STS Group AG

Annual Financial Statements

of STS Group AG as of December 31, 2019

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

CONTENTS

COMBINED MANAGEMENT REPORT

The management report of STS Group AG and the Group Management Report are summarized in accordance with Section 315 (5) of the German Commercial Code (HGB) in conjunction with Section 298 (2) of the German Commercial Code (HGB) and published in the Annual Report 2019 of STS Group AG.

The annual financial statements and the management report of STS Group AG for the financial year 2019, which is summarized in the Group Management Report, will be submitted to the publisher of the Federal Gazette and published in the Federal Gazette.

The annual financial statements of STS Group AG and the Group's annual report for the financial year 2019 are also available on the Internet at:

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

INCOME STATEMENT

FROM JANUARY 1 TO DECEMBER 31, 2019

in EUR	2019	2018
1. Revenues	5,969,178.32	9,642,733.27
2. Other operating income	1,769,779.94	438,567.10
3. Personnel expenses		
a) Wages and salaries	–4,301,307.03	–2,659,785.46
b) Social security, post-employment and other employee benefit costs	–379,281.33	–146,950.93
thereof relate to pension costs	*–21,420.27*	*–14,446.54*
4. Amortization of intangible assets and depreciation of tangible assets	–1,033,705.89	–117,524.74
5. Other operating expenses	–10,289,381.24	–12,409,037.59
6. Income from equity investments	3,192,710.65	2,742,204.16
thereof from affiliated companies	*3,192,710.65*	*2,742,204.16*
7. Other interest and similar income	465,313.07	389,235.11
thereof from affiliated companies	*464,850.07*	*389,235.11*
8. Interest and similar expenses	–253,149.96	–1,579,166.24
thereof relate to affiliated companies	*–253,125.69*	*–618,756.60*
9. Taxes on income	–141,120.80	–51,063.73
10. Profit after taxes on income	**–5,000,964.27**	**–3,750,789.05**
11. Other taxes	–1,838.80	–1,537.50
12. Net loss for the year	**–5,002,803.07**	**–3,752,326.55**
13. Retained accumulated losses/profits carried forward	–4,275,516.42	–523,189.87
14. Accumulated losses carried forward	**–9,278,319.49**	**–4,275,516.42**

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019

in EUR	31. Dezember 2019	31. Dezember 2018
ASSETS		
A. Fixed assets		
I. Intangible assets	214,283.00	943,835.10
II. Tangible asssets		
1. Other equipment, factory and office equipment	218,726.00	190,452.00
2. Advance payments and assets under construction	0.00	45,318.04
III. Financial assets		
1. Shares in affiliated companies	14,331,550.56	5,651,320.89
2. Loans to affiliated companies	10,619,194.06	9,538,281.49
	24,950,744.62	15,189,602.38
	25,383,753.62	**16,369,207.52**
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	6,198,004.47	7,883,448.38
thereof are owing from shareholder	*125,000.00*	*0.00*
2. Other assets	530,660.48	1,507,989.12
	6,728,664.95	9,391,437.50
II. Cash and cash equivalents	1,575,892.32	10,921,999.75
	8,304,557.27	**20,313,437.25**
C. Prepaid expenses	**154,915.46**	**116,452.00**
Total assets	**33,843,226.35**	**36,799,096.77**

in EUR	31. Dezember 2019	31. Dezember 2018
EQUITY AND LIABILITIES		
A. Share Equity		
I. Subscribed capital	6,000,000.00	6,000,000.00
Contingent capital	*2,500,000.00*	*2,500,000.00*
II. Treasury shares	– 50,000.00	– 4,763.00
III. Capital Reserve	23,134,603.16	23,535,196.91
IV. Revenue reserve: Legal reserve	5,000.00	5,000.00
V. Accumulated losses carried forward	– 9,278,319.49	– 4,275,516.42
	19,811,283.67	**25,259,917.49**
B. Provisions		
1. Provision for taxation	0.00	16,849.00
2. Other provisions	2,259,200.22	2,532,190.43
	2,259,200.22	**2,549,039.43**
C. Liabilities		
1. Liabilities to banks	131.51	220.40
2. Trade payables	641,028.51	1,652,891.49
3. Liabilities to affiliated companies	10,902,090.04	7,207,686.22
4. Other liabilities	229,492.40	129,341.74
thereof relate to taxes	*223,009.63*	*114,870.93*
thereof relate to social security	*5,896.06*	*8,476.82*
	11,772,742.46	**8,990,139.85**
Total equity and liabilities	**33,843,226.35**	**36,799,096.77**

1 — GENERAL INFORMATION

STS Group AG (hereinafter also referred to as the "Company") is a listed corporation based in Germany with its registered office at Zeppelinstraße 4, 85399 Hallbergmoos. It is registered in the Commercial Register of the Munich Local Court under HRB 231926.

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

The company has been listed on the regulated market of the Frankfurt Stock Exchange (Prime Standard) since June 1, 2018. The WKN (securities identification number) is A1TNU6, the ISIN (International Securities Identification Number) DE000A1TNU68. In an initial public offering, a total of 2,300,000 shares of STS Group AG were offered. Of these, 1,000,000 new shares are from a capital increase against cash payment from STS Group AG, a further 1,000,000 reallocated shares and 300,000 over-allotment shares owned by the previous sole shareholder Mutares SE & Co. KGaA. The shares were offered at an offer price of 24.00 EUR per share. The share capital of STS Group AG amounted to 6,000,000 no-par value shares at the time of the IPO.

The present annual financial statements of STS Group AG were prepared in accordance with Sections 242 et seq. and Sections 264 et seq. of the German Commercial Code ("HGB") as well as the supplementary provisions of the German Stock Corporation Act ("AktG"). The company is capital market-oriented in accordance with Section 264d of the German Commercial Code (HGB) and is therefore considered to be a large corporation in accordance with Section 267 (3) sentence 2, HGB. The income statement was prepared in accordance with the total cost method in accordance with Section 275 (2) of the German Commercial Code (HGB).

The Company's financial year is the calendar year.

2 — ACCOUNTING AND VALUATION PRINCIPLES

The Company's financial statements were again prepared according to the same following accounting policies and on the premise of the continuation of the company (see chapter 5.6 Financial and liquidity risk for more explanation).

Intangible assets acquired against payment are capitalized at cost and depreciated according to their expected useful life of 3 – 5 years on a straight-line basis, pro rata tempore in the year of acquisition. Insofar as the fair values of individual intangible assets of fixed assets fall below their book value, additional unscheduled depreciation is recorded in case of an expected permanent impairment.

Property, plant and equipment is recognized at acquisition or production cost less scheduled depreciation and amortization. Scheduled depreciation is carried out on a straight-line basis within the periods permitted by commercial law. Depreciation on additions to property, plant and equipment are applied pro rata tempore. The scheduled depreciation for operating and business equipment is based on a useful life of 3 – 13 years. Insofar as the fair values of individual assets fall below their book value, additional unscheduled depreciation is carried out in case of an expected permanent impairment.

Independently movable items ("GWG") of fixed assets of low value, which are subject to wear and tear, are immediately recognized in as expenses or capitalized and fully depreciated in the year of acquisition if the cost of purchase or production for the individual asset does not exceed 800 EUR.

Financial assets are valued at acquisition cost. Depreciation to the lower fair value is made if an impairment is permanent.

Receivables and other assets are valued at nominal value or at a lower value to be assessed on the balance sheet date.

Cash in hand and **bank balances** are recognized at their nominal value on the reporting date.

Payouts prior to the reporting date are recognized as **accrued income**, insofar as they represent expenses for a certain period after this date.

The **subscribed capital** is accounted for at nominal amount.

Other provisions are measured on the basis of reasonable commercial judgment and recognized at their settlement amount. For provisions with a remaining term of more than one year, future cost and price increases are included. In addition, provisions with a residual maturity of more than one year are discounted with an average market interest rate of the past seven years corresponding to the remaining maturity, which is published by the Deutsche Bundesbank.

Liabilities are stated at their settlement value.

Transactions in **foreign currencies** are generally recognized at the historical rate at the time of the initial recording.

Long-term foreign currency receivables are stated at the exchange rate (offered rate) at the time the claim arises or at the lower fair value, based on the spot exchange rate (mid-rate) on the reporting date (imparity principle). **Short-term foreign currency receivables** (remaining term of one year or less) as well as liquid funds or other short-term assets denominated in foreign currencies are translated at the spot exchange rate (mid-rate) on the balance sheet date.

Long-term foreign currency liabilities are valued at the exchange rate (bid rate) when the liability arises or at the higher exchange rate on the reporting date, based on the spot exchange rate (mid-rate) on the reporting date (imparity principle). **Short-term foreign currency liabilities** (remaining term of one year or less) are valued at the current exchange rate (mid-rate) on the balance sheet date.

Stock options in favor of members of the management are not accounted for at the time of issue. When options are exercised in connection with the use of conditional capital, the subscribed capital is increased by the number of shares exercised multiplied by the nominal value and capital reserves are increased by the amount of the paid premium.

Deferred taxes are assessed on temporary differences between commercial and tax valuations of assets, debts and prepaid expenses as well as on tax loss carryforwards. However, loss carryforwards are only to be included to the extent that they can be offset against taxable income within the legally stipulated period of five years. Deferred tax assets and liabilities are netted. The resulting tax burden is recognized as deferred tax liability in the balance sheet. In the event of tax relief, recording is waived in accordance with the capitalization option.

3 — NOTES TO THE INCOME STATEMENT

3.1 REVENUES

Revenues in the 2019 financial year in the amount of 5,969 kEUR (2018: 9,643 kEUR) result entirely from fees charged to subsidiaries for management and business services.

3.2 OTHER OPERATING INCOME

Other operating income of 1,770 kEUR (2018: 439 kEUR) relates to the current financial year at 1,735 kEUR includes the passing on of costs to the subsidiaries, a reimbursement of costs from Mutares SE & Co. KGaA and the settlement of other benefits in kind for private car use. It also includes income from currency translation of 29 kEUR (2018: 0 EUR). Other operating income of 35 kEUR is attributable to the previous year and includes the release of the provision for costs of preparing financial statements.

3.3 PERSONNEL EXPENSES

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

in kEUR	2019	2018
Wages and salaries	4,301	2,660
Social security, pension and other benefit costs	379	147
thereof for pensions	21	14
Personnel expenses	**4,680**	**2,807**

In financial year 2019, an average of 29 (2018: 14) employees were assigned to the administration. Members of the Executive Board are not included here.

3.4 DEPRECIATION

In the 2019 financial year, depreciation of intangible assets in the amount of 219 kEUR (2018: 82 kEUR), depreciation on property, plant and equipment in the amount of 42 kEUR (2018: 33 kEUR) and immediate depreciation for GWG (items of low value) in the amount of 35 kEUR (2018: 2 kEUR) were recorded. In addition, unscheduled depreciation of 738 kEUR was recorded on intangible assets. The previous reporting and consolidation tool will no longer be used and will be replaced by another system.

3.5 OTHER OPERATING EXPENSES

Other operating expenses essentially include:

in kEUR	2019	2018
Legal and consulting costs	3,735	4,979
Expenses to affiliated companies	3,109	1,127
Financial statements and audit costs	757	4,184
Travel expenses	660	542
Repair, maintenance and servicing	419	131
Advertising expenses	336	299
Rental expenses (incl. motor vehicles)	263	183
Headhunting expenses	245	450
Supervisory board remuneration	225	131
Outside services and work	113	56
Insurance, contributions and other levies	111	64
Vehicle costs	83	19
Occupancy costs	76	37
Office and administration costs	68	90
Incidental expenses of monetary transactions	64	106
Miscellaneous other expenses	25	9
Other operating expenses	**10,289**	**12,409**

Other operating expenses include currency translation expenses of 766 EUR (2018: 0 EUR) Other operating expenses in the amount of 71 kEUR are attributed to the previous year. Other operating expenses for the 2019 financial year do not include expenses of an extraordinary magnitude or contain exceptional importance. Other operating expenses in the previous year included expenses of an extraordinary magnitude or extraordinary importance in the amount of 3,152 kEUR relating to the IPO in June 2018. The previous year also included legal and consulting costs of 4,979 kEUR and the accounting and auditing costs of 4,184 kEUR, mainly in connection with the IPO.

3.6 INCOME FROM PARTICIPATIONS

Income from participations in the 2019 financial year totaled 3,193 kEUR and resulted from a dividend payment of a subsidiary (2018: 2,742 kEUR).

3.7 FINANCIAL INCOME AND FINANCIAL EXPENSES

In the current financial year, the reporting was changed so that income from loans from financial assets is no longer shown in the item "Other interest and similar income", but in the item "Income from other securities and loans from financial assets". The previous year's figure was adjusted accordingly for better comparability. Income from other securities and loans from financial assets amounted to a total of 465 kEUR (2018: 389 kEUR) thereof from affiliated companies in the amount of 465 kEUR (2018: 389 kEUR).

Interest and similar expenses totaled 253 kEUR (2018: 1,579 kEUR) of which 253 kEUR (2018: 619 kEUR) related to affiliated companies. The decrease by 1,326 kEUR mainly results from the decline in interest expenses to affiliated companies and from the commission paid in the previous year to the underwriting bank, which accompanied the IPO.

3.8 TAXES ON INCOME

Taxes on income in the amount of 141 kEUR (2018: 51 kEUR) were recorded in the 2019 financial year. The increase mainly results from foreign withholding tax, which was incurred as part of the foreign subsidiary's dividend payment of 156 kEUR (2018: 51 kEUR). The corporate tax reimbursement for previous years in the amount of 8 kEUR (2018: 0 EUR) and the release of the trade tax provision in the amount of 9 EUR (2018: EUR 0) had the opposite effect.

4 — NOTES TO THE STATEMENT OF FINANCIAL POSITION

4.1 INTANGIBLE ASSETS

As of December 31, 2019, the intangible assets amounted to 214 kEUR (December 31, 2018: 944 kEUR) and mainly include rights to use software purchased from third parties. An impairment loss in the amount of 738 kEUR was recognized in fiscal year 2019 because the consolidation software previously used will no longer be used and will be replaced by another software. For further information on intangible assets, please refer to the schedule of assets in Appendix 1 to the Notes.

4.2 PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2019, property, plant and equipment amounted to 219 kEUR (December 31, 2018: 236 kEUR) and included operating and office equipment, which increased by 60 kEUR in the reporting year. The additions essentially result from additions of office equipment and the activation of the brand showroom in a section of the office area of the administration building, for which an amount of 45 kEUR was already recorded under advance payments within property, plant and equipment as of December 31, 2018. For further information on property, plant and equipment, please refer to the schedule of assets in Appendix 1 to the Notes.

4.3 FINANCIAL ASSETS

Financial assets increased by 9,761 kEUR to 24,951 kEUR as of the balance sheet date compared to December 31, 2018.

In the financial year 2019, capital increases were carried out as part of "debt to equity swaps" at STS Acoustics SpA, STS MCR Holding SAS and STS Plastics Holding SAS, which resulted in an increase in shares in affiliated companies of 8,680 kEUR. The shares in affiliated companies as of December 31, 2019 amounted to 14,332 kEUR (December 31, 2018: 5,651 kEUR) and relate to the following companies:

Name and location	Result of the last financial year in kEUR	Equity in kEUR	capital share
STS Acoustics S.p.A, Turin, Italy	–1,815	3,335	100%
STS Plastics SAS, Paris, France	823	8,021	100%
STS Plastics Holding SAS, St. Désirat, France	–237	–335	100%
STS MCR Holding SAS, Tournon, France	1,423	52	100%
STS Brazil Holding GmbH, Hallbergmoos, Germany	82	–333	100%
STS Composites Germany GmbH, Kandel, Germany	–423	–1,137	100%
Inoplast Truck S.A. de C.V., Ramos, Mexico	922	7,677	100%[1]
STS Plastics Co. Ltd., Jiangyin, China	4,837	27,076	100%

1 0.02% of the shares in Inoplast Truck S.A. de C.V., Mexico are held indirectly by STS Plastics Holding SAS, France.

Loans to affiliated companies with a book value of 10,619 kEUR (December 31, 2018: 9,538 kEUR) consist of loan receivables from five (2018: four) subsidiaries.

For further information on financial assets, please refer to the schedule of assets in Appendix 1 to the Notes.

4.4 RECEIVABLES AND OTHER ASSETS

As of the balance sheet date, receivables and other assets amounted to 6,729 kEUR (December 31, 2018: 9,391 kEUR). The decrease is mainly due to the waiver of claims against three subsidiaries as part of the above-mentioned capital increases. Receivables include receivables from shareholders in the amount of 125 kEUR (December 31, 2018: 0 EUR) and from affiliated companies in the amount of 6,198 kEUR (December 31, 2018: 7,883 kEUR), which include trade receivables from fees charged for management and business services. Other assets in the amount of 531 kEUR (December 31, 2018: 1,508 kEUR) mainly include value added tax receivables in the amount of 333 kEUR (December 31, 2018: 1,429 kEUR), debtors with credit balances in the amount of 107 kEUR (December 31, 2018: 27 kEUR) and deposits in the amount of 60 kEUR (December 31, 2018: 48 kEUR) that have a remaining term of more than one year.

4.5 CASH AND BANK BALANCES

As of December 31, 2019, cash and cash equivalents amounted to 1,576 kEUR (December 31, 2018: 10,922 kEUR). Cash and cash equivalents were restricted in the amount of 2,000 kEUR as of December 31, 2018. This was a security deposit of STS Group AG with a bank as part of the financing of a subsidiary, which was no longer required in the 2019 financial year.

4.6 ACCRUED AND DEFERRED ITEMS

As of December 31, 2019, prepaid expenses amounted to 155 kEUR (December 31, 2018: 117 kEUR) and mainly related to insurance premiums, financial and IT support.

4.7 EQUITY

Equity of STS Group AG is made up as follows:

in kEUR	31. Dezember 2019	31. Dezember 2018
Share capital	6,000	6,000
Own shares	– 50	–5
Capital reserves	23,135	23,535
Revenue reserves	5	5
Accumulated losses carried forward	– 9,278	–4,276
Equity	**19,811**	**25,260**

Subscribed capital

As of December 31, 2019 and December 31, 2018, the subscribed capital of STS Group AG totaled 6,000 kEUR and consists of 6,000,000 (December 31, 2018: 6,000,000) bearer shares (no-par shares) with a proportionate share in the company's share capital of 1.00 EUR each.

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

Each share entitles to one vote in the general meeting.

Authorized capital

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the company's share capital until May 2, 2023 by up to 2,500 kEUR once or several times by issuing up to 2,500,000 new bearer shares against cash and/or contributions in kind ("Authorized Capital 2018 / I"). In principle, shareholders shall be granted a subscription right. 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 creditors of bonds with conversion or option rights or conversion or option obligations and which have been or will be issued by the company or a direct or indirect holding company, a subscription right to new bearer shares in the company to the extent that they are entitled to after exercising the option or Conversion rights or after fulfillment of conversion or option obligations as a shareholder;

(iii) for the issue of shares against cash contributions if the issue price of the new shares does not significantly exceed the stock exchange price of the shares already listed in the sense of Section 203 (1) and Section 2, 186 (3) sentence 4 AktG and the proportionate amount of share capital which is based on the exclusion of subscription rights pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG) 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 acquiring (also indirectly) parts of a company, participations in companies or other assets or for servicing bonds issued against contributions in kind.

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

Contingent capital

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

Contingent capital capital 2018/II
The share capital of the company is by resolution of the general meeting on May 3, 2018 contingently increased by up to 500 kEUR by issuing up to 500,000 new bearer shares with a proportionate amount of the company's share capital of 1.00 EUR per share (Contingent Capital 2018/II). The Contingent Capital 2018/II will only be issued to the extent that in accordance with the 2018 stock option program in accordance with the resolution of the Annual General Meeting on May 3, 2018 subscription rights were issued, the holders of the subscription rights exercise their exercise right and the company does not grant any treasury shares to fulfill the subscription rights. The total volume of subscription rights is distributed among the entitled groups of persons as follows:

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

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

Acquisition of own shares
On November 21, 2018, the Executive Board decided with the approval of the Supervisory Board, taking advantage of the authorization granted by the Annual General Meeting on May 3, 2018 to launch a share buyback program of up to 1,000 kEUR (excluding incidental acquisition costs) ("Share Buyback Program 2018/I"). The authorization provides that the Executive Board, with the approval of the Supervisory Board may, until May 2, 2023, acquire own shares of the company up to 10 % of the respective share capital. The shares may be purchased on the stock exchange, by means of a public purchase offer or by means of a public invitation to submit sales offers. The authorization provides that the Executive Board can use the treasury shares for any permitted purpose. The Management Board is also authorized to purchase treasury shares using derivatives. As part of the 2018/I share buyback program, a total of up to 50,000 own shares could be bought back in the period from November 22, 2018 to May 21, 2019.

The 2018/1 share buyback program served the following purposes:
- Reduction of the company's share capital through cancellation of shares
- Servicing purchase obligations or purchase rights to shares in the company from and in connection with convertible or warrant bonds or profit participation rights with convertible or option rights issued by the company or one of its group companies, or
- fulfillment of obligations to employees and board members of the company and its affiliates from a stock option program of the company.

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

Date	Quantity	Average price
29.04.2019 – 03.05.2019	6,000	10.190
23.04.2019 – 26.04.2019	7,304	11.170
15.04.2019 – 18.04.2019	5,127	10.090
08.04.2019 – 12.04.2019	4,444	8.000
01.04.2019 – 05.04.2019	4,380	8.950
25.03.2019 – 29.03.2019	165	9.100
18.03.2019 – 22.03.2019	1,716	9.161
18.03.2019 – 15.03.2019	1,248	9.115
04.03.2019 – 08.03.2019	1,171	9.420
25.02.2019 – 01.03.2019	1,591	9.434
18.02.2019 – 22.02.2019	2,348	9.345
11.02.2019 – 15.02.2019	1,792	9.908
04.02.2019 – 08.02.2019	2,458	10.240
28.01.2019 – 01.02.2019	1,900	10.198
21.01.2019 – 25.01.2019	2,593	10.517
14.01.2019 – 18.01.2019	1,000	10.459

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

Capital reserves
For the financial year ended December 31, 2019, the capital reserve amounted to 23,135 kEUR (December 31, 2018: 23,535 kEUR). The decrease in capital reserves of 400 kEUR is due to the acquisition of own shares.

Retained earnings
The legal reserve was as of December 31, 2019 and December 31, 2018 5 kEUR.

Net loss
The net loss as of December 31, 2019 was 9,278 kEUR (December 31, 2018: 4,276 kEUR).

4.8 PROVISIONS

The provisions developed in the 2019 financial year as follows:

PROVISIONS

in kEUR	As of January 1, 2019	Utilisation	Reversal	Addition	As of December 31, 2019
Trade tax	9	0	9	0	0
Corporate income tax	8	0	8	0	0
Total tax provisions	**17**	**0**	**17**	**0**	**0**
Financial statements and audit costs	1,042	1,001	35	514	520
Outstanding invoices	758	758	0	719	719
Personnel expense	645	645	0	795	795
Supervisory board remuneration	88	88	0	225	225
Total other provisions	**2,532**	**2,492**	**35**	**2,253**	**2,259**

4.9 LIABILITIES

Liabilities amounted to 11,773 kEUR in the reporting period (December 31, 2018: 8,990 kEUR). This includes trade payables in the amount of 641 kEUR (December 31, 2018: 1,653 kEUR) and payables to affiliated companies in the amount of 10,902 kEUR (December 31, 2018: 7,208 kEUR) as part of extended loans from three subsidiaries as well as adjusted transfer prices for services within the group. Other liabilities in the amount of 229 kEUR (December 31, 2018: 129 kEUR) include mainly liabilities from taxes and duties. As in the previous year, all liabilities are due within one year.

5 — OTHER DISCLOSURES

5.1 AUDITOR'S FEE

The information for the total auditor's fee is not included in the annual financial statements of STS Group AG, since STS Group AG prepares consolidated financial statements and the information on the total fee is included in these consolidated financial statements. In the past financial year, the auditor issued a comfort letter and audited proforma financial information as non-audit services and, as another service, audited the transition of accounting to meet IFRS standards as the auditor.

5.2 SUPERVISORY BOARD

Members of the Supervisory Board of STS Group AG in the 2019 financial year were:

Robin Laik (Chairman)
MBA (Diplom-Kaufmann)
CEO Muateres 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 (Vice Chairman)
Degree in mechanical engineering (Dipl.-Ing.)
CRO Muateres 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 (formerly: GeesinkNorba Group AG)
mutares Holding-30 AG i. L.

Bernd Maierhofer
Graduate Engineer (Dipl.-Ing.)

Member of the Supervisory Board of:
VOSS Automotive GmbH

The total compensation of the Supervisory Board amounted to 225 kEUR (2018: 131 kEUR). Individualized information on the remuneration of the Supervisory Board is presented in the combined management report and there in the chapter “Compensation report”.

5.3 EXECUTIVE BOARD

Members of the Executive Board of STS Group AG in the 2019 financial year were:

Andreas Becker, CEO (Chairman)
degree in Business Administration

Chairman of the Supervisory Board of:
STS Plastics SAS
STS Acoustics SpA
Chairman of the Executive Board of:
STS Real Estate Srl
STS Acoustics Poland Sp. z o.o.
STS Plastics Co., Ltd.
Member of the Management Board of:
STS Brazil Holding GmbH
STS Composites Germany GmbH

Dr. Ulrich Hauck, CFO, since April 1, 2019
MBA (Diplom-Kaufmann)

Chairman of the Board of Management of:
STS Brazil Holding GmbH
STS Composites Germany GmbH
Member of the Supervisory Board of:
STS Acoustics SpA
Member of the Supervisory Board of:
SBF AG

Stephan Vrublovsky, CFO, until March 31, 2019
Master’s degree

Member of the Supervisory Board of:
STS Acoustics SpA
Members of the Executive Board, resp. the Management Board of:
STS Real Estate Srl
STS Acoustics Poland Sp. z o.o.
STS Composites Germany GmbH
STS Brazil Holding GmbH
Member of the Management Board of:
STS Plastics SAS
MUTARES ITALY S.R.L.

Patrick Oschust, COO
Graduate Engineer (Dipl.-Ing.)

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

The members of the Executive Board received a total compensation of 1,427 kEUR in the 2019 financial year (2018: 1,334 kEUR). This includes the variable compensation under the 2018 stock option program. The 2018 stock option program (Contingent Capital 2018/II of STS Group AG) is part of the variable remuneration of the Executive Board, which is geared towards sustainable positive corporate development, whereby the focus is on a transparent and comprehensible system. The economic success of the company is based not least on its ability to recruit qualified specialists and managers and to retain them for the long term with the help of a success-based remuneration system. The stock option program also provides an incentive to focus decisions on achieving the company's ambitious, clearly defined performance target. The compensation component is aimed at increasing the market price of the company's shares. The performance target for the exercise of subscription rights granted is reached if the closing price of the company's share in a period of twelve months following the grant of the respective subscription rights exceeds on a total of 60 trading days the stock exchange price of STS Group shares on the day of the allocation of the respective subscription rights by a predetermined percentage.

At the time the subscription rights are exercised, the beneficiaries must be in an active, non-terminated employment or service relationship with STS Group AG or one of its related companies. The waiting period for the first exercise of the option is four years from the time the options were allotted. After the end of the waiting period, all options for which the success target has been achieved can be exercised within the following three years.

Members of the Executive Board of STS Group AG can receive a maximum of up to 200,000 subscription rights in five tranches over the term of the 2018 stock option program. The member of the Executive Board, Dr. Hauck was granted 5,625 options in the 2019 financial year. A total of 24,500 options were granted in the 2018 financial year. Of the total number of options granted in the 2018 financial year, Mr. Vrublovsky and Mr. Oschust were each granted 7,000 and Mr. Becker 10,500. With the resignation of Mr. Vrublovsky as of April 30, 2019 the personal exercise requirements of the stock option plan no longer applied and the option rights expired. The granting of options resulted in an expense of share-based payments of 5,565 EUR (2018: 5,565 EUR) to Mr. Oschust, of 1,391 EUR (2018: 5,565 EUR) to Mr. Vrublovsky, of 8,347.50 EUR (2018: 8,347.50 EUR) to Mr. Becker and of 4,471.88 EUR to Dr. Hauck. At the end of the reporting period, the remaining 23,125 options from the 2018 stock option plan are still outstanding.

At the time of grant, the fair value of each option was 3.18 EUR, based on an exercise price of 18.77 EUR. The maximum remaining contract term of each option as of December 31, 2019 was another five and a half years.

In the 2019 financial year, the Company also grants the member of the Executive Board, Mr. Andreas Becker, a compensation component based on a multi-year variable component according to a performance bonus plan (STS Long Term Incentive Bonus); "LTI"). According to this, Mr. Becker receives a variable compensation ("performance bonus") after the end of each financial year, the amount of which depends on the degree of achievement of the target. The achievement of the LTI's target and its assessment depend on the development of the share price and the fulfillment of the strategic medium-term planning. The net amount of the LTI, determined after assessment of the target achievement, is generally paid out in shares of STS Group AG, the sale of which is blocked 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 shares in Xetra trading on Deutsche Börse. In the 2019 financial year, Mr. Becker received no compensation under the LTI.

Individualised information on the compensation of the Executive Board as well as further information on the LTI are presented in the Consolidated Management and Group Management Report in the chapter "Compensation Report".

5.4 OTHER COMMITMENTS AND CONTINGENCIES

There are other financial obligations totaling 591 kEUR (2018: 474 kEUR) from long-term leases.

A contingent liability could arise from the sale, transfer or other disposition of a subsidiary before July 2034. This event would result in a liability of 1,700 kEUR to the old shareholder, for which STS Group AG and Mutares SE & Co. KGaA would be jointly and severally liable.

5.5 LIABILITY OBLIGATIONS

STS Group AG is liable on behalf of a direct subsidiary for any warranty claims of a customer in unlimited amounts.

STS Group AG issued patronage declarations for certain customer projects in which the company undertakes to provide them with all financial, economic, administrative and technical support to enable the subsidiaries to fully comply with their contractual obligations towards their customers. In the event of non-fulfilment of the contractual obligations by the subsidiaries, STS Group AG is obliged to comply with them.

As a result of their losses in the 2018 financial year, STS Group AG undertakes to continue to provide financial support to the Italian and Polish subsidiaries to ensure that these subsidiaries meet their obligations and are able to continue operation.

In addition, the Company guarantees two loans of an immediate subsidiary in the amount of CNY 10,000,000 each up to a maximum amount of 2,900,000 EUR.

For all of the obligations listed, the Company considers the risk of a possible claim not to be likely, since at the balance sheet date, the existing liabilities of STS Group AG, taking into account existing knowledge of assets, financial position and results of operations of business partners have been reviewed with regard to the risk situation.

5.6 FINANCIAL AND LIQUIDITY RISK

The liquidity risk includes the following risks:

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

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

Due to the latest developments, particularly in Europe, in relation to the COVID-19 pandemic, the associated plant closings and a lack of revenue, the group will not be able to fully cover the liquidity needs of coming months from existing liquid funds and fixed loan commitments.

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

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

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

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

5.7 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE, SECTION 161 AKTG

The Executive Board and the Supervisory Board of STS Group AG have issued 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 website of STS Group AG. The full text of the declaration of compliance is available on the website of STS Group AG under the link https://www.sts.group/investor-relations/corporate-governance.

5.8 PROPOSED APPROPRIATION OF RESULTS

The management proposes to carry forward the balance sheet loss of 9,278 kEUR resulting from the net loss of 5,003 kEUR and the loss carryforward of 4,275 kEUR.

5.9 GROUP AFFILIATION

The company is included as a subsidiary in the consolidated financial statements of Mutares SE & Co. KGaA, Munich, (formerly mutares AG, Munich) which prepares the consolidated financial statements for the smallest and largest group of companies.

The consolidated financial statements of Mutares SE & Co. KGaA is available at the company's headquarters in Munich and is published in the electronic Federal Gazette.

5.10 DISCLOSURE PURSUANT TO SECTION 160 (1) NO. 8 AKTG ON VOTING RIGHTS NOTICES

Pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG), information on the existence of shareholdings is provided in accordance with Section 20 (1) or (4) AktG or Section 33 (1) or (2) of the Securities Trading Act ("WpHG"). Under these rules, investors whose voting rights in listed companies have reached, exceeded or fallen below certain thresholds are required to notify the Company.

There may have been changes in percentage of voting rights after the stated dates which were not subject to notification to the Company. Since the shares of the company are no-par bearer shares, changes in the shareholding are generally only known to the company insofar as they are subject to reporting obligations. The voting rights mentioned below are based on the mandatory declarations pursuant to Section 33 of the WpHG.

The following are the contents of the communications received up to the balance sheet date published in accordance with Section 26 (1) of the WpHG, which reflect the holdings recently reported to STS Group AG:

Mutares SE & Co. KGaA, Munich, announced that its voting rights in STS Group AG exceeded the thresholds of 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 % and 50 % of the voting rights on May 23, 2019 and amounted to 65.1 % (equivalent to 3,905,828 voting rights) on that date.

GS&P Investment Company S. A., Luxembourg, announced that its voting rights in STS Group AG on April 8, 2019 fell below the threshold of 3 % of the voting rights and on that date amounted to 2.15 % (equivalent to 129,088 voting rights).

5.11 EVENTS AFTER THE BALANCE SHEET DATE

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

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

- The plants in China were closed for between two and six weeks in February and March 2020. For our plants in China, we assume that we will be able to largely make up for the incurred loss of production over the next few months.

- The plants in Europe and the Americas have been closed since mid-March 2020 and are not expected to reopen before the April 20, 2020 to resume regular production. These 4-week plant closings lead to a decline in revenues of approx. 25 mEUR and a reduction in adjusted EBITDA of around 5 – 6 mEUR.

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

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

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

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

Hallbergmoos, April 6, 2020

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

Appendix 1 to the Notes

MOVEMENT SCHEDULE OF FIXED ASSTES FOR THE PERIOD JANUARY 1, 2018 TO DECEMBER 31, 2019

	Acquisition and production costs				
in EUR	January 1, 2019	Additions	Disposals	Reclassifications	December 31, 2019
I. Intangible assets					
Concessions, industrial and similar rights and asstes and assets and licences in such rights and assets	1,026,953.37	226,999.53	0.00	0.00	1,253,952.90
	1,026,953.37	226,999.53	0.00	0.00	1,253,952.90
II. Tangible assets					
1. Other equipment, factory and office equipment	256,505.37	55,074.88	12,324.55	50,353.38	349,609.08
2. Advance payments and assets under construction	45,318.04	5,035.34	0.00	-50,353.38	0.00
	301,823.41	60,110.22	12,324.55	0.00	349,609.08
III. Financial assets					
1. Shares in affiliated companies	5,651,320.89	8,680,229.67	0.00	0.00	14,331,550.56
2. Loans to affiliated companies	9,538,281.49	1,845,250.04	764,337.47	0.00	10,619,194.06
	15,189,602.38	10,525,479.71	764,337.47	0.00	24,950,744.62
Summe	**16,518,379.16**	**10,812,589.46**	**776,662.02**	**0.00**	**26,554,306.60**

Accumulated amortization and depreciation					Net book value	Net book value
January 1, 2019	**Additions**	**Disposals**	**Reclassifications**	**December 31, 2019**	**December 31, 2019**	**December 31, 2018**
83,118.27	956,551.63	0.00	0.00	1,039,669.90	214,283.00	943,835.10
83,118.27	956,551.63	0.00	0.00	1,039,669.90	214,283.00	943,835.10
66,053.37	77,154.26	12,324.55	0.00	130,883.08	218,726.00	190,452.00
0.00	0.00	0.00	0.00	0.00	0.00	45,318.04
66,053.37	77,154.26	12,324.55	0.00	130,883.08	218,726.00	235,770.04
0.00	0.00	0,00	0.00	0.00	14,331,550.56	5,651,320.89
0.00	0.00	0.00	0.00	0.00	10,619,194.06	9,538,281.49
0.00	0.00	0.00	0.00	0.00	24,950,744.62	15,189,602.38
149,171.64	**1,033,705.89**	**12,324.55**	**0.00**	**1,170,552.98**	**25,383,753.62**	**16,369,207.52**

5.12 DECLARATION BY THE LEGALLY AUTHORIZED REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the company's assets, financial position, and results of operations. The management report, including the results of operations, presents the company's situation in a true and fair manner as are the principal opportunities and risks associated with the expected development of the company.

Hallbergmoos, April 6, 2020

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

5.13 AUDITOR'S REPORT

"Independent auditor's report

To STS Group AG, Hallbergmoos

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

Audit opinions

We have audited the annual financial statements of STS Group AG, Hallbergmoos, consisting of the balance sheet as of December 31, 2019, and the income statement for the fiscal year from January 1 to December 31, 2019, and notes to the financial statements, including a summary of important accounting and assessment methods. In addition, we audited the management report of STS Group AG, which is combined with the group management report, for the financial year from January 1, 2019 to December 31, 2019. We have not audited the content of the parts of the management report mentioned in the "Other Information" section of our auditor's opinion in accordance with German statutory provisions.

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

- the attached annual financial statements comply in all essential respects with the German legal regulations to be applied according to Section 315e (1) HGB and, taking these regulations into account, gives a true and fair view of the net assets and financial position of the company as of December 31, 2019 and its result of operations for the financial year from January 1, 2019 to December 31, 2019.
- the accompanying management report, which is combined with the group management report, provides an overall true picture of the state of the company. In all material respects, this management report is consistent with the annual financial statements, complies with German statutory provisions and accurately represents the opportunities and risks of future development. Our audit opinion on the management report does not extend to the content of the components of the management report mentioned in the "Other information" section.

According to Section 322 (3) Sentence 1 of the German Commercial Code (HGB), we hereby declare that our audit has not led us to any adverse findings concerning the proper preparation of the annual financial statement and management report, which is combined with the group management report.

Basis for the auditor's opinions

We conducted our audit of the annual financial statements and management report, which is combined with the group management report, in accordance with Section 317 HGB and the EU auditor regulation (no. 537/2014; hereinafter referred to as "EU-APrVO"), taking into account the German principles of orderly auditing as determined by the Institute of Auditors (IDW). Our responsibilities under these rules and policies are further described in the section entitled "Auditors' Responsibility when Auditing Financial Statements and Management Report" of our Auditor's Report. We are independent of the Company in accordance with the German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, in accordance with Article 10 (2) f) EU-APrVO, we declare that we have not provided any prohibited non-audit services as defined in Art. 5 (1) EU-APrVO. We believe that the audit verifications we have obtained are sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report, which is combined with the group management report.

Significant uncertainty in connection with the continuation of business activity
We refer to the information in section 5.6 Financial and liquidity risk in the notes and the information in the opportunity and risk report and there in the subsection "Other risk areas and key opportunities and individual risks" in the combined management and group management report, in which the legal representatives describe that in connection with the effects the global spread of the corona virus, the continued existence of the company depends on the successful implementation of measures to secure liquidity. As set out in Section 5.6 and in the Opportunities and Risk Report in the Group Management Report, these events and circumstances indicate the existence of significant uncertainty, which can raise significant doubts about the ability of the company to continue operating and which could pose a risk to the existence of the company within the meaning of Section 322 (2) Sentence 3 HGB. As part of our audit, we assessed, among other things, the group-wide corporate and liquidity planning drawn up by the company. In this context, we also assessed the appropriateness of the assumptions underlying the corporate and liquidity planning and understood whether the corporate and liquidity planning was properly derived on the basis of these assumptions. This has not affected our audit opinions.

Particularly important issues in the audit of the financial statements
Particularly important issues in the audit are those matters that, in our best judgement, were most significant in our audit of the financial statements for the financial year from January 1, 2019 to 31 December 2019. These issues have been taken into account in the context of our audit of the financial statements as a whole and in the formation of our audit opinion; we are not offering a separate opinion on these matters. In addition to the matter described in the section "Significant uncertainty in connection with the continuation of business", we have determined the issue described below as the particularly important audit matter, which is to be reported in our auditor's opinion.

❶ Impairment of shares and loans to affiliated companies and receivables from affiliated companies (total exposure)

We structure our presentation of these particularly important audit matters as follows:
① Circumstances and issues
② Auditing procedure and findings
③ Reference to further information

Below we present the most important facts from the audit:

❶ Impairment of shares and loans to affiliated companies and receivables from affiliated companies (total exposure)

① In the financial statements of STS Group AG, shares in affiliated companies amounting to 14.3 mEUR and loans to affiliated companies amounting to 10.6 mEUR (73.3% of total assets) are recorded. In addition, the balance sheet lists receivables against affiliated companies of 6.2 mEUR. The valuation of shares and loans to affiliated companies under commercial law is based on the acquisition costs and the lower fair value. Receivables from affiliated companies are valued at their nominal value or at their lower fair value. When assessing the value of the overall exposure, the fair values of the indirect and direct investment are also taken into account, as these can have a significant impact on the fair value of the overall commitment of STS Group AG. The assessment of the respective fair value of the total exposure to an investment takes place if there are indications of a possible need for impairment. In this context, the investments are examined to determine whether the book value of the investment is not covered by the company's (proportionate) equity, the company has a history of losses or other indicators that could lead to a permanent impairment of the overall exposure to the investment. The fair values for investments are generally determined as the present values of the expected future cash flows that result from the budgets drawn up by the legal representatives. Expectations about future market developments and assumptions about the development of macroeconomic factors were also taken into account. Based on the examinations for signs of an impairment need and the determined fair values, there was no need for an impairment for the financial year. The results of the investigations and evaluations depend in particular on budgets, the assessment of future cash inflows, as well as discount rates and growth rates, which are subject to significant uncertainties. Against this background and in view of the significant importance for the assets and earnings situation of STS Group AG, this matter was of particular importance in our audit.

② As part of our audit, we reviewed and assessed, among other things, the methodological procedure for carrying out the impairment test on shares and loans to and receivables from affiliated companies. On the basis of annual financial statements and reporting packages, we have verified that the overall commitment to the investment is covered by the company's equity and that there is no loss history. In addition, we carried out surveys of employees of the company, reviewed documents on facts that could lead to an impairment of the overall exposure to individual affiliated companies and also obtained information from the legal representatives in this regard. We also looked at the budgets of the various companies and understood that they also warrant the conclusion that the overall exposure would be impaired over the long term. We assessed the appropriateness of the future cash inflows used in the budgets by, among other things, comparing this information with the current budget from the five-year plan approved by the legal representatives. For companies with equity below book value of the investment, a loss history or other indicators that could lead to a permanent impairment of the investment, we received the corresponding assessment of the fair value for this investment and reviewed whether the fair values were properly determined and have an impact on the book value of the investment.

In our view, the procedure followed by the legal representatives of the company and the underlying valuation parameters and valuation assumptions are suitable, taking into account the available information, in order to properly assess the investment in affiliated companies and the receivables from and loans to these affiliated companies.

③ The Company's disclosures on shares and loans in affiliated companies and receivables from affiliated companies can be found in section 2 of the notes "Accounting and valuation principles" as well as in points 4.3 and 4.4 and in the schedule of fixed assets of the company.

Other information
The legal representatives are responsible for other information. Other information include the following parts of the management report that have not been audited for content:

- the declaration on Corporate Governance contained in section "Corporate Governance" of the management report in accordance with Sections 289f HGB and 315d HGB
- the Corporate Governance report according to no. 3.10 of the German Corporate Governance Code
- the separate non-financial report in accordance with Section 289b (3) HGB and Section 315b (3) HGB

The other information also include the remaining parts of the annual report – without further cross-references to external information – with the exception of the audited annual financial statements, the audited management report, which is combined with the group management report, and our auditor's report.

Our audit opinions on the annual financial statements and the management report, which is combined with the group management report, do not extend to the other information, and accordingly, we provide neither an opinion nor any other form of audit conclusion.

In connection with our audit, we have the responsibility to read the other information and to evaluate whether the other information

- contain material inconsistencies with the annual financial statements, the management report, which is combined with the group management report, or knowledge we obtained during our audit or
- may otherwise appear significantly misrepresented.

The legal representatives and supervisory board´s responsibility for the financial statements and the management report
The legal representatives are responsible for the preparation of the annual financial statements, which comply with the German legal regulations to be applied in accordance with Section 315e (1) HGB, and for ensuring that the financial statements are in compliance with these regulations and give a true and fair view of the Group's net assets, financial position and results of operations. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with generally accepted accounting principles in order to facilitate preparation of financial statements that are free from material misstatement, whether intentional or unintentional.

In preparing the financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing matters relating to the company's ability to continue doing business as a company, where relevant. In addition, they are responsible to prepare the financial statements on the basis of the accounting policy of the company's ability to continue as a going concern, insofar as this does not conflict with actual or legal circumstances.

In addition, the legal representatives are responsible for the preparation of the management report, which as a whole conveys a true picture of the company's position, is in all material respects consistent with the financial statements, complies with German legal requirements and accurately reflects the opportunities and risks of future development. Furthermore, the legal representatives are responsible for precautions and measures (systems) that they deemed necessary to enable the preparation of a management report in accordance with the applicable German statutory provisions and to provide sufficient suitable evidence for the statements in the management report.

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

The auditor's responsibility for auditing the financial statements and the management report
Our objective is to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether intentional or unintentional, and whether the management report gives a true and fair view of the condition of the company and in all material respects is consistent with the annual financial statements and with the findings of the audit, that it complies with German legal requirements, accurately reflects the opportunities and risks of future development, and that it issues an auditor's report that includes our audit opinions on the annual financial statements and management report.

Reasonable certainty means a high degree of certainty, but there is no guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code (HGB) and the EU-APrVO and in compliance with the German generally accepted principles for the audit of financial statements promulgated by the Institute of Public Auditors (Institut der Wirtschaftsprüfer-IDW) will always discover a material misstatement. Misrepresentations may result from infractions\ or inaccuracies, and are considered material if they could reasonably be expected to influence, individually or collectively, the economic decisions of a target audience made on the basis of these financial statements.

During the audit, we exercise due discretion and maintain a critical attitude. Furthermore,

- we identify and assess the risks of material misstatement, whether intentional or unintentional, in the financial statements and the management report, we plan and perform procedures in response to those risks, and obtain audit evidence sufficient and appropriate to form the basis of our opinion. The risk that material misstatements will not be detected is greater for infractions than for misstatements because infractions may involve fraudulent interactions, falsification, intentional omissions, misrepresentations, or the disabling of internal controls.
- we gain an understanding of the internal control system relevant to the audit of the financial statements and the arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of company systems.
- we assess the appropriateness of the accounting methods used by the legal representatives and evaluate whether the estimated values and related information are reasonable as presented by the legal representatives;
- we draw conclusions regarding the appropriateness of the accounting policy used by the legal representatives with respect to the company's ability to continue as a going concern, and, on the basis of the audit evidence obtained, whether there is material uncertainty surrounding events or circumstances that indicate significant doubts as to the Company's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements and management report or, if such disclosures are inappropriate, to modify our audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances may, however, result in the company no longer being able to continue as a going concern.
- we assess the overall presentation, structure and content of the financial statements, including the information, and whether the financial statements present the underlying transactions and events in such a way that the financial statements comply with German Commercial Accounting Principles and provides a true and fair view of the Group's net assets, financial position and results of operations.
- we assess the consistency of the management report with the annual financial statements, its legislation and the image it conveys of the state of the company;

- we perform audit procedures on the future-oriented statements made by the Company's legal representatives in the management report. On the basis of adequately appropriate audit evidence, we in particular examine the significant assumptions underlying the forward-looking statements made by the Company's legal representatives and assess the proper derivation of the forward-looking statements from said assumptions. We do not express an independent audit opinion on the future-oriented statements and the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with the supervisors the planned scope and timing of the audit, as well as significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We make a statement to the parties responsible for governance that we have complied with the relevant requirement of independence, and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and related safeguards.

From the issues we have discussed with the people responsible for governance, we identify the issues that were most significant in the audit of the annual financial statements for the current period and are therefore the key audit issues. We describe these issues in the Auditor's Report, unless laws or other regulations preclude the public statement of the issue.

Other legal and regulatory requirements

Other information according to Art. 10 EU-APrVO
We were elected by the Annual General Meeting on May 17, 2019 as auditor. We were commissioned on by the Supervisory Board on December 6, 2019. We have been the auditor of STS Group AG, Hallbergmoos, continuously since the 2018 financial year.

We declare that the audit opinions contained in this Auditor's Report are consistent with the additional report to the audit committee pursuant to Art. 11 EU-APrVO (audit report).

Responsible auditor
The auditor responsible for the audit is Dietmar Eglauer."

Munich, April 6, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer	Christoph Tübbing
Auditor	Auditor

IMPRINT

STS Group AG
Zeppelinstrasse 4
85399 Hallbergmoos
Germany
Phone: +49 (0)811 12 44 94-0
Fax: +49 (0)811 12 44 94-99
www.sts.group

Responsible:
STS Group AG
Editing:
STS Group AG
Concept and design:
Anzinger und Rasp, München

STS Group AG
Zeppelinstrasse 4
85399 Hallbergmoos
www.sts.group