brasil Ltda. The transaction was completed effective October 29, 2020. This leads to the classification of the Acoustics segment as a discontinued operation as defined by IFRS 5. As a result of the disposal, the STS Group is focussing on its core business in the Plastics and Materials segments in Europe, its business in China and on expanding the North American market.

The activities of the segment sold comprise the development and production of integrated acoustic and thermal systems. The focus is on soft-trim products with acoustic and thermal properties for reducing noise and protecting against heat, predominantly for the European and South American markets. The deconsolidation gain amounts to 3.9 mEUR and is included in the results from discontinued operations.

The disposal of the net assets, the consideration and the proceeds from deconsolidation are shown below:

in mEUR	Carrying amount
Intangible assets	1.2
Property, plant and equipment	37.4
Other non-current assset	0.3
Non-current assets	**38.9**
Inventories	7.1
Contract assets	3.1
Trade and other receivables	23.9
Other current assets	2.8
Cash and cash equivalents	8.8
Current assets	**45.7**
Financial Liabilities	29.8
Trade and other payables	2.1
Provisions	6.7
Deferred tax liabilities	0.3
Non-current liabilities	**38.9**
Financial Liabilities	16.9
Contract liabilities	2.0
Trade and other payables	23.9
Provisions	1.4
Other non-financial liabilities	7.9
Current Liabilities	**52.1**
Disposal of net assets	**– 6.4**
Consideration in cash	– 2.5
Reclassification of currency translation differences	– 2.2
Consolidationeffects	2.2
Proft/loss from deconsolidation	**3.9**

Besides the disposal of liquid assets totalling 8.8 mEUR, the buyer was paid 2.5 mEUR.

The STS Group acquired STS Acoustics S.p.a. from the seller Autoneum Holding in 2014. As part of the Share Purchase Agreement (SPA) at the time, a Participation Agreement was concluded to the effect that a payment of 1.7 mEUR would be due to Autoneum in the event of a resale. This clause was triggered by the sale of the Acoustics segment in the reporting period, and STS Group AG made the corresponding payment to Autoneum in December.

Financial information on the results of operations and cash flows of the discontinued operations for the period of ten months (until October 31, 2020) and for the financial year 2019 is shown below.

in mEUR	January 1 – October 31, 2020	January 1 – December 31, 2019
Revenues	73.0	112.1
Increase (+) or decrease (-) of finished goods and work in progress	– 1.7	1.5
Other operating income	0.5	2.6
Material expenses	– 45.7	– 69.7
Personnel expenses	– 22.3	– 33.3
Other operating expenses	– 10.8	– 14.0
Earnings from operations before depreciation and amortization expenses (EBITDA)	**– 7.0**	**– 0.8**
Depreciation and amortization expenses	– 2.4	– 5.2
Earnings before interest and income taxes (EBIT)	**– 9.4**	**– 6.0**
Interest and similar income	0.0	0.1
Interest and similar expenses	– 1.7	– 2.0
Earnings before income taxes	**– 11.0**	**– 7.9**
Income taxes	– 2.1	0.2
Net income from discontinued operations	**– 13.1**	**– 7.7**
Profit/loss from disposal of discontinued operations	3.9	–
Result from discontinued operations	**– 9.3**	**– 7.7**
Remeasurement of defined benefit plans	– 0.4	0.2
Currency translation differences from discontinued operations	– 1.1	0.1
Other comprehensive income from discontinued operations	**– 1.5**	**0.3**
Total comprehensive income from discontinued operations	**– 10.8**	**– 7.4**
Net cash flow from operating activities	– 1.3	2.5
Net cash flow from investing activities	– 0.2	– 5.8
Net cash flow from financing activities	8.7	3.9
Net increase/decrease in cash and cash equivalents from discontinued operations	**7.2**	**0.6**

2.4 CURRENCY TRANSLATION

2.4.1 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 corresponds to the Euro which is also the presentation currency of the consolidated financial statements. The functional currency of the subsidiaries is usually the national currency of the economic environment in which the subsidiaries operate independently. The exceptions to this rule are the Polish and Mexican subsidiaries whose functional currencies correspond to 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 subsidiaries the renminbi (yuan). The subsidiaries in Poland and Brazil were sold in the reporting period.

2.4.2 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. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the middle rates on the reporting date. 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 recognised in the consolidated income statement under "Other operating income" or "Other operating expenses". This procedure also applies to the translation of the Mexican subsidiary from the Mexican peso into the functional currency of the US dollar and for the Polish subsidiary from the Polish zloty into the functional currency of the euro. The Polish subsidiary was sold in the reporting period. 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 on the reporting date. Revenues 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 on the date of the transaction are used. Translation differences from the translation of currencies into the Company's functional currency are recognised directly in other comprehensive income in equity until the subsidiary is disposed of.

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

The exchange rates used for currency translation are as follows:

		Spot rate		Average rate	
in EUR	Code	December 31, 2020	December 31, 2019	2020	2019
Brazil	BRL	6.374	4.516	6.266	4.415
China	CNY	8.023	7.821	7.960	7.729
Mexico	USD	1.227	1.123	1.217	1.119

3 — NOTES TO THE CONSOLIDATED INCOME STATEMENT

3.1 SALES REVENUES

Sales revenues break down as follows:

in mEUR	2020	2019[1]
Revenues from sales	231.8	246.9
Revenues from services	3.2	3.9
Revenue deductions	0.0	– 0.1
Revenues	**235.0**	**250.7**

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

Sales trends by region and product group are described in the segment reporting in accordance with IFRS 8, see Section 1. All sales recognised as revenues resulted from revenues from contracts with customers.

3.2 INCREASE OR DECREASE IN FINISHED GOODS AND WORK IN PROGRESS

Increase or decrease in finished goods and work in progress result essentially from a reduction (previous year: increase) in stocks of customer-specific, first series tools for customer orders.

3.3 OTHER OPERATING INCOME

Other operating income is categorised as follows:

in mEUR	2020	2019[1]
Income from other services	0.2	0.5
Income from raw material and waste recycling	1.1	0.3
Capitalized self-produced assets	1.5	0.8
Income from the disposal of fixed assets	0.1	0.0
Income from exchange rate differences	0.1	0.2
Income from subsidies	0.3	0.1
Miscellaneous other operating income	0.8	0.7
Other operating income	**4.0**	**2.7**

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

The gain from the deconsolidation of the Acoustics segment is according to IFRS 5 reported within results from discontinued operations; reference is made to the comments in Section 2.3.

3.4 MATERIAL EXPENSES

Material expenses break down as follows:

in mEUR	2020	2019[1]
Cost of raw materials, consumables and supplies	109.3	122.2
Cost of purchased services	19.7	17.3
Material expenses	**129.0**	**139.5**

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

3.5 PERSONNEL EXPENSES

Personnel expenses break down as follows:

in mEUR	2020	2019[1]
Wages and salaries	47.7	53.3
Social security	14.1	16.9
Social security	*12.3*	*13.8*
Pension contributions	*1.8*	*3.1*
Personnel expenses	**61.8**	**70.2**

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

Expenses for pensions amount to 1.8 mEUR (2019: 3.1 mEUR).

The average number of employees is as follows:

Average number of employees by group	2020	2019
Production	1,437	2,164
Administration	162	345
Total	**1,598**	**2,509**

3.6 OTHER EXPENSES

Other expenses are categorised as follows:

in mEUR	2020	2019[1]
Packaging materials and outgoing freight	4.9	3.3
Legal and consulting costs	3.4	5.9
Rental and leasing	1.0	1.6
Occupancy costs	1.1	1.2
Fleet	0.3	0.4
Advertising and travel expenses	1.5	2.6
Maintenance and repairs	9.0	9.2
Administration	3.0	3.1
Losses from the disposal of assets	0.1	0.0
Additions to allowances on receivables IFRS 9	0.1	0.0
Base levies and other taxes	1.5	2.3
Insurance premiums	0.7	0.7
Losses from claims and onerous contracts	0.5	0.1
Fees and contributions	0.3	0.7
Occupational health and safety	1.1	1.1
Research and development expenses	0.8	1.7
Services received from related parties	1.7	0.0
Low-value assets	0.2	0.2
Expenses from foreign currency translation	0.4	0.1
Miscellaneous expenses	0.3	–0.6
Other operating expenses	**31.8**	**33.6**

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

Reference is made to Section 5.5.1. for details on related party services.

3.7 DEPRECIATION AND AMORTISATION EXPENSES

Depreciation and amortisation break down as follows:

in mEUR	2020	2019[1]
Depreciation of property, plant and equipment	3.6	3.9
Amortization of intangible assets	12.4	11.2
Impairments	0.1	0.7
Depreciation and amortization expenses	**16.1**	**15.9**

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

3.8 FINANCIAL INCOME AND EXPENSES

Financial income and expenses are structured as follows:

in mEUR	2020	2019[1]
Miscellaneous interest and similar income	0.0	0.0
Interest and similar income	**0.0**	**0.0**
Interest expense from banks/lenders	0.6	0.5
Interest expense from factoring	0.4	0.1
Interest expense discounting provisions	0.1	0.2
Interest expense from finance leases	0.7	0.7
Miscellaneous interest and similar expenses	0.4	0.1
Interest and similar expenses	**2.2**	**1.6**

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

Interest expenses from discounting provisions include interest expenses for pensions.

3.9 INCOME TAXES

Income taxes break down as follows:

in mEUR	2020	2019[1]
Current income taxe expense	– 1.9	– 2.5
Deferred Tax expense (–) / income (+)	– 1.1	0.0
Tax expense (–) / income (+)	**– 3.0**	**– 2.4**

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

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

With respect to the actual tax rate applicable to consolidated earnings in Germany, taking account of the corporate income tax rate of 15.0% (2019: 15.0%) plus the solidarity surcharge of 5.5% (2019: 5.5%) on the tax liability and trade income tax of 11.2% (2019: 11.2%), the overall tax rate amounts to 27.03% (2019: 27.03%).

in mEUR	2020	2019
Earnings before income taxes	**– 5.3**	**–9.9**
Weighted average tax rate (in %)	27.03%	27.03%
Tax income at the weighted average tax rate	**1.4**	**2.7**
Tax rate differences and tax rate changes	0.1	–0.2
Valuation allowance/reversal of valuation allowance	0.0	–0.4
Non-deductible depreciation on non-current assets	0.0	0.0
Effects from change in unrecognized deferred taxes on temporary differences and tax loss carryforwards	– 3.5	–3.9
Other non tax-deductible expenses including witholding tax	– 1.1	–0.7
Expenses for the capital increase recognizes directly in equity	0.0	0.1
Tax-exempt income	0.0	0.0
Effect from tax benefits granted (research and development and other benefits)	0.2	0.0
Other effects	– 0.1	0.1
Reported income tax expense (–)/income (+)	**– 3.0**	**–2.2**

The tax rates applicable to Group companies range between 15.0% and 30.0% (2019: 19.0% and 34.0%).

3.10 EARNINGS PER SHARE

Earnings per share break down as follows:

		2020	2019
Net income attributable to owners of STS Group AG	in mEUR	–15.9	–12.1
Weighted average number of ordinary shares to calculate earnings per share			
Undiluted	Number	6,103,425	5,960,261
Diluted	Number	6,103,425	5,960,261
Earnings per share			
Undiluted	in EUR	–2.61	–2.03
Diluted	in EUR	–2.61	–2.03

As the share-based performance threshold of potentially dilutive share options (see Section 5.6 Share-based remuneration) was not exceeded on any day in the reporting period, no dilutive effects were reflected in the earnings per share in the reporting period.

With regard to the increase in the weighted average number of ordinary shares, reference is made to Section 4.11.2.

The consolidated result from discontinued operations amounted to – 9.3 mEUR (2019: – 7.6 mEUR). Earnings per share from discontinued operations amounted to – 1.5 EUR (2019: – 1.3 EUR).

4 — NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

4.1 INTANGIBLE ASSETS

Movements in intangible assets were as follows

in mEUR	Internally generated intangible rights and assets	Customer relationships	Production technologies	Patents, concessions, other rights including Software	Rights of use and intangible assets	Prepayments and intangible assets under development	Total
Historical cost							
Balance as of January 1, 2019	**1.5**	**11.8**	**11.6**	**4.1**	**1.8**	**0.8**	**31.5**
Additions	1.0	0.0	0.0	0.3	0.2	3.0	4.4
Reclassifications	– 1.1	0.0	0.0	0.4	0.0	– 1.1	– 1.8
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate differences	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Balance as of December 31, 2019	**1.4**	**11.8**	**11.6**	**4.7**	**2.0**	**2.7**	**34.2**
Balance as of January 1, 2020	**1.4**	**11.8**	**11.6**	**4.7**	**2.0**	**2.7**	**34.3**
Additions	0.0	0.0	0.0	0.6	0.0	1.8	2.4
Reclassifications	0.1	0.0	0.0	0.1	0.0	–0.1	0.0
Disposals	0.0	0.0	0.0	– 0.2	0.0	0.0	– 0.2
Held for sale (IFRS 5)	– 1.4	0.0	0.0	– 0.5	0.0	0.0	– 1.9
Exchange rate differences	0.0	– 0.3	0.0	0.0	0.0	0.0	– 0.3
Balance as of December 31, 2020	**0.0**	**11.5**	**11.6**	**4.7**	**2.0**	**4.4**	**34.2**
Cumulative amortization and impairment							
Balance as of January 1, 2019	**– 0.3**	**– 2.5**	**– 2.0**	**– 1.1**	**– 0.1**	**0.0**	**– 6.0**
Amortization	– 0.2	– 1.5	– 1.3	– 0.7	– 0.3	0.0	– 4.1
Impairments	0.0	0.0	0.0	– 0.7	0.0	0.0	– 0.7
Reclassifications	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate differences	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance as of December 31, 2019	**– 0.2**	**– 4.0**	**– 3.3**	**– 2.5**	**– 0.3**	**0.0**	**– 10.4**
Balance as of January 1, 2020	**– 0.2**	**– 4.0**	**– 3.3**	**– 2.5**	**– 0.3**	**0.0**	**– 10.4**
Amortization	– 0.1	– 1.5	– 1.3	– 0.6	– 0.3	0.0	– 3.7
Impairments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Held for sale (IFRS 5)	0.3	0.0	0.0	0.5	0.0	0.0	0.8
Exchange rate differences	0.0	0.2	0.0	0.0	0.0	0.0	0.2
Balance as of December 31, 2020	**0.0**	**– 5.3**	**– 4.6**	**– 2.6**	**– 0.6**	**0.0**	**– 13.1**

CONTINUED

in mEUR	Internally generated intangible rights and assets	Customer relationships	Production technologies	Patents, concessions, other rights including Software	Rights of use and intangible assets	Prepayments and intangible assets under development	Total
Net carrying amounts							
Balance as of December 31, 2019	1.2	7.8	8.2	2.2	1.7	2.7	23.8
Balance as of December 31, 2020	0.0	6.2	6.9	2.1	1.4	4.4	21.0

Amortisation of intangible assets is reported in the consolidated income statement under depreciation and amortisation expenses.

Impairment losses from the preceding period applied to the reporting and consolidation tool which was replaced by a different system.

4.2 PROPERTY, PLANT AND EQUIPMENT

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

in mEUR	Land and buildings	Right of use land and buildings	Technical equipment and machinery	Right of use technical equipment and machinery	Operating and office equipment	Right of use Operating and office equipment	Advance payments and assets under development	Total
Historical cost								
Balance as of January 1, 2019	**43.2**	**17.2**	**122.5**	**4.8**	**5.0**	**0.4**	**6.2**	**199.4**
Additions	1.8	3.3	4.2	2.1	0.4	0.6	6.7	19.1
Reclassifications	0.6	0.0	4.0	0.0	0.4	0.0	– 3.2	1.8
Disposals	0.0	0.0	– 1.3	0.0	0.0	0.0	– 0.1	– 1.4
Exchange rate differences	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance as of December 31, 2019	**45.7**	**20.5**	**129.4**	**6.9**	**5.8**	**1.0**	**9.6**	**218.8**
Balance as of January 1, 2020	**45.7**	**20.5**	**129.4**	**6.9**	**5.8**	**1.0**	**9.6**	**218.8**
Additions	0.3	3.3	7.1	1.8	0.2	0.3	1.5	14.4
Reclassifications	0.1	0.0	0.5	0.0	0.0	0.0	– 0.7	0.0
Reevaluation	0.0	– 0.5	0.0	0.0	0.0	0.0	0.0	– 0.5
Disposals	0.0	– 0.1	– 1.1	– 0.2	– 0.1	0.0	0.0	– 1.6
Held for sale (IFRS 5)	– 15.5	– 10.6	– 101.8	– 2.8	– 3.4	– 0.3	– 3.5	– 137.4
Exchange rate differences	– 1.3	– 0.1	– 1.1	0.0	– 0.1	0.0	– 0.2	– 2.8
Balance as of December 31, 2020	**29.2**	**12.5**	**33.1**	**5.6**	**2.4**	**0.9**	**6.7**	**90.4**

CONTINUED

in mEUR	Land and buildings	Right of use land and buildings	Technical equipment and machinery	Right of use technical equipment and machinery	Operating and office equipment	Right of use Operating and office equipment	Advance payments and assets under development	Total
Cumulative amortization and impairment								
Balance as of January 1, 2019	**– 3.4**	**0.0**	**– 93.2**	**– 0.5**	**– 3.4**	**0.0**	**0.0**	**– 100.5**
Amortization	– 2.7	– 3.3	– 6.9	– 1.6	– 0.5	– 0.4	0.0	– 15.5
Impairments	0.0	0.0	– 0.8	0.0	0.0	0.0	0.0	– 0.8
Reclassifications	0.0	0.0	0.0	0.0	– 0.4	0.0	0.0	– 0.4
Disposals	0.0	0.0	1.1	0.0	0.0	0.0	0.0	1.2
Balance as of December 31, 2019	**– 6.2**	**– 3.3**	**– 99.7**	**– 2.2**	**– 4.2**	**– 0.4**	**0.0**	**– 115.9**
Balance as of January 1, 2020	**– 6.2**	**– 3.3**	**– 99.7**	**– 2.2**	**– 4.2**	**– 0.4**	**0.0**	**– 115.9**
Amortization	– 1.3	– 3.0	– 7.8	– 1.8	– 0.4	– 0.4	0.0	– 14.7
Impairments	0.0	– 0.1	0.0	0.0	0.0	0.0	0.0	– 0.1
Disposals	0.0	0.0	1.0	0.1	0.0	0.0	0.0	1.1
Held for sale (IFRS 5)	2.2	1.2	92.0	1.0	3.0	0.2	0.0	99.6
Exchange rate differences	0.1	0.0	0.7	0.0	0.0	0.0	0.0	0.9
Balance as of December 31, 2020	**– 5.1**	**– 5.1**	**– 13.9**	**– 2.8**	**– 1.6**	**– 0.5**	**0.0**	**– 29.2**
Net carrying amounts								
Balance as of December 31, 2019	39.5	17.2	29.7	4.8	1.6	0.6	9.6	102.9
Balance as of December 31, 2020	24.0	7.3	19.2	2.8	0.8	0.4	6.7	61.2

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

The underlying economic conditions remained fraught in the financial year 2020 which required a review of the recoverable amount for several cash-generating units (CGUs). This review did not reveal any need to recognise an impairment loss for any of these CGUs.

4.3 OTHER CURRENT AND NON-CURRENT FINANCIAL ASSETS

Other current and non-current financial assets break down as follows:

	December 31, 2020		
in mEUR	Non-current	Current	Total
Supplier bonuses	0.0	0.2	0.2
Security deposits	0.2	0.0	0.2
Receivable from factorer	0.0	1.4	1.4
Miscellaneous other financial assets	0.0	0.0	0.0
Creditors with debit balances	0.0	0.0	0.0
Other financial assets	**0.2**	**1.6**	**1.8**

	December 31, 2019		
in mEUR	Non-current	Current	Total
Supplier bonuses	0.0	0.4	0.4
Security deposits	0.3	0.0	0.3
Receivable from factorer	0.0	3.3	3.3
Miscellaneous other financial assets	0.0	0.0	0.0
Creditors with debit balances	0.0	0.1	0.1
Other financial assets	**0.3**	**3.8**	**4.1**

As of December 31, 2020, and December 31, 2019, receivables from factoring companies mainly comprised security retainers withheld from sold receivables.

4.4 CURRENT AND NON-CURRENT INCOME TAX RECEIVABLES

Non-current income tax receivables amounted to 0.0 kEUR as of December 31, 2020 (December 31, 2019: 24 kEUR).

Current income tax receivables stood at 602.5 kEUR as of December 31, 2020 (December 31, 2019: 22 kEUR).

4.5 OTHER CURRENT AND NON-CURRENT NON-FINANCIAL ASSETS

	December 31, 2020		
in mEUR	Non-current	Current	Total
VAT receivables	0.0	1.5	1.5
Other tax refund claims	0.0	3.9	3.9
Miscellaneous other non-financial assets	0.0	0.0	0.0
Prepaid expenses	0.0	1.0	1.0
Advance payments on salaries	0.0	0.0	0.0
Other non-financial assets	**0.0**	**6.4**	**6.4**

	December 31, 2019		
in mEUR	Non-current	Current	Total
VAT receivables	0.0	2.1	2.1
Other tax refund claims	2.5	1.6	4.1
Miscellaneous other non-financial assets	0.0	0.2	0.2
Prepaid expenses	0.0	1.4	1.4
Advance payments on salaries	0.0	0.0	0.0
Other non-financial assets	**2.6**	**5.3**	**7.8**

4.6 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities as of December 31, 2020, and December 31, 2019, break down as follows:

	December 31, 2020					
in mEUR	Deferred taxes at the beginning of the year	Recognized in profit or loss in the income statement	Recognized in other compre-hensive income	Acquisitions/ Disposals	Effects from consolidation	Closing balance deferred taxes
Other intangible assets	– 2.3	0.7	0.0	– 0.1	0.0	– 1.7
Property, plant and equipment	– 2.0	0.0	0.0	1.1	0.0	– 0.9
Inventories	0.4	0.0	0.0	0.0	0.0	0.4
Trade and other receivables	0.2	0.0	0.0	0.0	0.0	0.2
Non-current liabilities from finance leases	0.4	0.0	0.0	– 1.0	0.0	– 0.6
Pension obligations	3.5	– 0.1	0.1	– 0.2	0.0	3.3
Trade and other payables	0.6	– 0.1	0.0	0.0	0.0	0.5
Current liabilities from finance leases	0.2	0.0	0.0	0.0	0.0	0.2
Current provisions	0.0	0.0	0.0	– 0.1	0.0	– 0.1
Current other liabilities	0.2	0.2	0.0	0.2	0.0	0.6
Subtotal	**1.2**	**0.6**	**0.1**	**– 0.1**	**0.0**	**1.8**
Tax losses	4.2	– 1.8	0.0	– 1.5	0.0	0.9
Other deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
Total	**5.4**	**– 1.2**	**0.1**	**– 1.6**	**0.0**	**2.7**

Positive values correspond to deferred tax assets, negative values correspond to deferred tax liabilities.

In principle, deferred tax assets on deductible temporary differences and tax loss carryforwards are to be recognised for companies which have sufficient taxable income in future periods to benefit from tax advantages from temporary differences and loss carryforwards.

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

Of the entire tax loss carryforward in the amount of 52.7 mEUR (of which 20.2 mEUR for corporate income tax and 19.8 mEUR for business tax and other local taxes) (2019: 85.9 mEUR), an amount of 3.4 mEUR (2019: 16.2 mEUR) is likely to be utilisable within a reasonable period. Deferred tax assets of 0.9 mEUR (2019: 4.0 mEUR) were recognised in the amount of tax loss carryforwards likely to be utilisable. Deferred tax assets not recognised for tax loss carryforwards amount to 7.7 mEUR (of which 3.2 mEUR for corporate income tax and 2.3 mEUR for business tax and other local taxes) (2019: 5.0 mEUR).

Loss carryforwards of 0.7 mEUR will lapse between 2021 and 2024 if they are not used.

As of December 31, 2020, deferred taxes of 0.0 mEUR (2019: 0.4 mEUR) from the measurement of the defined benefit obligation in accordance with IAS 19 were set off against equity. Deferred tax liabilities of 0.7 mEUR (2019: 0.6 mEUR) on taxable temporary differences of 43.5 mEUR (2019: 40.9 mEUR) for undistributed profits of Group subsidiaries were not reported on the basis of the existing control defined in IAS 12.39.

4.7 INVENTORIES

Inventories break down as follows:

in mEUR	2020	2019
Raw materials, consumables and supplies	8.7	13.1
Work in progress	10.8	15.8
Finished goods and goods for resale	3.9	3.2
Prepayments for inventories	0.3	0.3
Inventories	**23.7**	**32.3**

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.

Inventories recognised as expenses in the financial year 2020 amounted to 109.3 mEUR (2019: 122.2 mEUR) and are included in material expenses.

In the financial year 2020, inventory write-downs include waste in an amount of 0.5 mEUR (2019: 1.1 mEUR) and are included in material expenses. Write-ups of 0.1 mEUR (2019: 0.1 mEUR) resulting from changed economic circumstances and indicating an increase in the net realisable value had the opposite effect on material expenses.

4.8 CONTRACT ASSETS AND CONTRACT LIABILITIES

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

in mEUR	December 31, 2020	December 31, 2019
Trade receivables from contracts with customers	46.9	55.8
Non-current contract assets	0.0	0.0
Current contract assets	0.2	5.2
Non-current contract liabilities	0.0	3.1
Current contract liabilities	7.1	5.7

In financial years 2020 and 2019, no impairment losses pursuant to IFRS 9 were recognised on contract assets. 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, and to the disposal of the Acoustics segment.

In the current reporting period, revenues of 5.2 mEUR (2019: 3.2 mEUR) were realised from contracts with customers which were included in contract liabilities at the start of the period. An overall transaction price of 15.6 mEUR (2019: 14.4 mEUR) is assigned to contractual obligations that were fully or partly not fulfilled at the end of the reporting period. The Group expects to meet these contractual obligations in an amount of 8.9 mEUR (2019: 12.3 mEUR) in the following period and 6.7 mEUR (2019: 2.1 mEUR) 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.

4.9 TRADE AND OTHER RECEIVABLES

in mEUR	December 31, 2020	December 31, 2019
Trade and other receivables before risk allowances	47.0	57.2
Less risk allowances – bucket 2	0.0	– 0.1
Less risk allowances – bucket 3	– 0.1	– 1.0
Trade and other receivables	**46.9**	**56.1**

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

The Group recognises impairment losses for general credit risks using the expected losses model in accordance with IFRS 9.5.5. They are initially recognised in allowance accounts, unless it can already be assumed when the reason for the write-down arises that the receivable will be fully or partially uncollectible. In these cases, the carrying amounts of the receivables are written off directly through profit or loss.

Reference is made to Section 5.2.2. for information on determining impairment losses.

As of December 31, 2020, there are no trade receivables measured at fair value with no effect on income. Impairment losses on trade receivables measured at fair value with no effect on income amounted to 1.0 mEUR in the previous year.

Movement of expected credit losses for trade and other receivables

in mEUR	2020	2019
Balance as of January 1	**1.1**	**1.6**
Reclassification of discontinued operations	–1.0	0.0
Addition	0.1	0.1
Utilization	0.0	0.0
Reversal	–0.1	–0.6
Currency translation and other effects	0.0	0.0
Balance as of December 31	**0.1**	**1.1**

Assignment of trade receivables

The Group sells trade receivables to factoring companies as part of non-recourse and in the previous year non-recourse and recourse factoring. No new factoring agreements were concluded in the reporting period. The existing agreements in the Acoustics segment lapsed with its sale.

Sale of receivables as part of non-recourse factoring

The Group sold trade receivables with a carrying amount of 20.8 mEUR (2019: 30.9 mEUR) to third parties on the basis of factoring agreements, leaving no significant opportunities or risks for the Group. These receivables were therefore derecognised in accordance with IFRS 9.3.2.6 (a). The Group recognised the security retention withheld by the factoring company for the assigned receivables under other current financial assets in an amount of 1.4 mEUR as of December 31, 2020 (2019: 3.3 mEUR). Due to the short-term nature of the trade receivables sold and the advances received, the fair value approximates to the carrying amount. If the customer defaults on payment, the Group is exposed to a residual payment risk of 0.0 mEUR (2019: 0.0 mEUR) towards the factoring company. The amounts to be repaid to the factoring company should be classed as current and represent the maximum loss exposure for the Company.

Sale of receivables as part of recourse factoring

In the previous year, the Group sold trade receivables to factoring companies in return for rights of recourse. These trade receivables were not derecognised from the statement of financial position as the Group essentially retained all the risks and opportunities associated with ownership. This related primarily to the credit risk. The amounts received from the sale of trade receivables were recognised as liabilities. Depending on the agreement with the particular factoring company, customers settled any outstanding items directly with the Group which subsequently forwarded the amounts received to the factoring companies. The carrying amount of trade receivables not derecognised stood at 14.3 mEUR as of December 31, 2019. As of December 31, 2019, the corresponding liabilities amounted to 12.1 mEUR. Due to the short-term nature of the trade receivables sold and associated liabilities, the fair value approximated to the carrying amount. This resulted in a net position as of December 31, 2019 of 2.3 mEUR. Due to the sale of the Acoustics segment, there were no longer any factoring agreements as of the reporting date to be reported as recourse factoring.

4.10 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS

Bank balances were not pledged as of December 31, 2020 or December 31, 2019.

Reference is made to Section 5.2.2. Financial risk management, "Credit and default risk" for details of credit risks.

4.11 EQUITY

The individual components of equity and their development in the financial years 2020 and 2019 are shown in the consolidated statement of changes in equity.

4.11.1 Composition of subscribed capital

As of December 31, 2020, STS Group AG's subscribed capital totalled 6.5 mEUR (December 31, 2019: 6.0 mEUR) and was divided into 6,500,000 (December 31, 2019: 6,000,000) no-par value bearer shares with a notional value of 1.00 EUR per share. The shareholders' right to the securitisation 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 securitisation 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.

As of December 31, 2020, a further 50,000 shares were held in treasury.

4.11.2 Increase in subscribed capital

On September 10, 2020, the Company's Executive Board resolved, with the approval of the Supervisory Board obtained on the same day, to increase the Company's share capital by 0.5 mEUR from 6.0 mEUR to 6.5 mEUR on the basis of the Authorised Capital 2018/I by issuing 500,000 new no-par value bearer shares in the Company each with a notional interest in the Company's share capital of 1.00 EUR and with full profit entitlement from January 1, 2020 against cash contribution. As part of the resolution, the Executive Board, with the approval of the Supervisory Board, excluded shareholders' statutory right of subscription in accordance with Article 4 (5) sentence 4 (iii) of the Company's Articles of Association in conjunction with Sections 203 (1 and 2), 186 (3) sentence 4 AktG.

Restrictions regarding voting rights or the transfer of shares
Each share grants one vote at the Annual General Meeting in accordance with Article 21 (1) of the Articles of Association of STS Group AG and determines the shareholders' share in the net profit of STS Group AG in accordance with Article 24 (2) of the Articles of Association. This does not apply to the treasury shares held by STS Group AG which do not confer any rights upon STS Group AG. Restrictions on the voting rights attached to shares may arise, in particular, from the provisions 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, and there are no restrictions on their transferability.

4.11.3 Shareholdings exceeding 10% of voting rights

As of December 31, 2020, there were the following direct and indirect holdings 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 SE & Co. KGaA, headquartered in Munich (Germany), most recently announced on July 24, 2019 that it held the majority of the voting rights in STS Group AG. STS Group AG has not been informed and is not otherwise aware of any other direct or indirect holdings in the capital of the Company that amount to or exceed the threshold of 10% of the voting rights.

4.11.4 Shares with special rights conferring controlling powers

No shares with special rights conferring controlling powers were issued.

4.11.5 Control of voting rights in the event of employee participation

Insofar as STS Group AG has issued or issues shares to employees under employee participation plans, these shares are transferred to the employees directly. The beneficiary 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.

4.11.6 Appointment and dismissal of members of the Executive Board; amendments to the Articles of Association

The appointment and dismissal of members of the Executive Board are governed by Sections 84 and 85 AktG. In accordance with Article 7 (1) of the Articles of Association of STS Group AG, the Executive Board consists of one or more persons. The exact number is determined by the Supervisory Board. 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) item 5 and 179 AktG, amendments to the Articles of Association require a resolution of the Annual 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 way of resolution passed by the Annual General Meeting on May 3, 2018, the Supervisory Board is also authorised to amend Article 4 of the Articles of Association to reflect the utilisation of Authorised Capital 2018/I and Contingent Capital 2018/I and after expiry of the respective authorisation period.

Resolutions of the Annual 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 Annual General Meeting amending the Articles of Association also require a majority of the share capital represented at the time of the resolution in addition to a simple majority of the votes cast, unless a larger majority is required by law. Furthermore, Article 21 (2) of 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.

4.11.7 Authority of the Executive Board to issue or buy back shares

a) Authorised Capital 2018/I
By way of resolution passed by the Annual General Meeting on May 3, 2018, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to 2.5 mEUR 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 (Authorised Capital 2018/I). As a general rule, shareholders are to be granted subscription rights. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for one or more capital increases from Authorised Capital 2018/I,

(i) to exclude fractional shares from subscription rights;
(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 to the extent to which they would be entitled as shareholders following the exercise of the conversion or option rights or the fulfilment 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 as defined by 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 excluded 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 contributions in kind, particularly for the purposes of – but without being limited to – the acquisition of parts of companies, equity investments in companies or other assets (also indirectly) or the servicing of bonds issued in exchange for contributions in kind.

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

As a result of the capital increase effected in September and the associated use of Authorised Capital 2018/I, the Authorised Capital has fallen by 0.5 mEUR, from 2.5 mEUR to 2.0 mEUR.

b) Contingent Capital 2018/I
By way of resolution passed by the Annual General Meeting on May 3, 2018, the share capital of the Company is contingently increased by up to 2.0 mEUR through issuing up to 2,000,000 new no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR (Contingent Capital 2018/ I). Contingent Capital 2018/I 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 authorisation resolution of the Annual General Meeting on May 3, 2018 (or combinations of these instruments) if the respective option or conversion rights are exercised or the option or conversion obligations are fulfilled. Further details can be found in the authorisation resolution and in Article 4 (3) of the Articles of Association of STS Group AG.

c) Contingent Capital 2018/II
By way of resolution passed by the Annual General Meeting on May 3, 2018, the share capital of the Company is contingently increased by up to 0.5 mEUR through issuing up to 500,000 new no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR (Contingent Capital 2018/II). Contingent Capital 2018/II is to be exercised only to the extent that subscription rights are issued under the 2018 share option plan in accordance with the resolution of the Annual General Meeting on May 3, 2018, these subscription rights are exercised by the holders and the Company does not grant treasury shares in fulfilment of the subscription rights. The total volume of subscription rights is distributed among the authorised groups of persons as follows:

- 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 authorisation 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 authorised 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 Annual General Meeting authorised 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 on the resolution date or – if lower – on 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 holds, or attributable to the Company in accordance with Section 71a ff. AktG, the shares acquired on the basis of this authorisation may not exceed 10% of the Company's share capital at any time. The acquisition of treasury shares is made at the discretion of the Executive Board 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 Annual General Meeting on May 3, 2018 resolved to authorise the Executive Board to utilise 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 benefits in kind and transferred to s uch 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 on 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 authorisation may not exceed 10%.
(iv) They may be used to service purchase obligations or rights for shares of the Company 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 Group companies.

Further details can be found in the authorisation resolution.

By way of resolution passed by the Annual General Meeting on May 3, 2018, the Executive Board was also authorised, with the approval of the Supervisory Board, to purchase treasury shares totalling 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 is effected by exercising the options no later than May 2, 2023. In analogous application of Section 186 (3) sentence 4 AktG, shareholders are not entitled to conclude such option transactions with the Company. Further details can be found in the authorisation resolution.

As of January 1, 2019, the Company held 4,763 treasury shares resulting from purchases in financial year 2018. A total of 45,237 shares were also purchased in the period from January 1, 2019 to December 31, 2019 as part of the share buyback programme 2018/1. This corresponds to a nominal 0.4 mEUR or 0.75% of the share capital. The shares were acquired at an average price of 9.86 EUR per share, within a range of 7.58 EUR to 11.65 EUR. By May 3, 2019, these acquisitions in 2018 had led to the repurchase of 50,000 in total and the share buyback programme 2018/1 was thus terminated on that day.

4.11.8 Capital reserve

As of December 31, 2020, capital reserves amounted to 5.4 mEUR (2019: 22.3 mEUR). The reduction in capital reserves results essentially from withdrawals from the reserves. As a result of the increase in the share capital carried out in the financial year, capital reserves increased by 1.0 mEUR. In addition, a withdrawal from capital reserves of 17.9 mEUR was implemented in the course of preparing the annual financial statements in order to offset an accumulated loss from the previous year in accordance with Section 150 (4) nos. 1 and 2 AktG.

4.11.9 Retained earnings

As of December 31, 2020, retained earnings amounted to 44.3 mEUR (2019: 42.7 mEUR). The slight increase is due to the countervailing effect resulting from the withdrawal from capital reserves, offsetting the accumulated loss as well as the consolidated net profit in the current reporting period. In the financial years 2020 and 2019, the Company made no dividend payments.

4.11.10 Other reserves

Other reserves comprise the revaluation surplus for pension obligations and the translation reserve. The overall changes as of December 31, 2020 and 2019 are shown in the consolidated statement of changes in equity.

4.12 NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Non-current and current financial liabilities are as follows:

	December 31, 2020			December 31, 2019		
in mEUR	Non-current	Current	Total	Non-current	Current	Total
Leasing liabilities	7.7	4.3	12.0	18.8	5.3	24.1
Liabilities to banks	11.6	9.1	20.7	3.0	9.5	12.4
Liabilities from factoring	–	–	–	0.0	12.1	12.1
Third party loans	2.4	1.4	3.8	5.8	1.9	7.7
Other financial liabilities	0.4	6.5	6.9	0.1	0.0	0.1
Total	**22.1**	**21.3**	**43.3**	**27.7**	**28.8**	**56.5**

4.12.1 Lease liabilities

For information on the maturity of outstanding payments from leases, reference is made to Section 5.2.2.

4.12.2 Liabilities to banks

Liabilities to banks increased from 12.4 mEUR to 20.7 mEUR due to the take-up of new loans.

One loan agreement clause for a bank loan with a carrying amount of 0.9 mEUR (December 2019: 1.9 mEUR) and regular maturity in 2021 was not adhered to (breach of covenant). As the bank loan expires in 2021 and is already accounted for as a current liability, there is no change to the way in which it is reported in spite of the breach of the clause in the loan agreement and the possibility that the outstanding amount will become due.

In addition, loan agreement clauses for two further bank loans with carrying amounts of 0.3 mEUR each and regular maturities in 2023 were not complied with in the reporting period (breaches of covenant). Since the outstanding amount may become due if there is a breach of the agreement, the loans are accounted for in full as current liabilities. At the time the consolidated financial statements were prepared, no agreement had been reached with the bank to the effect that it would waive its right to penalise the contractual breaches.

4.12.3 Liabilities from third party loans

Liabilities from third party loans as of December 31, 2020 relate to the pre-financing of tax credits by a third party in two subsidiaries totalling 3.7 mEUR (December 31, 2019: 2.2 mEUR). This is partly an extension of tax credit pre-financing in place since the last financial year. The interest rate is 1 month Euribor plus 3%. Part of the pre-financing expires on October 31, 2021.

In the previous year, the third party loans essentially related to fixed-interest loans from a former shareholder with interest rates of between 1.0% and 5.0% in the divested Acoustics segment.

4.12.4 Other financial liabilities

Other financial liabilities primarily include liabilities from loans from shareholders and relate to two short-term loans from Mutares SE & Co. KGaA amounting to 6.5 mEUR (December 31, 2019: 0.0 mEUR). For further explanation, reference is made to Section 5.5.1. There are also miscellaneous other financial liabilities in the amount of 0.4 mEUR (December 31, 2019: 0.1 mEUR).

4.12.5 Pledges

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

in mEUR	December 31, 2020	December 31, 2019
Property, plant and equipment	10.3	15.1
Inventories	2.7	2.7
Other non-financial assets	2.0	0.0
Restricted cash	0.0	2.6
Pledged assets	**15.1**	**20.4**

4.12.4 Liabilities from factoring

For information on liabilities from factoring existing in the previous year, reference is made to Section 4.9.

4.13 PROVISIONS

Provisions break down as follows:

in mEUR	2020	2019
Pensions and similar obligations	13.6	20.5
Other provisions	5.7	1.3
Provisions	**19.4**	**21.8**

4.13.1 Pensions and similar obligations

Defined benefit plans

The provision for pensions and similar obligations is based on country-specific, statutory obligations in Italy – only relating to 2019 due to the sale of the Italian subsidiary in the reporting period – France and Mexico. They are determined primarily by employees' remuneration 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 only concerns 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. For Italy, therefore, there are no further additions to provisions aside from the change resulting from interest rate and actuarial assumptions. Due to the sale, there are no obligations with respect to Italy as of year end. The effects of the sale are reported under "Reclassification of discontinued operations". The plans are classed as defined benefit plans in all three countries. These are unfunded 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, 2020.

The following table shows the development of the defined benefit obligation (DBO) as of December 31, 2020.

in mEUR	2020	2019
DBO as of January 1	20.5	19.0
Service costs	– 0.2	0.6
current service costs	0.6	0.6
gains (–)/losses (+) from curtailments	– 0.8	0.0
Interest expenses	0.1	0.3
Actuarial gains (–)/losses (+)	0.5	1.5
from changes in experience assumptions	– 0.2	0.0
from changes in demographic assumptions	0.2	0.0
from changes in financial assumptions	0.5	1.4
Benefits paid	– 0.4	– 0.9
Disposal from discontinued operations	– 6.9	0.0
DBO as of December 31	**13.6**	**20.5**

Gains from amending/curtailing plans relate, on the one hand, to a plan amendment in France due to a revised works agreement and, on the other, to employees who left the Company before reaching retirement age, thereby forfeiting their entitlement.

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

in mEUR	2020	2019
Service costs	– 0.2	0.6
gains (–)/losses (+) from plan amendments	0.6	0.6
gains (–)/losses (+) from curtailments	– 0.8	0.0
Interest expenses	0.1	0.3
Total amount of performance-related cost components recognized in the income statement	**– 0.1**	**0.9**
Actuarial gains (–)/losses (+)	0.5	1.5
Tax effects	– 0.1	– 0.4
Total amount recognized in the consolidated income statement of comprehensive income	**0.4**	**1.1**

The interest expense is recognised in interest expenses from discounting provisions within financial 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%	2020	2019	2020	2019	2020	2019
Discount rate	n/a	0.74	0.79	1.01	6.25	7.00
Salary trend	n/a	n/a	2.00	2.00	4.50	4.50
Pension trend	n/a	0.0	n/a	n/a	n/a	n/a

The following tables were used for life expectancy: the generation tables 1948 (RG48) in Italy for 2019, 2014–2016 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 of changes in the key actuarial assumptions on the DBO. In each case, the impact of a change in one assumption on the DBO is shown, while the other assumptions remain unchanged compared with the original calculation. As a result, correlation effects between the assumptions are not taken into account. The change in the DBO shown only applies to the specific size of the change in the individual assumptions. A linear effect on the defined benefit obligation cannot be assumed if the assumptions change by a different amount.

		Plans Italy		Plans France		Plans Mexico	
in mEUR		December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
DBO		n/a	6.7	13.5	13.6	0.1	0.1
Discount rate	+50bp	n/a	6.5	12.7	12.8	0.1	0.1
	−50bp	n/a	7.0	14.3	14.5	0.1	0.1
Salary trend	+50bp	n/a	n/a	14.3	14.5	0.2	0.2
	−50bp	n/a	n/a	12.8	12.8	0.1	0.1
Pension trend	+25bp	n/a	6.8	n/a	n/a	n/a	n/a
	−25bp	n/a	6.7	n/a	n/a	n/a	n/a
Life expectancy	+1 year	n/a	6.7	13.6	13.6	0.1	0.1
	−1 year	n/a	6.7	13.4	12.7	0.1	0.1

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, 2020.

Expected pension payments

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

in mEUR	2020	2019
within 1 year	0.3	0.9
between 1 and 2 years	0.3	0.9
between 2 and 3 years	0.6	1.1
between 3 and 4 years	0.9	1.2
between 4 and 5 years	1.1	1.4

The average term of the pension obligation as of December 31, 2020 is 11.6 years (2019: 10.5 years).

Defined contribution plans

For employees in Germany, France and – in the previous year – Italy, there are also defined contribution plans under statutory pension insurance schemes. The expenses recognised in the consolidated income statement totalling 2.4 mEUR (2019: 4.1 mEUR) represent the contributions due from the Group for these plans. The Italian subsidiary was sold in the reporting period which essentially also explains the decline of 1.7 mEUR by comparison with the previous year.

4.13.2 Other provisions

Other provisions are categorised as follows:

in mEUR	Jubilee benefits	Onerous contracts	Severance payments	Other	Total
Balance as of January 1, 2020	**1.2**	**0.1**	**0.0**	**0.1**	**1.3**
current	0.0	0.1	0.0	0.0	0.1
non-current	1.2	0.0	0.0	0.1	1.2
Additions	0.0	0.0	0.3	1.0	1.2
Reversals	0.0	0.0	– 0.3	0.0	– 0.3
Reclassifications	0.0	0.0	0.0	3.7	3.7
IFRS 5 Reclassification	0.0	– 0.1	0.0	– 0.1	– 0.1
Balance as of December 31, 2020	**1.1**	**0.0**	**0.0**	**4.6**	**5.7**
current	0.0	0.0	0.0	0.8	0.8
non-current	1.1	0.0	0.0	3.8	4.9

The anniversary provision relates to France and is accumulated according to the employee's current length of service and discounted at a rate of 0.00% (2019: 1.01%). The provision is recognised on the basis of current employee numbers and future entitlements to payments. The values determined are based on assessments that, in accordance with recognised 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 2014–2016 mortality tables as the basis for biometric calculations.

4.14 INCOME TAX LIABILITIES

As of December 31, 2020, income tax liabilities amounted to 4.5 mEUR (December 31, 2019: 4.6 mEUR).

Income tax liabilities mainly result from the Chinese and French companies. The French companies form a fiscal union with STS Plastics SAS as the controlling company. A risk provision was formed i.a. from the measurement of pension obligations as part of the acquisition in accordance with IFRIC 23.

4.15 OTHER CURRENT LIABILITIES

Other current liabilities are categorised as follows:

in mEUR	2020	2019
Employee related liabilities	8.6	14.0
Social security	7.0	7.3
Other levies	0.2	1.1
Liabilities from payroll and church taxes	0.5	1.0
VAT liabilities	1.4	0.4
Miscellaneous other non-financial liabilities	0.2	0.0
Advance payments received on orders	0.2	0.4
Other non-financial liabilities	**18.1**	**24.1**

Employee related liabilities primarily include variable remuneration, holiday accruals and provisions for overtime.

5 — OTHER DISCLOSURES

5.1 NOTES TO THE CASH FLOW STATEMENT

Movements in financial liabilities, broken down by cash and non-cash components, are as follows:

in mEUR	
Balance as of January 1, 2019	**62.4**
Financing cash flow	
Proceeds from borrowings	5.8
Repayments of borrowings	– 8.8
Dispenses from granting of loans	0.0
Repayments of finance lease liabilities	– 5.5
Proceeds from factoring (+)/disbursements for factoring (–)	– 24.1
Interest paid	– 2.6
Interest received	0.0
Changes from financing cash flows	**– 35.2**
Net interest expense	3.0
New finance leases	26.3
Other changes	0.0
Changes from non-cash items	**29.3**
Balance as of December 31, 2019	**56.5**
Financing cash flow	**56.5**
Proceeds from borrowings	43.6
Repayments of borrowings	– 6.7
Dispenses from granting of loans	0.0
Repayments of finance lease liabilities	– 5.0
Proceeds from factoring (+)/disbursements for factoring (–)	– 3.6
Interest paid	– 1.6
Interest received	0.0
Change in the scope of consolidation	– 46.7
Changes from financing cash flows	**– 20.0**
Net interest expense	2.1
New finance leases	5.3
Other changes	– 0.6
Changes from non-cash items	**6.8**
Balance as of December 31, 2020	**43.2**

The year-on-year rise in proceeds from the take-up of loans granted is the result of refinancing measures. The change in the scope of consolidation results from the sale of the Acoustics segment. The decline in non-cash changes by comparison with the previous year is essentially due to the introduction of lessee accounting in the previous year in accordance with IFRS 16.

In the comparative period, a large portion of the sale of receivables with recourse was converted to non-recourse sales, leading to disbursements for factoring liabilities in an amount of 24.1 mEUR, and this conversion is mainly responsible for the rise in changes in financing cash flows.

5.2 FURTHER DISCLOSURES ON FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

5.2.1 Financial instruments

Financial assets and liabilities can be broken down as follows into the IFRS 9 measurement categories as of December 31, 2020 and December 31, 2019:

	Category according to IFRS 9	Carrying amount	Valuation according to IFRS 9			Valuation according to IFRS 16	Fair value	
in mEUR		12/31/2020	Amortized costs	Fair value OCI	Fair value PL		12/31/2020	Hierachy
Financial assets by category								
Other non-current financial assets		0.2	0.2				0.2	
Security deposits	AC	0.2	0.2				0.2	Stufe 3
Current financial liabilities								
Trade and other receivables	AC	46.9	46.9				46.9	
Other current financial assets		1.6	1.6				1.6	
Receivables from factorer	AC	1.4	1.4				1.4	
Other financial assets	AC	0.2	0.2				0.2	
Cash and cash equivalents	AC	20.0	20.0				20.0	
Non-current financial liabilities								
Liabilities to banks	FLAC	11.6	11.6				11.3	Stufe 3
Third party loans	FLAC	2.4	2.4				2.4	Stufe 3
Liabilities from leases		7.7				7.7		
Other financial liabilities	FLAC	0.4	0.4				0.4	Stufe 3
Current financial liabilities								
Liabilities to banks	FLAC	9.1	9.1				9.1	Stufe 3
Third party loans	FLAC	1.4	1.4				1.4	Stufe 3
Liabilities from leases		4.3				4.3	4.3	
Other financial liabilities		6.5	6.5				6.5	
Liabilities from loans from affiliated companies	FLAC	6.5	6.5				6.5	Stufe 3
Trade and other payables	FLAC	45.0	45.0				45.0	

BOOKVALUE BY CATEGORY

in mEUR	Category	12/31/2020
Financial assets through profit and loss	FVPL	0.0
Financial assets through OCI	FVOCI	0.0
Financial assets at amortized cost	AC	68.7
Financial liabilites at amortized cost	FLAC	76.4
Financial liabilities through profit and loss	FLFVPL	0.0

	Category according to IFRS 9	Bookvalue	Category according to IFRS 9			Category according to IFRS 16	Fair value	
in mEUR		12/31/2019	Amortized costs	Fair value OCI	Fair value PL		12/31/2019	Hierachy
Financial assets by category								
Other non-current financial assets		0.3	0.3		0.0		0.3	
Security deposits	AC	0.3	0.3				0.3	Stufe 3
Securities	FVPL	0.0			0.0		0.0	Stufe 3
Trade and other receivables	AC	35.4	35.4				35.4	
Trade and other receivables	FVOCI	20.7		20.7			20.7	Stufe 2
Assets		3.8	3.8				3.8	
Creditors with debit balances	AC	0.1	0.1				0.1	
Receivables from factorer	AC	3.3	3.3				3.3	
Other financial assets	AC	0.4	0.4				0.4	
Cash and cash equivalents	AC	17.2	17.2				17.2	
Non-current financial liabilities								
Liabilities to banks	FLAC	3.0	3.0				3.1	Stufe 3
Third party loans	FLAC	5.8	5.8				6.8	Stufe 3
Liabilities from leases		18.8				18.8		
Other financial liabilities		0.1	0.0		0.1		0.1	
Miscellaneous	FLAC	0.0	0.0				0.0	Stufe 3
Derivate instruments	FLFVPL	0.1			0.1		0.1	Stufe 2
Trade and other payables	FLAC	1.0	1.0				1.0	
Current financial liabilities								
Liabilities to banks	FLAC	9.5	9.5				9.6	Stufe 3
Liabilities from factoring	FLAC	12.1	12.1				12.1	
Third party loans	FLAC	1.9	1.9				2.0	Stufe 3
Liabilities from leases		5.3				5.3		
Other financial liabilities	FLAC	0.0	0.0				0.0	
Trade and other payables	FLAC	69.7	69.7				69.7	

BOOKVALUE BY CATEGORY

in mEUR	Category	12/31/2019
Financial assets through profit and loss	FVPL	0.0
Financial assets through OCI	FVOCI	20.7
Financial assets at amortized cost	AC	56.7
Financial liabilites at amortized cost	FLAC	103.0
Financial liabilities through profit and loss	FLFVPL	0.1

The three levels for determining the fair value of financial instruments are described in Section 6.2. Fair value measurement in accordance with IFRS 13. 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 such as 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. As of December 31, 2020, the Company held no derivatives.

There were no transfers between the fair value levels in the reporting period or the comparative period.

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

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

BOOKVALUE BY CATEGORY

in mEUR	2020
From financial assets at fair value through profit or loss	0.0
From financial liabilities at fair value through profit or loss	0.0
From financial assets at amortized costs	0.0
From financial liabilities at amortized costs	– 1.0
From financial assets at fair value through OCI (debt instruments)	– 0.4
Total	**– 1.4**

BOOKVALUE BY CATEGORY

in mUR	2019
From financial assets at fair value through profit or loss	0.0
From financial liabilities at fair value through profit or loss	– 0.1
From financial assets at amortized costs	– 0.1
From financial liabilities at amortized costs	– 0.6
From financial assets at fair value through OCI (debt instruments)	0.0
Total	**– 0.8**

The net gains and net losses from financial instruments are generally 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 amortised cost and expenses and income for expected credit losses as well as interest expenses for financial assets (debt instruments) measured at fair value through other comprehensive income.

The net losses in financial year 2020 are mainly accounted for by interest expenses for financial liabilities in an amount of 1.0 mEUR (previous year: 0.6 mEUR).

The gross amounts for total interest income and expenses are as follows:

in mEUR	2020
Financial assets measured at amortized cost	0.0
Financial assets measured at fair value through OCI (without recycling)	– 0.4
Financial liabilities not measured at fair value through profit or loss	– 1.0

in mEUR	2019
Financial assets measured at amortized cost	0.0
Financial assets measured at fair value through OCI (without recycling)	– 0.6
Financial liabilities not measured at fair value through profit or loss	– 1.1

For assets pledged in connection with financial liabilities, reference is made to Section 4.12.5. As of the reporting date, no collateral had been received. For collateral received from Mutares SE & Co. KGaA, which lapsed with the sale of the Acoustics segment, reference is made to Section 5.5.1.

5.2.2 Financial risk management

The management of the Group monitors and manages the financial risks associated with the Group's segments 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 (currency risk and interest rate risk).

In a few cases, the Group minimises the effects of these risks by using derivative financial instruments. As of the reporting date, the Company held no derivative financial instruments as the exposure to currency and interest risks is currently very low. There are also requirements for the management of currency, interest rate and default risks. In addition, basic rules were laid down for the execution 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 in particular with regard to trade receivables and other receivables, including financial investments. Credit risks, particularly in the area of trade receivables, are monitored on the basis of a regular analysis of receivables due and the collection of current information on the individual credit ratings of customers. A corresponding ceiling is established by limiting and constantly monitoring individual receivables. There are no particular credit rating risks with customers. Risks from a 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, reference is made to Section 1. Segment reporting.

In applying the expected credit loss model pursuant to IFRS 9.5.5, the Group uses the general approach for bank balances and financial assets and the simplified approach for trade receivables and contract assets. Default probabilities are calculated for individual customers or customer groups for this purpose. These are based either on individual, external rating information on the customer or customer group, to which an appropriate probability of default is allocated. Because these default probabilities are related to a specific date and include expectations of future defaults, no further forward-looking adjustments to these data are considered necessary. Besides the probability of default, the loss on default is also used to determine expected credit losses. Generally the group measures this loss at 100% of the level of default, based on the Group's experience.

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, 2020

in mEUR	Trade and other receivables	Contract assets	Other financial assets	Cash and cash equivalents
Rating level				
Rating level I	43.3	0.3	1.6	4.3
Rating level II	0.2	0.0	0.2	15.7
Rating level III	3.5	0.0	0.0	0.0
Total	**47.0**	**0.3**	**1.8**	**20.0**

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

in mEUR	Trade and other receivables	Contract assets	Other financial assets	Cash and cash equivalents
Rating level				
Rating level I	21.6	4.5	0.0	3.0
Rating level II	34.1	0.6	4.1	14.3
Rating level III	1.5	0.1	0.0	0.0
Total	**57.2**	**5.2**	**4.1**	**17.2**

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 assigned 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	0.52–100	BB–D

Impairment losses on trade receivables were subject to the following changes:

in mEUR	Lifetime-ECL (Level 2) simplified model	Lifetime-ECL (Level 3) simplified model
Impairment as of January 1, 2020	**0.1**	**1.0**
Reclassifications of discontinued operations	–0.1	–0.9
Additions	0.0	0.1
Reversals	0.0	–0.1
Impairment as of December 31, 2020	**0.0**	**0.1**

The reclassifications result from the sale of the Acoustics segment.

in mEUR	Lifetime-ECL (Level 2) simplified model	Lifetime-ECL (Level 3) simplified model
Impairment as of January 1, 2019	**0.1**	**1.5**
Additions	0.0	0.1
Reversals	0.0	–0.6
Impairment as of December 31, 2019	**0.1**	**1.0**

Due to the receivables sold to factoring companies in financial year 2019, Stage 3 impairment losses, in particular, were reversed in the previous year.

There were no significant, expected credit losses for any other assets subject to the impairment model pursuant to IFRS 9.5.5.

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

Liquidity and financing risk
Liquidity risk comprises the following risks:
- Not being able to meet potential payment obligations on their due date.
- Not being able to procure sufficient liquidity on the expected terms, when required (refinancing risk).
- Not being able to wind up, extend or close out transactions or only with losses or excessive costs due to market inadequacies or 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 agreed credit lines. Due to the dynamics of the business environment in which the Group operates, the Group's Finance department aims to maintain the necessary financing flexibility by keeping sufficient unutilised credit lines and deploying factoring.

The STS Group constantly analyses all the relevant risks to the growth of its business as well as the liquidity and financing risk posed by the continuing COVID-19 pandemic to enable it, if necessary, to implement the necessary measures at short notice. In the previous year, the STS Group was forced to adapt its own capacity to global demand due to plant closures in the first wave of the pandemic at the beginning of 2020. Over the past year, the STS Group had to adjust its own capacities to global demand against the backdrop of plant closures in the first wave of the pandemic at the start of 2020. No further production outages were reported, however, neither during the second COVID-19 wave as from the autumn in 2020, nor were plant closures due to more virulent mutations foreseeable in 2021 at the time when this report was being drawn up. The pandemic was largely already contained in China in the first half of 2020. Restrictions on production in Chinese locations have not been imposed nor are they anticipated in the current financial year.

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

The significant degree of uncertainty prevailing in the previous year which raised considerable doubts over the Company's ability to remain as a going concern and represented an existential threat, no longer applies in the reporting period due to the successful implementation of the measures adopted.

In China, the Group can only dispose of local payment instruments on a cross-border basis in compliance with the foreign exchange restrictions in force. There are no other significant restrictions.

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

	December 31, 2020				December 31, 2019			
in mEUR	Up to 1 year	1 – 5 years	More than 5 years	Total	Up to 1 year	1 – 5 years	More than 5 years	Total
Cash outflows from non-derivative financial liabilites	66.9	20.1	4.4	91.4	105.6	24.3	14.4	144.4
Leasing liabilities	4.3	7.2	2.6	14.1	5.5	13.7	10.8	30.0
other non-derivative financial liabilities	62.6	12.9	1.8	77.3	100.1	10.6	3.6	114.4
Cash outflows from derivative financial liabilites	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Total	**66.9**	**20.1**	**4.4**	**91.4**	**105.6**	**24.4**	**14.4**	**144.5**

In the previous year, cash outflows from derivative liabilities amounting to 0.1 mEUR compared with cash inflows from derivatives with gross settlement in the amount of 0.0 mEUR.

Market price risk

Due to its activities, the Group is only marginally exposed to financial risks resulting from changes in exchange rates and interest rates. It selectively uses derivative financial instruments to manage its existing interest rate and exchange rate risks. As of the reporting date, it held no corresponding derivatives due to the fact that any existing risks were low. The derivatives held at the start of the period were eliminated with the sale of the Acoustics segment.

Exchange rate risk

The Group's operating business is subject to minor exchange rate risks in respect of the euro and the US dollar, both from sales transactions and procurements.

The effects on earnings before taxes in the event of changes in exchange rates with the euro are as follows:

	10% increase of foreign currency		10% decrease of foreign currency	
in mEUR	2020	2019	2020	2019
USD	0.1	0.0	– 0.1	0.0
PLN	0.0	0.0	0.0	0.0
CNY	0.0	0.0	0.0	– 0.1
BRL	0.0	0.1	0.0	– 0.1
Total	**0.1**	**0.1**	**– 0.1**	**– 0.2**

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 mEUR	2020	2019	2020	2019
MXN	0.0	0.1	0.0	– 0.1
CNY	0.0	0.0	0.0	0.0
Total	**0.0**	**0.1**	**0.0**	**– 0.1**

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, there is no active currency risk management through the use of derivative financial instruments at the present moment.

Interest rate risk

The Group is exposed to an interest rate risk both from floating rate loans and fixed-interest loans at the time of refinancing. The majority of loans are designed as fixed-interest loans.

in mEUR	December 31, 2020	December 31, 2019
Book value fixed interest loans	19.8	12.0
Book value variable interest loans	11.1	8.1
Total	**30.9**	**20.1**

The variable interest rate loans are based on the 1 month, 3 month and 6 month EURIBOR with some providing a floor of 0.0%.

The risk from floating rate loans was partly hedged though using interest swaps with matching maturities and terms. The accounting rules for hedge relationships in accordance with IFRS 9 were not applied. In addition, movements in the interest rate and any expiring loans are monitored on an ongoing basis by management. Management concludes transactions to mitigate the risk position in each instance.

There is also an interest rate risk arising from receivables sold as part of non-recourse factoring but still outstanding which attract variable interest rates.

If interest rates had changed, this would have had the following impact on earnings before taxes:

	2020		2019	
in mEUR	–100bp	+100bp	–100bp	+100bp
Effect on profit and loss before tax	0.0	– 0.2	0.4	– 0.5

5.3 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 benefits owed to them and, on the other, to maintain an optimum capital structure in order to reduce the cost of capital. Depending on the requirements, 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, 2020		December 31, 2019	
	in mEUR	in%	in mEUR	in%
Equity	51.1	36.7	68.6	35.0
Current financial liabilities	66.2	47.5	98.5	50.3
Non-current financial liabilities	22.0	15.8	28.7	14.7
Financial liabilities	88.2	63.3	127.2	65.0
Total equity and financial liabilities	**139.3**	**100.0**	**195.8**	**100.0**

5.4 CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

Contingent liabilities

There were no significant contingent liabilities in the reporting period. For contingent liabilities in existence in the previous year, reference is made to Section 2.3. on discontinued operations.

Other obligations

With the exception of short-term leases and leases for items of low value, there are no obligations other than those reported.

5.5 RELATED PARTIES

In accordance with IAS 24, related parties of the Group comprise:

- the parent company Mutares SE & Co. KGaA, Munich, its subsidiaries and major investees outside the Group;
- other persons or companies open to influence by the reporting company or which may exercise influence on the reporting company such as
  - members of the Company's Executive Board and Supervisory Board;
  - members of the Executive Board and Supervisory Board of Mutares SE & Co. KGaA;
  - investments held by members of the Company's Executive Board and Supervisory Board or those of Mutares SE & Co. KGaA 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. The terms and conditions of these transactions were in line with normal market practice.

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

As of December 31, 2020, Group companies conducted the following transactions with related parties not covered by the scope of consolidation. Transactions were as follows as of December 31, 2020 and 2019:

in mEUR	2020	2019
Goods and services provided to		
Mutares SE & Co. KGaA	0.4	0.1
of which: Income for management services rendered		
Mutares SE & Co. KGaA	0.4	0.1
Goods and services received from		
Mutares SE & Co. KGaA	1.6	2.4
Subsidiaries and other investments of Mutares SE & Co. KGaA not belonging to the STS Group	0.1	0.1
of which: expenses for management services received		
Mutares SE & Co. KGaA	1.6	2.4
Subsidiaries and other investments of Mutares SE & Co. KGaA not belonging to the STS Group	0.0	0.1
Outstanding balances from		
Mutares SE & Co. KGaA	0.0	0.1
Commitments to		
Mutares SE & Co. KGaA	0.0	1.0
Loans received from		
Mutares SE & Co. KGaA	6.5	0.0
Collateral received from		
Mutares SE & Co. KGaA – jointly and severally	0.0	1.7

Goods and services procured from related parties essentially include the Group's other operating expenses with respect to Mutares SE & Co. KGaA as well as mutares Holding-15, a subsidiary of Mutares SE & Co. KGaA. Goods and services procured in the previous year related to Mutares SE & Co. KGaA and mutares Holding 24, a subsidiary of Mutares SE & Co. KGaA.

Goods and services procured from Mutares SE & Co. KGaA in the 2020 financial year amounted to 1.6 mEUR (2019: 2.4 mEUR), 0.1 mEUR (2019: 0.0 mEUR) from mutares Holding-15 and 0.0 mEUR (2019: 0.1 mEUR) from mutares Holding-24.

Goods and services procured from Mutares SE & Co. KGaA amounting to 1.6 mEUR (2019: 2.4 mEUR) are mainly attributable to management services for the provision of personnel at a daily rate, onward charging of Executive Board remuneration, management fees, administrative services and travel expenses.

Goods and services procured in the reporting period from mutares Holding-15 amounting to 0.1 mEUR were mainly attributable to software licences, as were those procured in the previous year from mutares Holding-24 amounting to 0.1 mEUR.

No dividends were paid to Mutares SE & Co. KGaA in financial 2020 or 2019. Trade receivables from Mutares SE & Co. KGaA amounted to 0.0 mEUR (December 31, 2019: 0.1 mEUR).

No write-downs were performed for irrecoverable or doubtful receivables from related parties in the current or prior year.

As of December 31, 2020, the Group had obligations towards Mutares SE & Co. KGaA from consultancy services resulting from ongoing business relationships in an amount of 2.5 mEUR (December 31, 2019: 1.0 mEUR). These obligations were converted to a short-term loan maturing on December 31, 2021 and bearing interest at 3-month EURIBOR plus 6.125%. A further loan was also extended to the Group by Mutares SE & Co. KGaA on the same terms in an amount of 4.0 mEUR (December 31, 2019: 0.0 mEUR) maturing on June 30, 2021. Loan repayments total 0.0 mEUR (2019: 0.0 mEUR). The interest charged in the reporting period amounts to 0.0 mEUR (2019: 0.0 mEUR) and the interest paid 0.0 mEUR (2019: 0.0 mEUR), with the result that as of December 31, 2020 there is a loan obligation towards Mutares SE & Co. KGaA amounting to 6.5 mEUR (December 31, 2019: 0.0 mEUR). The obligations are not secured and no guarantees were given.

The Group received time-limited, joint collateral from Mutares SE & Co. KGaA in an amount of 1.7 mEUR as security against third-party claims which lapsed with the sale of the Acoustics segment in the reporting period.

5.5.2 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 mEUR	2020	2019
Short-term benefits	1.0	1.4
Termination benefits	1.2	0.0
Share-based payment	0.0	0.0
Total compensation	**2.2**	**1.4**

The short-term payments of 1.0 mEUR relate to remuneration paid out to the members of the Executive Board in the financial year ending on December 31, 2020 (2019: 1.4 mEUR). Payments of 1.2 mEUR (2019: 0.0 mEUR) made on termination of employment relationships relate to the termination of Executive Board contracts.

No further services were provided by members of the Executive Board and remunerated in the reporting period beyond the remuneration described resulting from existing business relationships with members of the Board.

Parts of the short-term payments due to the Executive Board are borne by the majority shareholder Mutares SE & Co. KGaA and charged to the Company.

OBLIGATIONS TO MEMBERS OF THE MANAGEMENT BOARD

in mEUR	2020	2019
Obligations to members of the Management Board	0.5	0.3

Obligations to members of the Executive Board relate to the bonus provision as of December 31, 2020 and December 31, 2019.

Executive Board remuneration according to the German Commercial Code (HGB)
The total emoluments of the Executive Board in accordance with Section 314 (1) item 6a sentence 1 to 4 HGB are shown in the following overview. The information on the share option plan reflects the fair value at the time of granting.

COMPENSATION OF THE EXECUTIVE BOARD

in mEUR	2020	2019
Short-term compensation		
Fixed compensation	0.6	0.9
Variable performance-related compensation	0.4	0.3
Total	**1.1**	**1.2**
Long-term compensation		
Long-term performance-related compensation	0.0	0.2
Total	**0.0**	**0.2**
Total compensation	**1.1**	**1.4**

The emoluments of former members of the Executive Board in accordance with Section 314 (1) item 6b sentences 1 to 2 HGB amounted to 1,230 kEUR in the reporting period and related to severance costs.

Further disclosures on Executive Board remuneration are included in the combined management report in the section “Remuneration report”.

Emoluments of the Supervisory Board
Total emoluments of the Supervisory Board amounted to 0.2 mEUR (2019: 0.2 mEUR).

Itemised disclosures on Supervisory Board remuneration are included in the combined management report in the section "Remuneration report".

There were no claims against members of the Executive Board or the Supervisory Board as of December 31, 2020 and December 31, 2019.

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

There were no pension obligations towards members of the Executive Board or the Supervisory Board as of December 31, 2020 and December 31, 2019.

5.6 SHARE-BASED REMUNERATION

5.6.1 STS Long Term Incentive Bonus („LTI")

In the financial year 2020, STS Group AG granted previous members of the Executive Board part of their remuneration in the form of a multi-year variable component in accordance with the more detailed specifics of a performance bonus plan (STS Long-Term Incentive Bonus; "LTI"). According to this scheme, a member of the Executive Board receives variable remuneration ("performance bonus") at the end of each financial year; the level of this remuneration depends on the degree to which the target was met. The degree to which the LTI has been met and the way in which it is calculated depends on movements in the share price and fulfilment of the medium-term strategic plan. The net LTI amount determined after calculating the degree of attainment is generally paid in shares in STS Group AG which are barred from sale for four years. The net LTI amount is converted into shares on the basis of the 30-day average of STS Group AG's closing share price in Deutsche Börse's Xetra trading. In the financial year 2020, no expenses from the LTI programme were recognised and no payments made to the Executive Board.

The Company's current Executive Board is not affected by this remuneration component.

5.6.2 Share option plan 2018

STS Group AG established a share option plan in financial year 2018 for members of the Company's Executive Board, members of the management of subsidiaries, employees of the Company and employees of subsidiaries. By way of a resolution passed by the Annual General Meeting on May 3, 2018, the Company's representatives were authorised to grant a total of up to 500,000 options on or before May 2, 2023 for a total of up to 500,000 shares in the Company, with full dividend entitlement for the financial year in which the option is exercised.

The options granted under the plan entitled the beneficiary to purchase equity instruments. One option entitled the holder to purchase one share in the Company. At the time of exercise, instead of servicing the obligations with the contingent capital created for this purpose, shares in the Company acquired by the Company or held by the Company as treasury shares could also be issued.

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

Along with the goal of a long-term increase in the Company's value, the share option plan stipulates as a performance target and additional exercise requirement that within a period of 12 months, the Company's closing price in Xetra trading must exceed the issue price by at least 20% on a total of 60 trading days for the period from July 1, 2018 to June 30, 2019 and by at least 30% on a regular basis from July 1, 2019 to June 30, 2027. If the performance target is not achieved in any one year, this can be made up in the following year by meeting the target or otherwise the relevant tranche of options will lapse.

Share options lapsed during the reporting period
Under this share option plan, no new share options were issued to beneficiaries in the financial year to December 31, 2020, and a total of 5,625 were issued to beneficiaries in the financial year to December 31, 2019 with an issue price of 18.77 EUR. The exercise price equated to 80% of the stock's average, volume-weighted market price over the previous 20 days of trading before the options were granted. When beneficiaries left the Group, their personal requirements for exercising their options under the share option plan lapsed, and 58,125 (2019: 15,500) share options expired in the reporting period.

SHARE OPTION PLAN

	2020	2019
Number of options outstanding as of January 1	58,125	68,000
+ new options granted	0	5,625
– exercised options	0	0
– forfeited options	58,125	15,500
Number of options outstanding as of December 31	0	58,125
thereof exercisable	0	0

Fair value of the options granted in the financial year
No new options were issued in the reporting period.

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 determined on the basis of the option price valuation model "Monte-Carlo simulation", in which possible characteristics are randomly determined for all identifiable variables impacting the option price on the basis of an interval previously defined as plausible.

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

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

The share option programme was classified and shown as equity-settled in accordance with IFRS 2. No new options were issued in financial year 2020, and no personnel expenses (2019: 50 kEUR) recognised in profit or loss. Due to the departure of beneficiaries, the outstanding options from the share option plan lapsed.

5.6.3 Share option plans 2016 and 2019

On the basis of a resolution of the Annual General Meeting on June 3, 2016, the shareholder Mutares SE & Co. KGaA set up the share option plan 2016 of Mutares SE & Co. KGaA which also includes senior executives of its affiliated companies. The share option plan 2016 of Mutares SE & Co. KGaA dates from October 13, 2016. In addition, a share option plan 2019 was set up which also covers senior executives of affiliated companies on the basis of a resolution passed by the Annual General Meeting of Mutares SE & Co. KGaA on May 23, 2019. Share option plan 2019 dates from August 9, 2019. The share options can either be fulfilled by a corresponding number of treasury shares or in cash (difference between the exercise price and the comparative price). 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).

As of December 31, 2020 and December 31, 2019, there is no agreement under which STS Group AG has to compensate Mutares SE & Co. KGaA.

With the approval of the Supervisory Board, the Executive Board of Mutares SE & Co. KGaA determines both the employees to be granted share options and the number of share options to be granted to them.

Share options lapsed during the reporting period

There were options issued from the various tranches of share option plans 2016 and 2019 for members of the Company's Executive Board who have left the Company. 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 then members of the Company's Executive Board. These lapsed in full on termination of the employment relationship in the reporting period.

Fair value of share options granted during the reporting period

For the current member of the Company's Executive Board, the share options granted result from two tranches of share option plan 2019 from September 2019 and May 2020. On September 5, 2019 (grant date), 15,000 options were issued with an exercise price of 6.12 EUR and a fair value as of the grant date of 2.54 EUR. On May 19, 2020 (grant date), a further 16.000 options were issued with an exercise price of 8.07 EUR and a fair value as of the grant date of 3.46 EUR. The options were measured using a binomial option pricing model. The weighted fair value average of the share options granted is 3.02 EUR. Where relevant, management's best estimate in respect of the following influencing factors was used to determine the expected term of the options: non-transferability, exercise restrictions (including the likelihood of the market conditions attached to the option being met) and assumptions on exercise behaviour. The expected volatility is based on the volatility shown by the Mutares' share price over the past six years. With regard to the time of exercise, it was assumed that the programme participants will on average exercise the options at the end of the exercise period of two years, i.e. six years after the grant date.

SHARE OPTION PLAN

	Share option plan 2019		
	Tranch of options 05/19/2020	Tranch of options 09/05/2019	Share option plan 2016
Grant date	May 19	September 5	September 16
Grant price	11.22 EUR	8.60 EUR	12.60 EUR
Exercise price	8.07 EUR	6.12 EUR	8.83 EUR
Expected volatility	30.00%	30.00%	30.00%
Term of stock options	6 years	6 years	6 years
Dividend yield	4.50%	4.50%	4.50%
Risk-free interest rate	– 0.55%	– 0.76%	– 0.40%

Due to the departure of beneficiaries, there was a change in the number of options in the reporting period. With their departure, the personal requirements for exercising options under share option plan 2016 lapsed, and in the reporting period, 45,000 (2019: 15,000) share options expired. There was no change in the weighted average exercise price.

SHARE OPTION PLAN 2016

	2020	2019
Number of options outstanding as of January 1	45,000	60,000
+ new options granted	0	0
– exercised options	0	0
– forfeited options	45,000	15,000
Number of options outstanding as of December 31	0	45,000
thereof exercisable	0	0

SHARE OPTION PLAN 2019

	2020	2019
Number of options outstanding as of January 1	15,000	0
+ new options granted	16,000	15,000
– exercised options	0	0
– forfeited options	0	0
Number of options outstanding as of December 31	31,000	15,000
thereof exercisable	0	0

The share options granted are not entitled to dividends and do not confer voting rights. In accordance with IFRS 2, share-based payments are treated as equity-settled, share-based remuneration transactions. Personnel expenses amounting to 6 kEUR (2019: 24 kEUR) were incurred in the 2020 financial year. Due to the departure of beneficiaries, the outstanding options from share option plan 2016 expired.

5.7 EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Board

Mathieu Purrey, since July 3, 2020
Master Business
Chairman of the Executive Board
Chief Executive Officer (CEO)

Chairman of the Board of Directors of:
STS Plastics SAS
STS Composites France SAS
STS Acoustics S.p.A. (until October 29, 2020)

Chairman of the Executive Board of:
STS Real Estate Srl (until 29 October 2020)
STS Acoustics Poland Sp. z o.o. (until October 29, 2020)
STS Plastics Co., Ltd.

Member of the Management Board of:
STS Brazil Holding GmbH (until October 29, 2020)
STS Composites Germany GmbH
MCR S.A.S.
PrimoTECS S.p.a. (until November 5, 2020)

Andreas Becker, until June 30, 2020
Degree in economics
Chairman of the Executive Board
Chief Executive Officer (CEO)

Chairman of the Board of Directors of:
STS Plastics S.A.S.
STS Acoustics S.p.A.

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

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

Dr. Ulrich Hauck, until June 20, 2020
Degree in business administration
Chief Financial Officer (CFO)

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

Member of the Board of Directors of:
STS Acoustics S.p.A.

Member of the Supervisory Board of:
SBF AG

Patrick Oschust, until May 31, 2020
Degree in engineering
Chief Operating Officer (COO)

Member of the Board of Directors of:
STS Acoustics S.p.A.

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

Members of the Supervisory Board and their mandates

Dr. Wolf Cornelius, since June 22, 2020
Degree in engineering
Chairman of the Supervisory Board

Chairman of the Supervisory Board of:
mutares Holding-02 AG
mutares Holding-03 AG (until June 12, 2020)
mutares Holding-09 AG i.L.
mutares Holding-14 AG (previously: GeesinkNorba Group AG)
BEXity GmbH (since May 12, 2020)
Iinovis GmbH (since November 13, 2020)

Member of the Management Board of:
Balcke Dürr GmbH
KICO GmbH
Mesenhöller Verwaltungs GmbH

Dr. Wolfgang Lichtenwalder, since June 22, 2020
Solicitor, Master of Laws
Deputy Chairman of the Supervisory Board

Member of the Supervisory Board of:
mutares Holding-02 AG
mutares Holding-09 AG i.L.
mutares Holding-13 AG i.L.
mutares Holding-21 AG
mutares Holding-30 AG i.L.

Member of the Management Board of:
mutares Holding-35 GmbH
mutares Holding-36 GmbH
mutares Holding-37 GmbH
mutares Holding-38 GmbH
mutares Holding-39 GmbH
mutares Holding-40 GmbH
mutares Holding-41 GmbH
mutares Holding-42 GmbH
mutares Holding-43 GmbH
mutares Holding-44 GmbH
mutares Holding-45 GmbH
mutares Holding-46 GmbH
mutares Holding-47 GmbH

Bernd Maierhofer
Degree in engineering

Member of the Supervisory Board of:
VOSS Automotive GmbH

Robin Laik, until June 20, 2020
Degree in business administration

Chairman of the Supervisory Board
Chief Executive Officer (CEO) of Mutares SE & Co. KGaA

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

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

Dr. Kristian Schleede, until June 20, 2020
Degree in mechanical engineering

Deputy Chairman
Chief Restructuring Officer (CRO) of Mutares SE & Co. KGaA

Chairman of the Supervisory Board of:
mutares Holding-11 AG i.L.
mutares Holding-13 AG i.L.
mutares Holding-20 AG i.L.

Member of the Supervisory Board of:
mutares Holding-03 AG
mutares Holding-14 AG (previously: GeesinkNorba Group AG)
mutares Holding-20 AG i.L.
mutares Holding-30 AG i.L.

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

Declaration of Compliance

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

Group affiliation

The Group is included in the consolidated financial statements of Mutares SE & Co. KGaA, Munich, which prepares the consolidated financial statements for the smallest and largest group of companies. The consolidated financial statements of Mutares SE & Co. KGaA are available from the Company's headquarters in Munich and are published in the electronic Federal Gazette.

Auditors' fees

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC") was appointed as the Group's auditor for the financial years ending December 31, 2020 and 2019. Their entire fee is included in Legal and consulting expenses as part of Other expenses and breaks down as follows:

in mEUR	2020	2019
Audit services	0.2	0.3
Other confirmatory services	0.0	0.0
Other services	0.0	0.0
Total fee	**0.2**	**0.3**

6 — ACCOUNTING AND VALUATION METHODS

6.1 CHANGES IN ACCOUNTING AND VALUATION METHODS

6.1.1 New standards and interpretations to be applied for the first time

In the financial year ending December 31, 2020, the following standards and changes were to be applied by the Group for the first time:

Standard/ Interpretation		Endorsement by EU	Mandatory application	Impacts
	Amendments to references to the framework in IFRS standards	11/29/2019	01/01/2020	no material impacts
Changes IFRS 3	Definition of a business	04/21/2020	01/01/2020	no material impacts
Changes IAS 1 and IAS 8	Definition of materiality	11/29/2019	01/01/2020	no material impacts
Changes IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform (Phase 1)	01/15/2020	01/01/2020	no material impacts
Changes IFRS 16	Covid-19-related rental concessions	10/09/2020	06/01/2020	no material impacts

The rules applied for the first time did not have any material effect on the present consolidated financial statements.

6.1.2 New standards and interpretations to be applied in the future

The following new or revised standards and interpretations have already been adopted by the IASB, but have not yet come into force or have not yet passed into European law. The Company did not apply the standards prematurely.

Standard/ Interpretation		Issued by IASB	Endorsement by EU	Mandatory application	Impacts
Changes IFRS 4	Deferral of IFRS 9	11/29/2019	12/15/2020	01/01/2021	no impacts
Changes IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform (Phase 2)	08/27/2020	01/13/2021	01/01/2021	no material impacts
Changes IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS – cycle 2018 – 2020	05/14/2020	no	01/01/2022	no material impacts
Changes IFRS 3	Reference to framework concept 2018	05/14/2020	no	01/01/2022	no material impacts
Changes IAS 16	Revenue before the intended use	05/14/2020	no	01/01/2022	no material impacts
Changes IAS 37	Onerous contracts – costs of Contract performance	05/14/2020	no	01/01/2022	no material impacts
IFRS 17	Insurance contracts	05/18/2017	no	01/01/2023	no impacts
Changes IAS 1	Classification of debt as current or non-current	01/23/2020	no	01/01/2023	no material impacts
Changes IAS 1 and IFRS guidance document 2	Disclosure of accounting and Valuation methods	02/12/2021	no	01/01/2023	no material impacts
Changes IAS 8	Definition of accounting related changes in estimates	02/12/2021	no	01/01/2023	no material impacts
Changes IFRS 10 and IAS 28	Sale or contribution of assets between an investor and an associated company or joint venture	09/11/2014	no	First application date postponed to an indefinite period	no impacts

The standards and interpretations adopted are not expected to have any material effect on future consolidated financial statements.

6.2 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 for the transfer of a liability in an orderly transaction on a principal market on the valuation date under current market conditions (e.g. an exit price) regardless of whether the price is directly observable or estimated using another measurement process.

A valuation hierarchy (fair value hierarchy) has been established in accordance with IFRS 13 “Fair value measurement”. The fair value hierarchy divides the input factors used in the measurement techniques to measure the fair value into three levels:

- Level 1: Inputs are quoted prices (unadjusted) on active markets for identical assets or liabilities that can be accessed on the measurement date.
- Level 2: Inputs are prices other than the quoted prices from Level 1 that are either directly observable or can be indirectly derived for the asset or liability.
- Level 3: Inputs are unobservable parameters for the asset or liability.

In this context, the Group determines whether transfers between the hierarchy levels occurred at the end of each reporting period. Share-based remuneration components are measured at fair value, but do not fall within the scope of IFRS 13.

6.3 INTANGIBLE ASSETS

Acquired intangible assets, including software and licenses, are capitalised at the cost of acquisition, internally generated intangible assets at the cost of production.

Research and development expenses must be separated to determine whether internally generated intangible assets can be capitalised. Expenses for research activities undertaken with the prospect of gaining new scientific or technical insights are recognised as expenses in the period in which they are incurred.

The recognition of internally generated intangible assets requires the cumulative fulfilment of the capitalisation criteria specified in IAS 38: The technical feasibility of the development project and a future economic benefit from it must be demonstrated, and the Company must intend and be able to complete the intangible asset and use or sell it. Furthermore, adequate technical, financial and other resources must be available, and the expenditure attributable to the intangible asset during its development must be reliably determined.

The capitalised production costs include costs directly attributable to the development process as well as development-related overheads. Borrowing costs that can be directly attributed to the acquisition, construction or production of a so-called qualifying asset are to be capitalised as part of the acquisition or production costs in accordance with IFRS. No qualifying assets for which it would have been necessary to capitalise the borrowing costs, were acquired or manufactured in the reporting period or in the comparative period.

If a useful life can be determined, these intangible assets are amortised on a straight-line basis over their respective economic useful lives. Scheduled depreciation is made on the basis of the following useful lives:

INTANGIBLE ASSETS

	Useful life in years
Internally generated intangible rights and assets	1–10
Customer relationships	5–11
Production technologies	10–20
Patents, concessions, other rights including software	2–20

The Group currently has no intangible assets with an indefinite useful life.

6.4 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less impairments and accumulated depreciation, provided the assets are depreciable.

The cost of an item of property, plant and equipment includes all costs directly attributable to the acquisition of the asset. Repairs and maintenance are recognised as expenses in the consolidated income statement in the reporting period in which they are incurred. Internally generated assets are recognised for the first time at their directly attributable production costs and production-related overheads.

Scheduled depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful life of the asset.

The following useful lives are mainly used:

FIXED ASSETS

	Useful life in years
Land and buildings	10–50
Technical equipment and machinery	5–30
Operating and office equipment	1–13

Assets leased under finance leases are depreciated over the shorter of the lease term and their useful life. Land is not subject to regular depreciation. Insofar as significant parts of property, plant and equipment comprise components with considerably different lifetimes, these are recognised separately and depreciated over their respective useful lives.

According to IFRS, borrowing costs that are directly attributable to the acquisition, construction or production of a so-called qualifying asset should be capitalised as part of the acquisition or production cost. No qualifying assets for which it would have been necessary to capitalise the borrowing costs, were acquired or manufactured in the reporting period or in the comparative period.

The residual values and economic useful lives are reviewed on each reporting date and adjusted if necessary. The useful economic lives are based on estimates and to a large extent on experience in relation to historical use and technical development.

Gains and losses from the disposal of assets are determined as the difference between the net sales proceeds and the carrying amount of the asset and recognised through profit or loss.

If there are indications of impairment and the carrying amount of property, plant and equipment exceeds the recoverable amount, impairment losses are recognised. The recoverable amount is the fair value less costs to sell or the value in use, whichever is higher. If the reason for an impairment loss already recognised no longer applies, a write-up to the amortised cost is made.

6.5 IMPAIRMENTS

In accordance with IAS 36, assets with a definite useful life are reviewed on each reporting date to determine whether there are any indications of possible impairment, e.g. special events or market developments that indicate a possible decline in value. There were no indications in the reporting period of the impairment of intangible assets to be amortised. There were indications in the reporting period of the impairment of items of property, plant and equipment subject to scheduled depreciation for three CGUs. The impairment tests carried out did not lead to any need for write-downs.

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.

The recoverable amount of the asset is determined if there are indications of impairment or during the mandatory annual impairment test for intangible assets with an indefinite useful life. The recoverable amount of an asset is the fair value of the asset or CGU less costs to sell or its value in use, whichever is higher. The recoverable amount is to be determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those of other assets or groups of assets. In the latter case, the recoverable amount is to be determined on the basis of a CGU to which assets or groups of assets are allocated until they collectively generate largely independent cash inflows. This 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 CGUs that can benefit from the synergies of the combination and at the level of which the goodwill is monitored for internal management purposes. Due to general conditions as well as the completed integration and associated overarching allocation of resources, use of capacities and thus also combined offers to customers (Composites and Injection Moulding), it was necessary in 2019 to combine two CGUs. Consequently, the Group has four (2019: six) CGUs, two of which within the Plastics segment. The China and Materials segments each represent a separate CGU. In the previous year, the Acoustics segment which has now been sold, comprised two further CGUs.

To determine the value in use, the expected future cash flows are generally discounted to their present value using a pre-tax discount rate reflecting current market expectations regarding the interest effect and specific risks of the asset. When determining the value in use, the current and expected future level of earnings as well as technological, economic and general development trends are taken into account on the basis of approved financial budgets. To determine the fair value less costs to sell, any recent market transactions are taken into account.

If the carrying amount exceeds the recoverable amount of the asset or CGU, an impairment loss is recognised in profit or loss at the level by which the carrying amount exceeds the recoverable amount.

If the impairment requirement for goodwill is higher than the carrying amount of the goodwill of the CGU, the goodwill is initially written off completely and the remaining impairment requirement allocated to the other assets of the CGU. Impairment losses required for individual assets of this CGU are taken into account in advance of the impairment test for goodwill. There is currently no goodwill.

Write-ups are made to the new recoverable amount except for goodwill if the reasons for impairment from previous years no longer apply. The upper limit for write-ups is the amortised cost that would result if no impairment had been recognised in previous years. No write-ups were recognised for intangible assets or property, plant and equipment in the reporting period or the comparative period.

6.6 RECOGNITION OF LEASES

At the start of a contract, an assessment is made as to whether the contract establishes or includes a lease. This is the case if the contract assigns the right to control the use of an identified asset for a certain period in return for consideration. The definition of a lease in accordance with IFRS 16 is used to assess whether a contract includes the right to control an identified asset.

On the availability date or in the event of a change to a contract containing a lease component, the contractually agreed fee is apportioned on the basis of the relative individual selling prices. The Group has decided not to separate non-lease components and instead to account for lease and non-lease components as a single lease component.

On the availability date, the Group recognises an asset for the right of use granted as well as a lease liability. The right of use is valued for the first time at cost corresponding initially to the present value, adjusted for payments made on or before the date of availability, plus any initial direct costs and the estimated costs for dismantling or removing the underlying asset or for restoring it and/or its location less any lease incentives received.

The right of use is then amortised on a straight-line basis from the availability date to the end of the lease, unless ownership of the underlying asset passes to the Group at the end of the lease or the cost of the right of use takes into account that the Group will exercise a purchase option. In this case, the right of use is amortised over the useful life of the underlying asset determined according to the rules for property, plant and equipment. In addition, the right of use is continuously corrected for impairments, if required, and adjusted to reflect certain revaluations of the lease liability.

Initially, the lease liability is discounted to the present value of the lease payments not yet made on the date of availability, discounted at the interest rate on which the lease is based, or, if this cannot be readily determined, at the incremental borrowing rate of the Group or the countries of its subsidiaries. Typically, the Group uses incremental borrowing rates as discounting rates.

To determine incremental borrowing rates, the Group obtains interest rates from various external financial sources and makes certain adjustments to take into account the terms of the lease.

The lease payments included in the measurement of the lease liability comprise the following:
- fixed payments including de facto fixed payments
- variable lease payments linked to an index or (interest) rate, initially measured on the basis of the index or (interest) rate applicable on the availability date
- amounts expected to be payable under a residual value guarantee
- the exercise price of a call option if the Group is reasonably certain to exercise it, lease payments for a renewal option if the Group is reasonably certain to exercise it, as well as penalties for early termination of the lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at the present value of the remaining lease payment, discounted at the lessee's incremental borrowing rate. It is revalued if the future lease payments change due to a change in an index or interest rate, if the Group adjusts its estimate of expected payments under a residual value guarantee, if the Group changes its assessment of the exercise of a purchase, renewal, or termination option or a de facto fixed lease payment changes.

In any such remeasurement of the lease liability, the carrying amount of the right of use is adjusted accordingly or recognised in profit or loss if it has reduced to zero.

Short-term leases and leases based on low-value assets
The Group has decided not to recognise rights of use or lease liabilities for leases based on low-value assets or for short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as a linear expense over the term of the lease.

6.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, immediately available bank balances and short-term deposits with banks, all of which have an original term of less than three months. Utilised bank overdrafts are recognised under current financial liabilities.

6.8 FINANCIAL INSTRUMENTS

According to IAS 32, a financial instrument is defined as any contract that gives rise to a financial asset at one company and a financial liability or equity instrument at the other company. According to IFRS 9, they can include non-derivative financial instruments, such as trade receivables and payables, as well as derivative financial instruments.

On initial recognition, financial assets and financial liabilities are measured at fair value, which generally corresponds to the transaction price. Transaction costs directly attributable to the acquisition or issue of the financial instrument are only included in the carrying amount to be recognised if the financial instrument is not measured at fair value through profit or loss. In the case of trade receivables with no significant financing component, the transaction price, determined in accordance with IFRS 15, must always be used. Subsequent measurement depends on the classification of the financial instruments.

Purchases or sales of financial assets and liabilities as are customary in the market are generally recorded on the trading day. Financial assets and liabilities are only netted if it is currently legally enforceable to offset the amounts and there is an actual intention to do so. These conditions are not met. There are also no global netting contracts or similar agreements with the result that the STS Group does not conduct any offsetting in the balance sheet nor can circumstances arise in which offsetting can occur.

6.8.1 Financial assets

Financial assets include in particular:
- trade and other receivables,
- other financial assets
- cash and cash equivalents

Financial assets with a term of more than twelve months are reported under non-current financial assets.

Financial assets are classified 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 of the financial instrument. The cash flow criterion is always examined at the level of the individual financial instrument. The assessment of the business model relates to the question of how financial assets are managed in order to generate cash flows. The management strategy may consist of holding or selling the assets or a combination of the two. The Company divides financial assets into one of the following categories:
- financial assets measured at amortised cost (debt instruments)
- financial assets measured at fair value through other comprehensive income with recycling (debt instruments)
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income with no recycling (equity instruments)

Financial assets measured at amortised cost (debt instruments)
The most significant category of financial assets for the Group is the category of assets measured at amortised cost in relation to debt instruments. Measurement at amortised cost is chosen if both of the following conditions are met:
- The business model used to manage these financial instruments is designed to hold them in order to achieve the underlying contractual cash flows and
- the resulting contractual cash flows consist exclusively of interest and repayment on the outstanding principal.

These financial assets are subsequently measured using the interest rate method, subject to the provisions for impairment specified in IFRS 9.5.5 ff. Within the Group, trade receivables, other assets and bank balances are essentially subject to this category. For further details, reference is made to Section 5.2.1 “Financial instruments”.

Trade receivables sold as part of a factoring agreement without the receivables being disposed of as part of their sale, continue to be assigned by the Group to the "hold" business model and consequently to the category of "amortised cost". Within the framework of the business model criterion, the Group defines a sale as an actual sale, which also leads to a disposal in the balance sheet. According to the Group's interpretation, a purely legal sale without disposal does not constitute a sell business model as defined by IFRS 9. Receivables portfolios that are subject to the possibility of factoring involving the disposal of the corresponding receivables are assigned to the "hold and sell" category and measured at fair value through other comprehensive income (FVTOCI).

Financial assets measured at fair value through other comprehensive income with recycling (debt instruments)

Debt instruments are measured at fair value through other comprehensive income with recycling if the following two criteria are met:

- The business model for managing these financial instruments is based on holding them in order to achieve the underlying contractual cash flows and also on selling them.
- The resulting contractual cash flows consist exclusively of interest and repayment on the outstanding principal.

For these financial assets, interest, effects of foreign currency valuation as well as expenses and income in connection with impairments are recognised in profit or loss. The remaining changes are recognised in other comprehensive income in accordance with the requirements of IFRS 9 and reclassified to profit or loss on disposal (recycling).

Within the Group, receivables associated with a factoring agreement with disposal of the relevant receivables, are essentially subject to this valuation.

Financial assets measured at fair value through profit or loss

This category includes financial assets held for trading, financial instruments using the fair value option, financial assets subject to mandatory fair value valuation, and equity instruments not measured at fair value through other comprehensive income. A trading intention applies if a purchase or sale is planned in the short term. Derivatives that are not part of a hedging relationship 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 applies to financial instruments 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 are recognised through profit or loss.

Financial assets measured at fair value through other comprehensive income with no recycling (equity instruments)
When an equity instrument is recognised for the first time, the Group has the irrevocable option to measure it at fair value through other comprehensive income. The prerequisite is that it is an equity instrument in accordance with IAS 32 not held for trading purposes and that it does not constitute contingent consideration as defined by IFRS 3. The option is exercised separately for each equity instrument.

Gains or losses from such a financial asset are not reclassified to profit or loss on disposal (no recycling). Dividends from such instruments are recognised through profit or loss. Equity instruments measured at fair value through other comprehensive income are not subject to the regulations on impairments.

6.8.2 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 as defined by IFRS 9.5.5. According to this model, the Group recognises 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 at the original effective interest rate. The expected cash flows also include proceeds from the sale of collateral and other loan collateral which form an integral part of the relevant contract.

Expected credit losses are recognised in three stages. For financial assets for which there has been no significant increase in the default risk since initial recognition, the impairment is measured at an amount equal to the 12-month expected credit loss (Stage 1). In the event of a significant increase in the default risk, the expected credit loss is determined for the remaining term of the asset (Stage 2). The Group generally assumes that the credit risk has increased significantly if payment is 30 days in arrears. This principle can be refuted if, in any particular instance, there is reasonable and supportable information available indicating that the credit risk has not increased. If there is objective evidence of impairment, the underlying assets must be assigned to Stage 3. Objective evidence of impairment is assumed if payment is more than 90 days in arrears, unless in any particular instance there is reasonable and supportable information available indicating that a longer period of arrears is more appropriate. In addition, refusal to pay and similar actions are considered to be 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. According to this approach, the loss allowance is always measured at an amount equal to the lifetime of expected credit losses. For further details on determining impairment, see Section 5.2.2. “Financial risk management”.

For financial assets measured as debt instruments at fair value with no effect on income, the Group considers all reasonable and supportable information that is available without incurring undue cost and effort in order 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 for which there is a low risk of default.

For other assets falling within the scope of the revised impairment model under IFRS 9 which are subject to the general approach, financial assets are grouped on the basis of common credit risk characteristics or individual default information is consulted to measure the expected losses. In each 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 in arrears. In addition, internal or external information is used in individual cases indicating that the contractual payments cannot be made in full. Financial assets are derecognised if there is no justifiable expectation of future payment.

6.8.3 Financial liabilities

Financial liabilities constitute an obligation of repayment in cash or cash equivalents or another financial asset. These include, in particular, bonds and other securitised liabilities, trade payables, liabilities to banks and derivative financial instruments.

For the initial recognition of financial liabilities, reference is made to the description of financial assets. Financial liabilities are generally measured at amortised cost using the effective interest rate method (financial liabilities through amortised cost, FLAC). All financial liabilities held for trading purposes are classified as financial liabilities measured at fair value through profit or loss (FLtPL). These include derivatives that are not part of a hedging relationship as well as financial instruments for which the fair value option was exercised.

Financial liabilities are classified as current unless the Group has the unconditional right to defer its repayment of the liability to a point in time at least twelve months after the reporting date.

The fair value option for debt instruments in accordance with IFRS 9 is not used.

6.8.4 Derecognition of financial assets and liabilities

Financial assets are derecognised if the rights to payments have expired or been transferred, and the Group essentially transfers all the risks and opportunities associated with ownership.

Financial liabilities are derecognised if the liability has been settled, i.e. the contractual obligation has been fulfilled, cancelled or has expired.

6.8.5 Derivative financial instruments

Within the Group, derivative financial instruments are used to manage risks from interest rate fluctuations. Derivative financial instruments are initially recognised as financial assets or liabilities at their fair value in the category of financial assets measured at fair value through profit or loss, or financial liabilities measured at fair value through profit or loss. Attributable transaction costs are recognised through profit or loss in the period in which they are incurred. With the exception of derivatives designated as hedging instruments in a cash flow hedge, all derivatives are measured at fair value through profit or loss. They are reported in "Other financial assets" or "Other financial liabilities" in the consolidated balance sheet.

The Group currently does not apply any hedge accounting.

6.9 INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Acquisition costs for raw materials, consumables and supplies are determined using the moving average. Additional incidental acquisition costs are taken into account in the process. Work in progress and finished goods manufactured by the Group are measured at cost. Besides material, manufacturing and special direct costs of production, manufacturing costs also include appropriate parts of overheads attributable to production as well as production-related depreciation.

Net realisable value is defined as the estimated selling price in the ordinary course of business less the estimated costs until completion and the estimated distribution costs required.

6.10 DISCONTINUED OPERATIONS

A discontinued operation is part of the company which is sold or classified as held for sale and constituting a significant, separate line of business or geographic segment which is part of a single, coordinated plan to sell such a line of business or segment or represents a subsidiary acquired for the sole purpose of reselling it. It is classified as such if the corresponding carrying amount is realised mainly by a sales transaction and not by its continued use, and a sale is highly probable. Immediately prior to classification, all associated assets and liabilities are measured in accordance with the relevant IFRS provisions. After classification as held for sale, scheduled depreciation is no longer recognised. Measurement is based on the lower of carrying amount and fair value less costs to sell. The results of discontinued operations are presented individually in the income statement. The income statement and cash flow statement have been adjusted for the comparative period to take account of discontinued operations.

6.11 CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets accrue from the recognition of revenues over time. This is particularly the case for the Group if the products have no alternative use due to their specifications and there is an enforceable payment claim against the customer equal at least to reimbursement of the costs incurred due to the services already provided including an appropriate profit margin. In these cases, the Group recognises revenues on the basis of the input-oriented cost-to-cost method (applied to customer tools) or an output method (applied to series production). Since revenues are recognised before the date on which the Group has an unconditional right to receive consideration, a contract asset is capitalised. If the Group is not able to determine the amount of the margin with sufficient certainty, the revenues are recognised using the zero profit margin method. The margin is not recognised until the end of the project.

Contract liabilities result in essence from advance payments received from customers if these are related to a customer order and the products have not yet been delivered or the service not yet rendered.

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.

6.12 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. This not only takes into account the pensions and vested benefits known on the reporting date, but also expected increases in pensions and salaries in the future.

The net interest expense for the reporting period is determined by multiplying the net obligation by the discounting rate used.

Actuarial gains and losses from the measurement of the gross defined-benefit obligation and adjustments are recognised in other comprehensive income and presented separately in the statement of comprehensive income. Expenses from accrued interest on benefit obligations are presented in the financial result. Current service costs are recognised in personnel expenses, with past service costs from plan changes recognised immediately through profit or loss.

6.13 OTHER PROVISIONS

A provision is recognised if the Group has a present (legal or constructive) obligation 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 (cf. IAS 37.14).

The provisions are recognised at the expected settlement amount. Long-term provisions are discounted on the basis of the relevant market interest rates on the reporting date.

6.14 REALISATION OF INCOME AND EXPENSES

Sales are reported as revenues and recognised at the fair value of the consideration received or receivable, less any returns, price reductions and volume discounts.

6.14.1 Sale of goods

The Group realises revenues when control over definable goods or services passes to the customer. The customer must therefore have the ability to determine usage and essentially derive the remaining benefit from it. The basis for this is a contract between the Group and the customer. The parties must have approved the contract and the agreements contained in it, the individual obligations of the parties and the payment terms must be ascertainable, the contract must have economic substance and the Group must be likely to receive consideration for the service rendered. Rights and obligations must therefore be enforceable. The transaction price usually corresponds to the revenues. If the contract contains more than one definable contractual obligation, the transaction price is divided between the individual contractual obligations on the basis of the relative individual selling prices. If no stand-alone selling prices are observable, the Group estimates them. The individual contractual obligations identified are either realised over a certain period of time or at a particular 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 contractual obligation vis-à-vis the customer. The projects have an average term of six to 24 months. As a rule, the Group receives down payments from customers for these contractual obligations on the basis of an agreed down payment plan over the term of the project. In the Group's opinion, these obligations do not currently include any significant financing component that has to be accounted for separately due to the terms involved. If the Group has no alternative use for the customer tools due to their specifications and there is an enforceable right to payment from the customer equal at least to payment of the costs incurred for the services already performed including an appropriate profit margin, the revenues are recognised over a period of time. However, due to the uncertainty regarding the profit margin to be realised, the zero profit margin method is used. If there is no enforceable payment claim including a reasonable profit margin, revenues are recognised on the date control is transferred to the customer through its acceptance of the product.

Customer-specific products
Customer-specific products are subject to a period-related revenue recognition if the products have no alternative use due to their specifications and the Group has an enforceable payment claim against the customer at least in the amount of a reimbursement of the costs incurred through the services already rendered, including a reasonable profit margin. For the Group, this concerns large parts of series production of customer-specific parts. Payments are usually due no later than 90 days after acceptance by the customer.

Other goods
Revenues from the sale of other goods are recorded when control has been transferred to the buyer. Depending on the particular customer contract and the particular order, the timing of revenue recognition usually coincides with the time of delivery or acceptance. Payments are usually due no later than 90 days after acceptance by the customer.

6.14.2 Other operating income and expenses

Interest is recognised as an income or expense on an accrual basis using the effective interest method. Interest income and interest expenses arise primarily from bank balances, loans as well as leases and factoring agreements. Dividend income is recognised on the date the right to receive the payment arises.

Expenses are recognised when the service is used or as of the date on which they occur.

Research costs are recognised through profit or loss in the period in which they are incurred. Development expenses are recognised in profit or loss when incurred provided they are not development costs which must be capitalised as an intangible asset in accordance with IAS 38 if the relevant conditions are met.

6.15 INCOME TAXES

Income tax expenses represent the total of current tax expenses and deferred taxes.

6.15.1 Current taxes

Current taxes are calculated on the basis of the taxable income for the year. Taxable income differs from the net income from the consolidated statement of comprehensive income due to expenses and income which are taxable in subsequent years, never taxable and/or tax deductible. This also explicitly includes consolidation effects recognised in profit or loss. The Group's liabilities for current taxes are calculated on the basis of the applicable tax rates or those soon to be applicable from the perspective of the reporting date.

6.15.2 Deferred taxes

Deferred taxes are determined in accordance with IAS 12 on the basis of the internationally customary balance sheet liability method. Deferred tax items are then formed for all temporary differences between the tax valuations and the valuations in the consolidated balance sheet as well as for tax loss carryforwards.

Deferred taxes on these calculated differences are always recognised if they result in deferred tax liabilities. Deferred tax assets are only taken into account if it is probable that the corresponding tax benefits will be realised. Deferred tax assets and deferred tax liabilities are also recognised on temporary differences that arise as part of company acquisitions, with the exception of temporary differences on goodwill, provided they are not taken into account for tax purposes.

The tax rates for future years are used to calculate deferred taxes insofar as they have already passed into law or the legislative process is essentially complete. Changes in deferred taxes in the balance sheet generally result in deferred tax expenses or credits. If certain circumstances entailing a change in deferred taxes are recognised directly in equity, the change in deferred taxes is also recognised directly in equity.

Deferred tax liabilities are reported for all taxable temporary differences in connection with holdings in subsidiaries unless the company holding the investment is able to determine when the temporary difference will be released and it is unlikely that it will be released in the foreseeable future (Outside Basis Differences (OBD)).

6.16 PUBLIC SECTOR GRANTS

Grants from the public sector, including non-monetary grants at fair value, are only recognised if it is reasonably certain that
a) the Company will meet the associated conditions, and that
b) the grants will be extended.

The grants are recorded as income over the periods in which the corresponding expenses to be compensated are incurred. Grants received as compensation for expenses incurred or for immediate financial support, regardless of future expenses, are recognised through profit or loss in the period in which the claim arises.

Grants from the public sector in connection with STS MCR SAS, France, in an amount of 0.1 mEUR in the financial year ending December 31, 2020 (2019: 0.1 mEUR) reduced the acquisition costs of the underlying building, and are realised as reduced depreciation over its useful life.

6.17 CRITICAL ESTIMATES AND EXERCISE OF DISCRETION

When applying the accounting and measurement methods, the Group's Executive Board took discretionary decisions which had a significant impact on the amounts in the consolidated financial statements. A certain number of assumptions and estimates thus have to be made when preparing the consolidated financial statements, which affects the amount and presentation of the assets and liabilities, income and expenses as well as the contingent liabilities in the reporting period. They relate essentially to the assessment of the recoverability of assets, the group-wide determination of useful economic lives for property, plant and equipment, and the accounting and measurement of provisions.

The assumptions and estimates are based on premises derived from the latest knowledge available at the time. In particular, the expected future performance of the business was based on the circumstances pertaining at the time when the consolidated financial statements were prepared and on a realistic estimate of developments in the overall environment. The actual figures achieved may vary from the original estimates if these underlying conditions change in ways that differ from management's assumptions and are beyond its control.

The most important forward-looking assumptions and other key sources of uncertainty affecting estimates on the reporting date which pose a significant risk that the carrying amounts of assets and liabilities may have to be adjusted within the next reporting periods are explained below.

6.17.1 Estimates by way of purchase price allocation

In the context of company acquisitions, estimates are generally made to determine the fair value of the assets and liabilities acquired. Land, buildings, technical systems and machines 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 need to make 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 availability of information, various valuation techniques can be distinguished based on costs, market price and net present value. The method based on net present value deserves special mention due to 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 licenses itself and not having to pay fees to the licensor. The resulting savings give the carrying amount for the intangible asset after discounting. Appraisals of intangible assets 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.

6.17.2 Determination of the useful life of property, plant and equipment as well as software and licenses

When estimating the useful life of assets, the Company is guided by past experience. However, due to the faster pace of technical progress, there is a possibility that faster depreciation may be necessary, for instance.

6.17.3 Expected credit losses

For a description of the estimates and assumptions on which the expected credit losses are based, reference is made to Section 5.2.2. “Financial risk management”, sub-section “Credit and default risk”.

6.17.4 Recognition of deferred tax assets and deductible temporary differences

Deferred tax assets are recognised for tax loss carryforwards and deductible temporary differences provided that the realisation of the associated tax advantage through future taxable profits is considered likely on the basis of management’s profit forecast for Group companies. Management’s profit forecast relates in particular to the level of taxable earnings and their expected timing.

6.17.5 Provisions

Provisions differ from other liabilities in terms of uncertainties regarding the timing or amount of expenditure required in the future. A provision must be recognised if the Company has a present (legal or constructive) obligation 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 (cf. IAS 37.14).

Due to different economic and legal assessments and the difficulties in determining the probability of occurrence, there are significant uncertainties in recognition and valuation.

Actuarial assumptions must be made to measure pension provisions. These assumptions depend on individual estimates by management.

6.17.6 Revenue recognition

The determination of the amount and timing of revenues from contracts with customers is subject to the discretion of the Company in accordance with IFRS 15. For contracts for first series tools which are fulfilled over a period, the cost-to-cost input method is generally used since the Company believes the costs incurred within the project convey a true picture of the service provided. Contracts for series products which meet the criteria for revenue recognition over time, however, are usually measured in accordance with the output method as, in these cases, units produced or delivered convey a true picture of the service provided. For services over time, the obligation is fulfilled when the service is provided. In the case of contracts that are fulfilled at a certain point in time, the focus is on the transfer of control over the goods. As a rule, the assessment of the transfer of control is based on the Incoterms agreed.

Events after the reporting date

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

Hallbergmoos, March 31, 2021

Mathieu Purrey (CEO)

5 — FURTHER INFORMATION

AFFIRMATION BY THE LEGALLY AUTHORISED REPRESENTATIVES

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

Hallbergmoos, March 31, 2021

Mathieu Purrey (CEO)

„INDEPENDENT AUDITOR'S REPORT

To STS Group AG, Hallbergmoos

The following copy of the auditor's report also includes a "Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with § 317 Abs. 3b HGB" ("Separate report on ESEF conformity "). The subject matter (ESEF documents) to which the Separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of STS Group AG, Hallbergmoos, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 through December 31, 2020 and notes to the consolidated financial statements, including a summary of significant accounting policies presented therein. In addition, we have audited the group management report of STS Group AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,
- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to [§ [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2020, and of its financial performance for the financial year from January 1 through December 31, 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [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 consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:
❶ Recoverability of fixed assets
❷ Disposal of the "Acoustics" business unit and recognition as a discontinued operation

Our presentation of these key audit matters has been structured in each case as follows:
① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Recoverability of fixed assets**

① Fixed assets were reported in the Company's consolidated financial statements amounting to a total of EUR 82.2 million (representing 44.3% of total assets and 160.9% of equity). The fixed assets are tested for impairment by the Company whenever there are indications of impairment to determine any possible need for write-downs. The impairment test is generally carried out at the level of the cash-generating units to which the relevant asset is allocated. In an impairment test, the carrying amount of the respective cash-generating unit is compared against the corresponding recoverable amount (the higher of the value in use and the fair value less costs of disposal). The recoverable amount is generally determined based on the value in use. The present value of the future cash flows from the respective cash-generating units normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. These projections also factor in expectations as to the future development of the market and assumptions as to the development of macroeconomic variables, as well as the expected impacts of the ongoing coronavirus crisis on the Group's business. The discount rate used is the weighted average cost of capital for the respective cash-generating units. The impairment test determined that, even after taking into account the fair value less costs of disposal, it was not necessary to recognize a write-down.

The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In this context, we also assessed the executive directors' estimate as to the impact of the coronavirus crisis on the Group's business and evaluated how this was taken into consideration in calculating the f uture cash inflows. We discussed and examined supplementary adjustments to the medium-term business plan for the purposes of the impairment test with the responsible specialist departments and members of the Company's staff. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company and carried out our own sensitivity analyses for those cash-generating units with low headroom (recoverable amount compared with the carrying amount). We verified that the necessary disclosures were made in the notes to the financial statements relating to cash-generating units for which a reasonably possible change in an assumption would result in the recoverable amount falling below the carrying amount of the relevant cash-generating units.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures relating to the "Property, plant and equipment" balance sheet item are contained in sections 4.2, 6.4 and 6.5 of the notes to the consolidated financial statements.

❷ Disposal of the "Acoustics" business unit and recognition as a discontinued operation

① Under the purchase agreement dated August 7, 2020, STS Group AG sold all shares in the companies of the "Acoustics" business unit to Adler Plastics S.p.A., Ottaviano, Italy. The business unit includes the following companies: STS Acoustics S.p.A., Turin, Italy, STS Brazil Holding GmbH, Hallbergmoos, STS Brasil Fabricadao de Autopecas Ltda., Betim, Brazil, STS Real Estate S.r.l., Turin, Italy and STS Acoustics Poland so.z.o.o., Miedzyrzecz, Poland. Up until its disposal, the business unit was included and fully consolidated in the STS Group AG's consolidated financial statements. Once all necessary closing terms had been met, the business unit was deconsolidated with effect from October 29, 2020.

As of July 31, 2020, the “Acoustics” business unit was designated as held for sale pursuant to IFRS 5 and was classified as a discontinued operation. An impairment test conducted on the date the business unit was classified as a discontinued operation determined that no write-down was necessary. As part of deconsolidation, a disposal gain of EUR 3.9 million was recognized at the Group level.

In our view, this matter was of particular importance for our audit due to the complexity of determining the accounting effects, the presentation as a discontinued operation, the disclosures in the consolidated financial statements and the material effects on the Group’s assets, liabilities, financial position and financial performance.

② To assess whether the accounting treatment of the disposal of the “Acoustics” business unit was appropriate we examined, inter alia, as part of our audit, the company law principles as well as the terms of the underlying sale agreement. In this regard, we examined and assessed whether the conditions had been met for designation during the fiscal year as held for sale in accordance with IFRS 5; we examined and assessed the resulting effects on the measurement of assets and liabilities and the deconsolidation of the “Acoustics” business unit. We also evaluated how the transaction was presented in the notes to the financial statements, the completeness and accuracy of the disclosures required in accordance with IFRS 5 and the requisite restatements of the prior-year figures in the consolidated income statement and the consolidated statement of cash flows.

We were able to verify that the recognition and presentation of the disposal of the “Acoustics” business unit were systematically documented and the recognized effects on earnings were properly calculated.

③ The Company’s disclosures relating to the disposal of the “Acoustics” business unit are contained in sections “2.3” and “6.10” of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance contained in section “Corporate Governance” of the group management report pursuant to § 289f HGB and § 315d HGB
- the separate non-financial report pursuant to Section 289b (3) HGB and Section 315b (3) HGB

The other information comprises further remaining parts of the annual report – excluding further cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit 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 consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group 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 group management report.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about 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 appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect 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 consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Group.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' 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 Group'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 consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

ASSURANCE REPORT IN ACCORDANCE WITH § 317 ABS. [PARAGRAPH] 3B HGB ON THE ELECTRONIC REPRODUCTION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT PREPARED FOR PUBLICATION PURPOSES

REASONABLE ASSURANCE CONCLUSION

We have performed an assurance engagement in accordance with § 317 Abs. [paragraph] 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file "Konzernbericht_20210326.zip" and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. [paragraph] 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from January 1 to December 31, 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

BASIS FOR THE REASONABLE ASSURANCE CONCLUSION

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with

§ 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. [paragraph] 1 Satz [sentence] 4 no. 1 HGB [Handelsgesetzbuch: German Commercial Code] and for the tagging of the consolidated financial statements in accordance with § 328 [paragraph] 1 Satz [sentence] 4 no. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. [paragraph] 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

GROUP AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE ENGAGEMENT ON THE ESEF DOCUMENTS

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. [paragraph] 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. [paragraph] 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on July 14, 2020. We were engaged by the Supervisory Board on December 4, 2020. We have been the group auditor of STS Group AG, Hallbergmoos, without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dietmar Eglauer."

Munich, March 31, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer	Christoph Tübbing
Auditor	Auditor

IMPRINT

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