

CORPORATE GOVERNANCE REPORT

The Executive and Supervisory Boards of STS Group AG work to ensure that corporate governance is conducted responsibly, sustainably and transparently. We regard good corporate governance as an essential basis for the long-term success of the Company as a means of equally upholding the interests of our national and international investors, the financial markets, our employees, our business partners and the general public. The foundations of corporate governance are statutory laws, the German Corporate Governance Code (GCGC), the Articles of Association of STS Group AG and the rules of procedure Executive and Supervisory Boards, which inform all decision-making processes.

Following detailed discussion by the Executive and Supervisory Boards of the requirements under German Corporate Governance Code (GCGC), in December 2018 STS Group AG adopted the annual declaration of compliance in line with Section 161 (1) Sentence 1 of the German Stock Corporation Act (AktG) and published this declaration on the Company website www.sts.group.

In the corporate governance report below, STS Group AG outlines the working methods of the Executive and Supervisory Boards in accordance with Section 3.10 of the GCGC.

1 — MANAGEMENT AND CONTROL STRUCTURE

STS Group AG has a dual governance system in place in accordance with statutory provisions governing German stock corporation consisting of the Executive and Supervisory Boards respectively.

1.1 THE SUPERVISORY BOARD

The Supervisory Board is currently constituted of three members, in accordance with Section 95 Sentence 1 AktG. There are presently no employee representatives on the Supervisory Board in accordance with Section 4 (1) of the German One Third Participation Act (DrittelbG) or Section 7 (1) Sentence 1 of the German Co-Determination Act (MitbestG). The terms of office of all Supervisory Board members end at the close of the 2019 General Meeting. The principal provisions governing the Supervisory Board and its constitution are outlined in Sections 10–16 of the STS Group AG Articles of Association and the Supervisory Board rules of procedure.

1.1.1 Supervisory Board objectives

The Supervisory Board has not adopted a resolution in line with Section 5.4.1 (2) of German Corporate Governance Code which defines – other than a target percentage for representation of women on the Supervisory Board – which defines further concrete objectives for the composition of the Supervisory Board – considering appropriately the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of Section 5.4.2 German Corporate Governance Code, an age limit to be specified and a regular limit of length of membership to be specified for the members of the Supervisory Board as well as diversity. When selecting candidates to be proposed for election to the Supervisory Board, STS Group AG always ensures that candidates have the required knowledge, ability and personal experience. STS Group AG has thus determined that adopting concrete objectives in respect to composition is not a suitable means for ensuring that the Supervisory Board is composed of qualified members capable of working efficiently. STS Group AG has therefore disclosed a deviation from the German Corporate Governance Code recommendations in accordance with Section 5.4.1 (2) GCGC in the Company declaration of compliance, in accordance with Section 161 (1) Sentence 1 AktG.

1.1.1.1 Competencies

Nevertheless, STS Group AG holds the view that the current composition of the Supervisory Board conforms with the requirements in accordance with Section 5.4.1 (1) GCGC, pursuant to which the Supervisory Board members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. STS Group AG believes in particular that the Supervisory Board members have the competencies which are considered essential in view of the activities engaged in by STS Group AG. Principally, these include many years of experience, extensive knowledge regarding managing an international automotive enterprise and competency in the areas of production, product development, strategic management and accounting.

1.1.1.2 Independence

Two of the three current Supervisory Board members are members of the Executive Board of the majority shareholder of STS Group AG. In the opinion of the STS Group AG Supervisory Board, there is currently no need for the Supervisory Board to appoint further independent members within the meaning of Section 5.4.2 GCGC as long as the majority shareholder of the STS Group continues to hold a majority stake in STS Group AG. No former members of the Executive Board are Supervisory Board members.

All Supervisory Board members are in compliance with the recommended term limit per Section 5.4.5 GCGC. Bernd Maierhofer is also a Supervisory Board member of VOSS Automotive GmbH in addition to his activity on the STS Group AG Supervisory Board.

1.1.2 Tasks of the Supervisory Board

The Supervisory Board supervises and advises the Executive Board in the management of the enterprise. The Supervisory Board regularly discusses business results, planning and corporate strategy and its execution. The Supervisory Board reviews the single-entity and consolidated annual financial statements, management report, Group management report and the proposal for appropriation of net retained profits. The Board is involved in the process of approval of the annual financial statements and ratification of the consolidated financial statements of STS Group AG, taking auditor reports into account. The Supervisory Board reports on these activities to shareholders at the General Meeting. Key Executive Board decision-making issues such as budget planning, long-term strategy, sale of significant fixed assets, capital measures and major financing and investment decisions are subject to Supervisory Board approval pursuant to Section 5 in conjunction with Appendix 2 of the Executive Board rules of procedure.

1.1.3 Functioning of the Supervisory Board

Due to the low number of members in the Supervisory Board, the STS Group AG Supervisory Board has formed no committees within the meaning of Section 107 AktG. STS Group AG therefore deviates from the recommendations in Sections 5.3.1 and 5.3.3 GCGC. The Supervisory Board as a whole fulfills all duties incumbent upon the Supervisory Board. However, in accordance with Section 3 (1) of the Supervisory Board rules of procedure, the Supervisory Board has elected a Chairman of the Supervisory Board from its ranks, responsible for coordinating the work of the Supervisory Board, chairing Supervisory Board meetings and attending to the affairs of the Supervisory Board externally.

In accordance with Section 8 of the Supervisory Board rules of procedure, Supervisory Board members are obligated to uphold confidentiality with regard to trade and business secrets of STS Group AG and other facts of which they become aware through their work on the Supervisory Board the disclosure of which could impair the interests of STS Group AG.

Specifics concerning the Board's work in financial year 2018 are provided in the Report of the Supervisory Board. An overview of the composition of the Supervisory Board and the curriculum vitae of the Supervisory Board members are available on the STS Group AG website – www.sts.group.

1.2 THE EXECUTIVE BOARD

In line with Article 7 of the STS Group AG Articles of Association, the Company's Executive Board consists of one or more persons. The exact number is determined by the Supervisory Board. Currently the STS Group AG Executive Board is comprised of three members. The key regulations on the organization and the work of the Executive Board are contained in particular in Articles 7 to 9 of the Articles of Association of the STS Group AG and in the rules of procedure for the Executive Board.

1.2.1 Tasks of the Executive Board

The Executive Board is charged with management of STS Group AG and representing the Group externally.

The Board is responsible for preparing the STS Group AG half-year report, interim statements, and the single-entity and consolidated financial statements, management report and Group management report. The Executive Board also ensures that all provisions of law and the enterprise's internal policies are abided by and works to achieve their compliance by Group companies.

The Executive Board is also responsible for convening the General Meeting, although the Supervisory Board and a minority of shareholders also are responsible for convening shareholder meetings.

1.2.2 Functioning of the Executive Board

The Executive Board is responsible for independently managing STS Group AG with the objective of a sustainable creation of value and in the interest of the enterprise. The members of the Executive Board are jointly responsible for the management of the enterprise. The Executive Board determines business policy and the strategic alignment of STS Group AG. Decisions made by the STS Group AG Executive Board are generally made in meetings. Pursuant to Article 9 (4) Sentence 1 of the STS Group AG Articles of Association, the Executive Board is bound to endeavor to arrive at unanimous decisions.

The Executive Board consists of three offices. These are the functions of Chief Financial Officer (CFO) and Chief Operating Officer (COO), in addition to the Chief Executive Officer (CEO), who is appointed by the Supervisory Board. In accordance with Section 2 (1) Sentence 1 in conjunction with Appendix 1 of the Executive Board rules of procedure, the Supervisory Board has set forth the responsibilities assigned to the respective Executive Board members for specific business areas. The individual Executive Board members bear sole responsibility for their assigned business areas, and report to the Executive Board as a whole. The Executive Board as a whole decides on measures and transactions relating to a specific business area which are of extraordinary importance for the enterprise or involve extraordinary business risk. These include in particular matters requiring Supervisory Board approval, material organizational and business policy issues and convening the General Meeting. In addition, the Executive Board as a whole decides on matters submitted by an Executive Board member for resolution by the Executive Board as a whole. In accordance with Section 3 (2) Sentence 2 of the Executive Board rules of procedure, an Executive Board member is obligated in particular to submit such matters if he is concerned about measures which pertain to another business area and has been unable to resolve these concerns in discussion with the Executive Board member in question, or with the involvement of the CEO.

In such case, the measures concerned may not be decided upon until a decision of the Executive Board as a whole has been made.

An overview of the composition of the Executive Board and the curriculum vitae of the Executive Board members are available on the STS Group AG website – www.sts.group.

In accordance with Section 11 of the Executive Board rules of procedure, Executive Board members are obligated to maintain confidentiality regarding any operational and business matters relating to STS Group AG. Executive Board members are also subject to broad non-competition provisions while serving on the Executive Board and for the duration of their respective employment contracts. Supervisory Board approval is required for any sideline activities to be engaged in by members of the Executive Board.

1.2.3 Cooperation between Executive Board and Supervisory Board

Pursuant to Section 1 (1) of the Executive Board rules of procedure and Section 1 (3) of the Supervisory Board rules of procedure, the Executive and Supervisory Boards have a duty to cooperate closely to the benefit of the enterprise. In accordance with Section 90 (1) Sentence 1 of the German Stock Corporation Act (AktG) in conjunction with Section 9 of the Executive Board rules of procedure, the Executive Board is to report regularly, without delay and comprehensively to the Supervisory Board on business activities, business policy and other fundamental corporate planning issues and results, as well as profitability and liquidity. In accordance with Section 3 (4) of the Supervisory Board rules of procedure, the Supervisory Board Chair advises the Executive Board on matters including particularly strategy and business results as well as other important events of material significance to assessing the position, growth and management of the Company and the Group.

1.2.4 Executive Board compensation

The Supervisory Board determines Executive Board compensation, ensuring that compensation is commensurate with the responsibilities and performance of the respective Executive Board member and the Company's business situation and does not exceed the common level of compensation paid in the absence of justifying reasons. The compensation structure must be oriented toward sustainable growth of the enterprise.

Executive Board member compensation is documented in the Remuneration Report included in the STS Group AG management report, posted on the Company website at www.sts.group.

1.3 CAREER DEVELOPMENT OF WOMEN TO MANAGEMENT POSITIONS

Section 111 (5) of the German Stock Corporation Act (AktG) requires that the Supervisory Boards of publicly traded stock corporations establish targets for the representation of women on their Executive and Supervisory Boards. If at the time of establishing such targets the percentage representation of women is less than 30% at the company in question, the target values set may not be below the existing current percentage. At the same time as the targets are specified, deadlines must be determined for achieving the targets which may extend no further than five years in the future.

In a resolution adopted on November 29, 2018, the STS Group AG Supervisory Board set the respective targets for the percentage of female representation on the Executive and Supervisory Boards at 0% as of November 29, 2018, in view of the terms of office of the Executive and Supervisory Board members currently holding office at that time, specifying that this percentage shall apply until after November 28, 2023. However, STS Group AG will endeavor to appoint female candidates to the Executive and Supervisory Boards, principally in the context of long-term succession planning.

In a resolution adopted on November 29, 2018, the STS Group AG Executive Board determined targets for the percentage representation of women in first-tier management below the Executive Board level, setting the attainment date for this at November 28, 2023. STS Group AG has few employees and a flat management structure in place, such that there is only one managerial tier level below the Executive Board level, which is why a percentage for representation of women has been specified only for that managerial level. The target percentage for the representation of women has been set to 0% for the first managerial tier below Executive Board level.

1.4 Purchases and sales of Company shares by Executive and Supervisory Board members

Pursuant to Article 19 of Regulation (EU) No. 596/2014 on Market Abuse (MAR), executive and supervisory board members are legally required to disclose purchases and sales of STS Group AG shares, derivatives on the shares and other relevant financial instruments if the value of the transactions effected by the member in question and related parties to that member exceeds EUR 5,000 in total within the period of a calendar year. Such transactions also have to be reported to the Federal Financial Supervisory Authority (BaFin).

STS Group AG has a process in place for ensuring proper reporting to BaFin and publication of these disclosures, which are then posted on the STS Group AG website, www.sts.group.

2 — SHAREHOLDERS AND GENERAL MEETING

2.1 REPORTING TO SHAREHOLDERS

STS Group AG reports to its shareholders quarterly during the financial year regarding the Company's net assets, financial position and results of operations.

STS Group AG provides comprehensive information about the Company's business as part of our investor relations work, utilizing the internet primarily for reporting and disclosure purposes. In addition to the interim, half-year and annual reports, earnings announcements, ad-hoc disclosures, analyst presentations and press releases, the financial calendar for the current year is posted on www.sts.group, specifying the most important publication dates for financial communications and the General Meeting date.

2.2 CONDUCTING THE GENERAL MEETING

The General Meeting, at which additional reporting on the Company's business takes place, is held within the first eight months of the financial year in accordance with Article 17 (1) of the STS Group AG Articles of Association. Shareholders may exercise their voting rights by proxy at the General Meeting in accordance with Article 18 (4) of the STS Group AG Articles of Association. A proxy must be appointed in writing unless exceptions are provided for in the notice of convening the General Meeting. In accordance with Article 20 of the Articles of Association of STS Group AG, the Executive Board is authorized to permit video and audio broadcasting of the General Meeting. In addition, the Executive Board may, in accordance with Article 18 (5) and (6) of the STS Group AG Articles of Association, provide that shareholders may submit their votes in writing or via electronic communication channels (postal vote) and participate in the General Meeting without being present at the venue where it is held even without a proxy, and may exercise some or all of their rights, wholly or in part, via electronic communication channels (i.e. online participation). To date, neither posting voting nor online participation have been utilized as options. Information to be published on the internet in accordance with Section 124a of the German Stock Corporation Act (AktG) following convening the General Meeting, including particularly the meeting agenda, is made accessible on the STS Group AG website, www.sts.group.

2.3 TASKS OF THE GENERAL MEETING

Shareholders elect the Supervisory Board members at the General Meeting and decide on matters which by law fall within their sphere of responsibility, including particularly the appropriation of net income, the discharge of the actions of the Executive and Supervisory Boards, election of the auditor and any changes to the Articles of Association. Each share held entitles the shareholder to one vote. Changes to the Articles of Association, such as for measures changing capital, are resolved by shareholders at the General Meeting for implementation by the Executive Board. Shareholders may contest resolutions proposed by the Executive and Supervisory Boards and General Meeting resolutions. Shareholders who hold at least EUR 100,000 in share capital in total may also demand that a special auditor be court-appointed to review specific transactions in accordance with the additional requirements per Section 142 AktG.

DECLARATION OF COMPLIANCE

IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

In accordance with Section 161 AktG, the Executive and Supervisory Boards of publicly traded companies must issue an annual declaration of which recommendations made by the Government Commission on German Corporate Governance Code ("the Code"), which are published by the Federal Ministry of Justice in the official disclosures section of the Federal Gazette, the Company is and will be in conformity with, stating what recommendations have not been or will not be adopted. This declaration must be made permanently accessible on the Company's website. Companies are therefore free not to adopt the recommendations per the Code, but then are obliged to disclose this annually, stating explanations. This enables companies to reflect sector and enterprise-specific requirements. Thus, the Code contributes to more flexibility and more self-regulation in the German corporate constitution.

Declaration by the Executive and Supervisory Boards of STS GROUP AG on the recommendations in accordance with the Government Commission on German Corporate Governance Code in accordance with Section 161 AktG

"The Executive Board and Supervisory Board of STS Group AG, headquartered in Hallbergmoos, Freising ("the Company"), hereby declare:

The Company has been in conformance with the recommendations per the "Government Commission on German Corporate Governance Code" as amended on February 7, 2017, published in the Federal Gazette on April 24, 2017, with correction announced in the Federal Gazette on May 19, 2017 ("the Code") since June 1, 2018, which is the date of initial inclusion of the Company's shares in the regulated market of the Frankfurt Stock Exchange (Prime Standard), and will continue to do so, with the following exceptions:

1. Section 3.8 (3) of the Code:

The Code recommends that any D&O insurance policy taken out for a Supervisory Board member have a deductible of at least 10% of the loss up to at least the amount of one and a half fixed the fixed annual compensation of the Supervisory Board member. The Company's D&O insurance does not envisage a deductible of this kind for Supervisory Board members. The Company is of the opinion that a deductible is not a suitable means of influencing the motivation and responsibility of Supervisory Board members positively. The deductible would not be appropriate either given that the Supervisory Board members do not receive variable compensation and neither do they participate in any positive corporate development.

2. Section 4.1.3 Sentences 2 and 3 of the Code:

The Code recommends that the Executive Board ensure there is an adequate compliance management system in line with the risk situation of the enterprise and disclose the salient points of this system. In addition, employees and third parties should have a suitable method of providing protected tips in respect to legal violations in the enterprise. The Company does not have a compliance management system in place, nor a 'whistleblowing' system enabling employees and third parties to call attention to legal violations in the enterprise in suitable, identity-protected fashion. The Company believes that both the above recommendations are highly relevant and proper, and thus has created capacity for their implementation and prepared corresponding measures in the course of the year.

3. Section 4.2.3 (4 and 5) of the Code:

The Code recommends that when concluding Executive Board contracts that payments made to an Executive Board member on premature termination of his contract, including fringe benefits, do not exceed the value of two years' compensation (severance pay cap) and compensate no more than the remaining term of the employment contract. A severance payment cap clause will be included in new Executive Board contracts. This shall not apply to existing contracts or to renewals of contracts which do not provide for a severance cap, i.e. Executive Board contracts are subject to a grandfathering.

4. Section 5.3.1 and 5.3.3 of the Code:

The Code recommends that depending on the specifics of the enterprise and the number of its members, the Supervisory Board should form committees with sufficient expertise. The Company's Supervisory Board consists of only three persons, thus no committees have been formed.

5. Section 5.4.1 (2) of the Code:

The Code recommends that the Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into appropriate account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of Section 5.4.2, an age limit to be specified and a regular limit of length of membership to be specified for the members of the Supervisory Board as well as diversity. The Supervisory Board has not adopted any resolutions defining concrete objectives goals regarding the composition of the Supervisory Board. The Company believes that the current composition of the Supervisory Board meets the requirements in line with Section 5.4.1 (2) of the Code. When selecting candidates to be proposed for election to the Supervisory Board, the Company always ensures that candidates have the required knowledge, ability and personal experience. The Company has thus determined that adopting concrete objectives in respect to composition is not a suitable means for ensuring that the Supervisory Board is composed of qualified members capable of working efficiently.

6. Section 5.4.6 (1) Sentence 2 of the Code:

The Code also recommends that the Chair and Deputy Chair positions in the Supervisory Board as well as the chair and membership in committees be taken into account when deciding the compensation of Supervisory Board members by resolution of the General Meeting or in Articles of Association. The compensation scheme for Supervisory Board members currently takes into account the offices of Supervisory Board Chair, Vice-Chair and committee chairs, but does not take into account committee membership. In view of the size of the Supervisory Board, namely three members, the Company does not consider this necessary.

7. Section 7.1.2 Sentence 3 of the Code:

The Code recommends that the consolidated financial statements be made publicly accessible within 90 days of the end of the financial year; interim reports be publicly accessible within 45 days of the end of the reporting period. The Company meets legal requirements to publish the consolidated financial statements within the first four months of the Group's financial year, and will publish the Code Declaration of Conformity together with the consolidated financial statements. Because of the time required to carefully prepare interim reports, until further notice the Company is observing the same legal deadlines for publication for the respective interim reports. However, the Company endeavors to minimize the amount of time required for publication of the consolidated financial statements and interim reports to the extent possible.

Hallbergmoos, December 2018

STS Group AG
The Executive Board

The Supervisory Board"