

STS Group AG



Non-Financial Group Report 2019



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1 — INTRODUCTION

In accordance with the CSR Directive Implementation Act (CSR-RUG), STS Group AG publishes for the second time a separate non-financial group report in accordance with Section 315b (3) HGB. The reporting to meet the legal requirement was based on the CSR-RUG. The contents of the non-financial group report are closely aligned with the business model of the STS Group and the legal requirements.

Corporate Social Responsibility (CSR) and sustainability represent the responsibility of companies for their social impact. Economic, ecological and social aspects play a role here. For STS Group, economic and ecological responsibility does not mean not resource efficiency, but also long-term economic success and growth.

This is why STS Group pursues a business model that is economically sustainable, safeguards the interests of its shareholders and secures and increases the company's value in the long term. This non-financial group report is based on the legally required aspects of the environment, employees, social concerns, respect for human rights and the fight against bribery and corruption. STS Group AG continued not to use a framework within the meaning of Section 289d of the German Commercial Code (HGB) for the preparation of this group report, since the company is convinced that an individual reporting format is better suited to report on the essential factors for STS Group's actions with regard to the non-financial aspects. From the point of view of STS Group, to use the legal requirements of the HGB and DRS 20 as guidance is sufficient.

The contents of the report were reviewed by the Supervisory Board.

1.1 BUSINESS MODEL

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

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

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

OVERVIEW OF LOCATIONS



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

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

- **Plastics:** This segment manufactures a large number of exterior body parts and interior modules for trucks, commercial vehicles and cars. It includes hard trim products made of injection molding and composite materials such as SMC. The semi-finished product plays an important role in automobile production due to its numerous positive properties such as high rigidity and heat resistance. For example, it often replaces structural parts made of metal and makes an important contribution to covering battery systems in electric vehicles. The Plastics segment has production facilities in Europe and Mexico. Customers in North America are supplied from Mexico. Hard trim systems are used in commercial vehicles, for example for external parts (e.g. front modules, roof modules and other aerodynamic cladding) or interior modules ("bunk box" under the driver's bed and shelf elements) and for cars, e.g. for structural parts (tailgate). The segment also has its own capacities for painting plastics.
- **China:** Activities in the Chinese market are bundled in this segment. These include supplying customers with plastic parts for the exterior cladding of vehicles, mainly for the cab of commercial vehicles, but increasingly also for cars. The product range offers solutions and components for commercial vehicles such as bumpers, front panels, deflectors, roofs, fenders and entrances as well as parts for cars such as the battery cover for electric vehicles and complex structural parts such as the tailgate for SUVs. Composite press processes and injection molding technology are used. The segment also has its own capacities for painting plastics.
- **Materials:** This segment includes the development and production of semi-finished products (Sheet Molding Compound – SMC), fiber molding compounds (Bulk Molding Compound – BMC) and highly developed fiber molding compounds (Advanced Molding Compound – AMC). The semi-finished products are used both within the group for hard trim applications and also supplied to external third parties. As part of the development of these basic materials, it is possible to influence essential parameters of the end product at this stage.

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

In order to be competitive in the long term, STS Group is internationally well positioned when it comes to selecting procurement markets suitable for its business model. Within Europe, the choice of the regional procurement market is made to pursue cost optimization in purchasing while ensuring quality standards. Local suppliers are mainly used in North America, Mexico and China. The aim of constant improvements of procurement processes is to increase global purchasing advantages for STS Group. In the 2019 reporting year, STS Group's purchasing activities were further developed with uniform standards and processes.

STS Group AG is a leading supplier of components and systems for the commercial vehicle and automotive industries. The aim is to expand this positioning. The focus is on components made of composite materials and injection molding from the first idea to the finished product. STS products are designed to make vehicles future-proof by making significant contributions to reducing weight and thus reducing CO₂ emissions. In addition, our products improve acoustics, optics, haptics and the functionality of vehicles. In order to expand its competitive position and make it profitable in the long term, the Group focuses on four strategic pillars: "Market leadership", "Technology leadership", "Customer proximity" and "Operational excellence".

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

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

1.2 ESSENTIAL ANALYSIS

For this report, the Group already identified those non-financial matters in 2018 in a materiality analysis based on reportable aspects – environmental issues, employee issues, compliance with human rights and the fight against bribery and corruption – which are necessary for an understanding of business development, business results and the situation of the Group as well as for the effects of the business activities of STS Group on the reportable aspects. The materiality analysis was reviewed for currentness in 2019 and remains unchanged for the non-financial report 2019.

When selecting the content for the non-financial group report, STS Group initially focused on the aspects mentioned by CSR-RUG. The key topics were determined in an exchange with the Executive Board, the divisional managers at Group level, in particular human resources (HR), purchasing, quality and sales, and the heads of business units, as they are in regular dialogue with relevant interest groups. The subject of sustainability lies within the responsibility of the Executive Board. The Executive Board and the Supervisory Board are regularly informed about progress and new topics in this area, especially concerning current issues in production.

The focus of this non-financial group report is primarily on issues that are significantly defined by the business model and the value chain. As a result, the following main topics emerged, which are reported on in the group report:

- **Environmental concerns:** Compliance with all environmentally relevant legal and administrative regulations as well as the fulfillment of the requirements of the international environmental management standard ISO 14001:2015
- **Employee matters:** Compliance with all legal regulations and compliance with occupational health and safety requirements in accordance with the OHSAS 18001:2007 standard
- **Compliance with human rights and prevention of corruption and bribery:** Compliance as a guarantor for ensuring compliance with human rights and prevention of corruption
- **Customer and supplier relationships:** customer satisfaction and customer proximity as well as certification according to IATF 16949:2016

In addition to the reportable aspects, customer and supplier relationships are of particular importance for STS Group as a result of the materiality analysis. The importance of customer relationships results from anchoring customer proximity in the strategic pillars of the STS Group. Supplier relationships are an important part of the value chain and closely linked to the course of business. Therefore, this is reported as a separate aspect in the non-financial Group report. The aspect of "social issues" continues to play a subordinate role for STS Group and is classified as not material in the non-financial group report. There is no separate reporting.

In the context of the materiality analysis, no significant non-financial performance indicators were identified that are used for internal control or that are relevant to compensation.

1.3 RISK ANALYSIS

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

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

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

The identification and management of risks in the context of risk management also includes non-financial risks. Financial and non-financial risks are thus identified and managed together within STS Group. Risk management in the context of the non-financial Group report is an integral part of the identification and assessment of risks from the company's business activities with an impact on reportable aspects. Non-financial risks identified in general risk management were assessed again against the background of the risk definition of CSR-RUG. It was examined whether business activities of STS Group, business relationships, products or services result in significant risks that are very probable and have serious negative effects on environmental issues, employee issues, customer and supplier relationships or could lead to violations of human rights and corruption. After applying the risk-minimizing measures, no significant risks could be identified at STS Group in the context of the risk definition of the CSR-RUG.

2 — REPORTABLE ASPECTS

2.1 ENVIRONMENTAL CONCERNS

Quality, safety and the environment are highly valued in STS Group. The values of STS Group reflect its commitment to the environment, which is treated with respect and responsibility. As part of its entrepreneurial activities, STS Group takes it for granted that environmental regulations of the countries in which it is active and produces are observed.

The principles and guidelines are defined in STS Group's quality, health & safety and environmental protection policy.

We respect our environment through

- raising awareness of protecting our environment.
- avoiding impact on the environment by controlling and reducing emissions, waste and consumption of natural resources.
- optimizing the use of natural resources.

In order to manufacture and deliver products that meet legal regulations, STS Group uses already established processes and carries out regular process reviews. The review of processes essentially refers to the regular internal and external audits as part of the ISO 14001 certification. The results of internal and external audits are communicated and necessary improvements are introduced.

STS Group's activities to improve environmental protection are also evident in its approach to the efficient use of raw materials. STS Group tries to continuously improve its processes in order to maximize the recyclability of raw materials produced inhouse and thus to minimize the environmental impact of its products. The environmental management system used by the individual companies is predominantly certified according to the international standard ISO 14001. The environmental management system regulates the responsibilities and processes of operational environmental protection in order to comply with legal requirements and to support the sustainable environmental compatibility of operational processes and products in connection with the responsible use of resources by employees.

As a manufacturing company, the focus for STS Group is the recording of resource consumption and measures to its reduction. Since STS Group acts as a supplier to the global commercial vehicle and automotive industry and is therefore also integrated into its value chain, environmental aspects gain importance in the context of business relationships. By consistently taking responsibility in its field of work and influence, STS Group aims to make its own contribution to global sustainable development. For STS Group, it is therefore an endeavor to unify the processes for reporting of non-financial topics and to create group-wide standards in the long term. It is important to observe and develop continuous transformation processes. Regular reporting on environmental data is carried out at the level of individual companies. At the Group level, the processes are not yet fully standardized so that the environmentally relevant performance indicators are not fully aggregated. STS Group is currently examining a possible standardization of the non-financial key performance indicators in the area of environmental issues.

2.2 EMPLOYEES' CONCERNS

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

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

Due to diverse human resource requirements and laws, the responsibility for human resources and its implementation lies at the country level following local requirements. An employee survey carried out at several locations has shown that the possibility of internal training and professional development is an essential element of employee satisfaction. To meet this requirement, we have intensified our efforts for development and career prospects. Managers were asked to conduct regular appraisals interviews and to discuss the question of possible future career prospects within and outside the company. The results from these discussions form the basis for individual development plans and further training measures. The results of the employee appraisals are supported by regular performance reviews, which should help to harmonize the self-assessment and external assessment of the employees and to define appropriate measures for the development of skills.

In addition to caring about the employees, STS Group is also committed to the world outside of the company. This is shown, among other things, in the funding of local schools or in the granting of scholarships for children of employees.

2.3 RESPECT FOR HUMAN RIGHTS AND FIGHT AGAINST CORRUPTION

The company regards respect for human rights as an important element of its corporate policy. This is reflected in the design of the working conditions for the employees. The provision of a safe and environmentally friendly working environment, the opportunity for employees to develop personally and to contribute to the company's success with their own ideas and an appreciative approach at all levels are important components of this approach. In addition to the principles of behavior already set out in the Code of Conduct, the company is clearly committed to diversity and inclusion, the prohibition of child and forced labor, freedom of association and the right of employee representation, as well as binding regulations on fair working hours and remuneration.

The expansion of the organization of compliance was pushed ahead. In the year under review, a "Code of Conduct" was introduced as guiding code of behavior for all employees of the Group. Its content was developed taking into account the global structures and by involving local HR managers. The company's Supervisory Board approved the current version of the Code of Conduct at its meeting on March 18, 2019. The current version of the Code of Conduct was published on our website.

The Code of Conduct shapes the company's values (integrity, respect, openness and commitment) with the help of concrete behavioral guidelines. It sets clear requirements for our employees to behave in accordance with rules and with integrity when dealing with each other and with our stakeholders. The company expects its managers to demonstrate compliance with the code of conduct as role models and to actively support their further implementation as part of their managerial responsibility. In addition to monitoring the requirements, this also includes active participation in the further development of behavioral instructions and processes to ensure a daily life in compliance with the rules in all areas of the company. STS Group is a young company that invests a broad and considerable effort in the further design of consolidated processes at all levels of activity. The shaping of the compliance requirements must follow this process. The aim of STS Group is to ensure, in addition to the practical handling of management processes, that the conduct of the employees is carried out in accordance with all relevant internal and external rules.

While the company's Compliance Officer is responsible for the compliance issues of antitrust law, money laundering and anti-corruption, other departments are responsible for data protection, export control, environmental protection, risk management, accounting, taxes and capital market law. In the interest of the company, managers are required to develop their respective areas of responsibility mentioned above in view of structures and processes and to document the work results in a suitable and transparent manner. This is the only way to ensure that the employee's behavioral guidelines contained therein can be examined for their conformity with the rules and to be further developed.

For the coming financial year, STS Group plans to introduce an IT-based compliance management system, which includes communication of the behavior guidelines, documentation of instruction measures and the possibility of training employees. It also enables the introduction of a global whistleblower hotline system. This should enable all employees to report suspected cases and unlawful occurrences while maintaining the confidentiality of their identity.

In a series of individual measures in the reporting year, STS Group again emphasized that behavior in compliance with the law and guidelines is understood as being part of the company's set of values and forms the basis of all corporate responsibility. This has made it possible to further sensitize the employees and to induce them to always critically question their day-to-day work, also in view of compliant processes. At the beginning, issues of occupational safety were in the foreground, after appropriate information measures occasionally intensive discussions followed about the design of management processes at the interface with other stakeholders. The way in which suppliers are treated has been redefined, taking into account national and European competition rules. In any case, it was found during the course of the reporting year that many employees actively support the goal of compliant behavior. This not only shows the success of the measures, but also forms a solid basis for further development of the compliance organization planned for 2020.

2.4 CUSTOMER AND SUPPLIER RELATIONSHIPS

STS Group addresses opportunities in technological developments in the commercial vehicle and automotive industries at an early stage. This is only possible with customer proximity and in dialogue with customers, because they shape the future with their specific requirements in line with innovative trends. The primary goal is to provide STS Group's customers the best possible quality standards and product solutions.

The principles and guidelines are defined in the STS Group's quality, health & safety and environmental protection policy (QHSE).

We live quality with passion

- The focus on customers, process orientation and continuous improvement take center stage.
- Our products and services meet or exceed customer expectations.
- With motivated and qualified employees, we are committed to customer satisfaction and quality at the highest level.
- We communicate best practices and experience across the organization.

How we drive the success of the Quality, Health & Safety & Environmental Protection Policy (QHSE)

- We work openly and transparently on all QHSE topics.
- We continuously monitor our results based on set goals and improve our systems, processes and services in order to ensure effectiveness and efficiency.
- We proactively manage risks in our business environment.
- We ensure compliance with laws and other applicable requirements, including international standards, customer and internal requirements.
- We provide resources, skills, equipment and necessary to realize the implementation of this policy.

The locations of the STS Group are certified according to the IATF 16949 standard recognized in the automotive industry. The sustainability of the requirements is ensured by internal audits and by audits of the certification bodies. Based on the results, continuous improvement programs are pursued and the results are communicated.

In line with the strategic importance of customer proximity, customer satisfaction is an important issue within STS Group. Customer satisfaction is achieved in particular through quality and is reflected by long-term customer relationships. Customer satisfaction is also a key driver for the future competitiveness of our own products and services. For this purpose, customer-related key figures are collected and evaluated in the segments on a monthly basis. The key figures for customer performance have high priority in all segments of the STS Group. As part of the integration of the acquired companies, STS Group strives to further improve customer performance and to define suitable group-wide key figures. In addition, the customers of STS Group regularly carry out "customer visits and audits" to evaluate STS Group.

STS Group also follows the quality approach with regard to suppliers. STS Group expects its suppliers to comply with the Supplier Quality Management Guide. This is currently being implemented globally and forms the basis for a trusting and long-term business relationship for STS Group. STS Group is aware of the challenges of a global supply chain, but even a purely national supply chain is no guarantee of compliance with social and environmental standards. Against this background, STS Group carries out regular checks on suppliers with the aim of assessing the quality, compliance with the rules and their ability to act. Regular qualitative and quantitative procedures for supplier assessment are carried out. Criteria such as quality and logistics requirements, adherence to quantities and deadlines as well as price stability are assessed. The process of evaluating existing suppliers and selecting new suppliers in the individual companies is currently underway. As part of further integration of the companies, a uniform procedure with central requirements from the Group level will be pursued in the future. It is also intended to further expand supplier monitoring, particularly with regard to non-financial aspects. Strategic suppliers are reviewed by STS Group at regular intervals, including in 2019. As a result of the review, measures and action plans to improve the supplier relationship are defined and their compliance is systematically checked going forward. The focal points of the audits are determined case-by-case according to the product groups.

A particular focus in 2019 was on the continued development of the global organizational and process structure with the aim of promoting integration of the individual companies. On a country level, measures were developed with the help of joint workshops to enable a smooth and seamless running of business processes on a global level. In particular, we critically reviewed and optimized processes interfacing with our customers.

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