

# DECLARATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF STS GROUP AG ON THE RECOMMENDATIONS OF THE GOVERNMENT COMMISSION OF THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SEC. 161 OF THE GERMAN STOCK CORPORATION ACT (*AKTIENGESETZ*)

The Management Board and Supervisory Board of the STS Group AG with its registered office in Hallbergmoos, District of Freising, (the “**Company**”) declare the following:

The Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code in its latest version dated 16 December 2019, published in the Federal Gazette (*Bundesanzeiger*) on 20 March 2020 (the “**Code**”), since the last Declaration of Conformity in February 2021 and will continue to comply with them in the future, in each case with the following exceptions:

## **1. Recommendation B.5 of the Code:**

The Code recommends that an age limit be specified for members of the Management Board and stated in the Corporate Governance Declaration.

The Supervisory Board has not passed any resolution specifying a concrete age limit for members of the Management Board, which is why no information can be provided in the Corporate Governance Declaration. The Supervisory Board is of the opinion that the decisive factor in the selection of candidates is that they are persons who have the knowledge, skills and professional and personal experience required to properly perform their duties. The Company is convinced that these requirements are not linked to a specific age, which is why the Company does not consider a specific age limit for members of the Management Board to be suitable for ensuring that the persons concerned have the necessary skills.

## **2. Recommendation C.1 of the Code:**

The Code recommends that the Supervisory Board should specify concrete objectives for its composition and draw up a competence profile for the entire body. In doing so, the Supervisory Board should pay attention to diversity.

Proposals by the Supervisory Board to the Annual General Meeting should take these objectives into account and at the same time aim to fill out the competence profile for the entire body. The status of implementation shall be published in the Corporate Governance Declaration. This shall also provide information on the number of independent shareholder representatives on the Supervisory Board, as deemed appropriate by the shareholder representatives, and the names of these members.

The Supervisory Board has not passed any resolution specifying concrete objectives regarding the composition of the Supervisory Board or a competence profile for the entire body. The Company is of the opinion that the current composition of the Supervisory Board complies with the requirements of the recommendation C.1 of the Code. When selecting candidates to be proposed for election to the Supervisory Board, the Company always ensures that these are persons who possess the knowledge, skills and professional and personal experience required to properly perform their duties. For this reason, the Company concludes that set objectives in terms of specific composition are unsuitable for the election of an efficient and qualified Supervisory Board.

### **3. Recommendation C.2 of the Code:**

The Code recommends that an age limit be specified for members of the Supervisory Board and stated in the Corporate Governance Declaration.

The Supervisory Board has not passed any resolution specifying a concrete age limit, which is why no information can be provided in the corporate governance declaration. With reference to the above comments on the recommendation C.1, the Company is of the opinion that the decisive factor in the selection of candidates is that they are persons who possess the knowledge, skills and professional and personal experience required to properly perform their duties. The Company is convinced that these requirements are not linked to a specific age, which is why the Company does not consider a specific age limit for Supervisory Board members to be suitable for ensuring that the persons concerned have the necessary skills.

### **4. Recommendation C.10 of the Code:**

The Code recommends that the Chairman of the Supervisory Board, the Chairman of the Audit Committee and the Chairman of the Committee dealing with the compensation of the Management Board should be independent of the

Company and the Management Board. The Chairman of the Audit Committee should also be independent of the controlling shareholder.

It is the conviction of the Company that the Chairman of the Supervisory Board is independent of the Company and the Management Board. However, as the Supervisory Board of the Company consists of only three persons in accordance with the Articles of Association, no committees are formed, with the exception of the Audit Committee, which is now mandatory under Sec. 107 para 4 of the German Stock Corporation Act (*AktG*). Accordingly, the Company does not have a Chairman of the Committee dealing with the compensation of the Management Board, but only a Chairman of the Audit Committee. The latter is in the conviction of the Company also independent of the Company and the Management Board but not independent of the controlling shareholder due to his position on the board of the majority shareholder. The primary objective of the Company was initially to comply with the new statutory obligation to establish an Audit Committee without at the same time adding further members to the Supervisory Board. In view of the extraordinary workload of the Chairman of the Supervisory Board, which would be associated with a combination of the duties of Chairman of the Supervisory Board and Chairman of the Audit Committee, it was more important from the point of view of the Company that the Chairman of the Supervisory Board should not at the same time be Chairman of the Audit Committee, which is why the lack of independence of the Chairman of the Audit Committee vis-à-vis the controlling shareholder will be accepted for the foreseeable future, especially as the Company is convinced that the institutional separation of the Audit Committee and the Management Board already ensures a high degree of independence.

#### **5. Recommendation D.1 of the Code:**

The Code recommends that the Supervisory Board should adopt Rules of Procedure and make them available on the Company's website.

Although the Supervisory Board has adopted Rules of Procedure, it has deliberately decided not to publish them on the Company's website. The Supervisory Board is of the opinion that the Rules of Procedure contain very detailed regulations for cooperation within the Supervisory Board and with the Management Board, but that these only relate to internal processes within the body or between the bodies and that making the Rules of Procedure accessible therefore offers no added value for investors. Conversely, however, the Rules of

Procedure also contain confidential statements with regard to measures requiring approval, which are deliberately not intended to be published.

**6. Recommendation D.2, D.3 sentence 1, D.4, D.5 and D.11 of the Code:**

The Code recommends that the Supervisory Board should form professionally qualified committees depending on the specific circumstances of the Company and the number of its members. The respective committee members and the respective chairman of each committee should be named in the Corporate Governance Declaration. The Supervisory Board shall set up an Audit Committee which - insofar as no other committee or the Supervisory Board as a whole, is entrusted with this task - shall deal in particular with the financial audit, the monitoring of the financial auditing process, the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as the final financial audit statements and compliance. The Chairman of the Audit Committee shall have special knowledge and experience in the application of financial auditing principles and internal control procedures and shall be familiar with the final financial audit statements as well as being independent. The Chairman of the Supervisory Board shall not chair the Audit Committee. The Supervisory Board shall form a Nomination Committee composed exclusively of shareholder representatives which nominates suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting for the election of Supervisory Board members. The Audit Committee shall regularly assess the quality of the final financial audit statements.

As the Supervisory Board of the Company consists of only three persons in accordance with the Articles of Association, no committees are formed - apart from the Audit Committee, which is mandatory by law (cf. Sec. 107 para 4 of the German Stock Corporation Act (*AktG*)). Accordingly, the above recommendations do not apply to the Company in this respect, or the Company cannot comply with the above recommendations. Due to the fact that the Audit Committee is also the body of the Supervisory Board, all members of the Audit Committee, in addition to the body, deal in particular with the financial audit, the monitoring of the financial auditing process, the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as the final financial audit statements and compliance. The Chairman of the Audit Committee also has special knowledge and experience in the application of financial auditing principles and internal control procedures and does not

simultaneously hold the office of Chairman of the Supervisory Board. However, the Chairman of the Audit Committee is not in depth familiar with the final financial audit statements and – as explained in Section C.10 – is not independent of the controlling shareholder. The primary objective of the Company was initially to comply with the new statutory obligation to establish an Audit Committee without at the same time adding further members to the Supervisory Board. In view of the extraordinary workload of the Chairman of the Supervisory Board, which would be associated with a combination of the duties of Chairman of the Supervisory Board and Chairman of the Audit Committee, it was more important from the point of view of the Company that the Chairman of the Supervisory Board should not at the same time be Chairman of the Audit Committee, which is why on the one hand the lack of independence of the Chairman of the Audit Committee vis-à-vis the controlling shareholder and on the other hand the lack of familiarity with the final financial audit statements are accepted for the foreseeable future. This is particularly the case against the background that the Supervisory Board, due to its size, corresponds to the Audit Committee and thus the Chairman of the Supervisory Board, who is also familiar with the audit of the financial statements, is also a member of the Audit Committee, which, in the view of the Company, ensures the appropriate competence of the Audit Committee.

#### 7. Recommendation D.12 of the Code:

The Code recommends that the Company should provide appropriate support for the members of the Supervisory Board during their induction into office and during training and development measures, and report on the measures taken in the Supervisory Board's report.

The Company did provide appropriate support to the Supervisory Board members newly appointed by the Annual General Meeting in July 2021 during their induction into office. However, no training or continuing education measures were carried out by the Supervisory Board members during the relevant period, due in particular to the limited opportunities in connection with the CoViD19 pandemic. For the future, the Company again intends to provide appropriate support for the members of the Supervisory Board in terms of training and continuing education measures; discussions with providers of corresponding training courses are currently underway; training courses are intended for the current fiscal year.

### **8. Recommendation F.2 of the Code:**

The Code recommends that the Consolidated Financial Statements and the Group Management Report should be publicly accessible within 90 days of the end of the fiscal year, and the mandatory Interim Financial Information within 45 days of the end of the reporting period.

With regard to the legal requirement to publish the Consolidated Financial Statements within the first four months of the Group's fiscal year, the Company complies with the legal requirements. They were published on 07 April 2021, just a few days after the recommended deadline by the Code. Due to the time required for the careful preparation of Interim Reports, the Company has also followed the statutory publication deadlines for the respective interim reports. However, the Company endeavours to reduce the time required for the publication of Consolidated Financial Statements and Interim Financial Information to an absolute minimum.

### **9. Recommendation G.3 of the Code:**

The Code recommends that, in order to assess the customary nature of the specific total compensation of the members of the Management Board in comparison with other companies, the Supervisory Board uses a suitable comparison group of other companies (peer group comparison), the context of which it discloses.

The contractual documents regarding the compensation of the members of the Management Board does not currently provide for a comparison with the compensation of the Management Board of other companies. Nevertheless, the compensation of the Management Board should be based on the Management Board compensation system resolved at the Annual General Meeting on 23 July 2021, which provides for a comparison with other suitable companies under item 3. An additional explicit mention in the contractual basis of the compensation of the Management Board was therefore not considered necessary. In addition, the previous Management Board member's contract was ultimately an interim contract with a probationary period, which had to be drawn up very quickly due to the change of the Management Board member at short notice in the middle of last year which is why there was insufficient time for a genuine peer group comparison. In the case of the new Management Board member, a peer group

comparison is to be carried out promptly and taken into account when determining the customary level of specific total compensation.

#### **10. Recommendation G.4 of the Code:**

For the purpose of assessing customary practice within the Company, the Code recommends that the Supervisory Board takes into account the ratio of the compensation of the Management Board to that of senior executive level and the workforce as a whole, and this also in terms of its development over time.

This recommendation is currently not taken into account, as the Company is undergoing a period of upheaval in the fiscal year 2021 and probably still in fiscal year 2022 as a result of the takeover by the new majority shareholder. In addition, the Company had only two employees at the same time below the senior executive level in fiscal year 2021. As the only comparison subjects, these two are not sufficiently meaningful. The Management Board also currently consists of only one sole Management Board member, so that a comparison with the compensation of other Management Board members is also ruled out. Nevertheless, it is intended to take into account the compensation of senior executives and the workforce as a whole in the future, if and to the extent that a comparison appears meaningful.

#### **11. Recommendation G.6 of the Code:**

The Code recommends that the variable compensation resulting from the achievement of long-term goals should not exceed the share resulting from the achievement of short-term goals.

This recommendation has not been implemented as the compensation of the Management Board has been affected by the aforementioned takeover process. However, the recommendation can be implemented in the foreseeable future; the Supervisory Board intends to adjust the contractual basis accordingly.

#### **12. Recommendation G.10 of the Code:**

The Code recommends that the variable compensation amounts granted to the Management Board member should be invested by the respective member mainly in shares of the Company, taking into account the respective tax burden, or be granted accordingly, share-based.



This recommendation was not implemented as the contractual basis for this was lacking and was not implementable in the current situation of the Company and will not be implementable in the foreseeable future.

### **13. Recommendation G.11 of the Code:**

The Code recommends that the Supervisory Board should have the possibility to take account of extraordinary developments to an appropriate extent. In justified cases, it should also be possible to withhold or demand the return of variable compensation.

This recommendation was not implemented because the Company assumed that the variable compensation model already takes extraordinary developments into account through its automatic mechanism. Firstly, specific criteria are redefined for each Management Board member at the beginning of each year. Secondly, a payable variable compensation only arises if at least 80% of the target, such as EBITDA, is achieved.

### **14. Recommendation G.12 of the Code:**

The Code recommends that in the event of termination of a Management Board contract, the payment of any outstanding variable compensation components attributable to the period up to the termination of the contract should be granted in accordance with the originally agreed objectives and comparison parameters and in accordance with the due dates or holding periods specified in the contract.

From the Company's point of view, this recommendation is achieved by other means: the compensation of the Management Board modifies the recommendation in such a way that the payment of the variable compensation components is even waived if the due date for payment falls on a date after the termination of the Management Board contract. The Company assumed that the Management Board member should only be able to participate in the achievement of the agreed objectives if he or she has an existing Management Board contract, as this was the only arrangement that would bind the Management Board member to the Company. A change is not planned in the foreseeable future.

### **15. Recommendation G.15 of the Code:**



The Code recommends that where members of the Management Board hold Supervisory Board mandates within the Group, the compensation should be credited.

This recommendation was indirectly implemented, but does not contain the envisaged automatism: The contractual basis for the compensation of the Management Board stipulates that prior approval by the Company is required for cases of intra-Group Supervisory Board mandates. In addition, it should only be agreed how to deal with the further intra-Group Supervisory Board mandate once approval has been obtained. The implementation of the recommendation is therefore laid down in the contractual basis and, therefore, can be implemented. The Supervisory Board shall ensure that in cases of intra-Group Supervisory Board mandates the recognition of compensation is also guaranteed in the future.

#### **16. Recommendation G.16 of the Code:**

The Code recommends that in the case of the assumption of Supervisory Board mandates from outside the Group, the Supervisory Board should decide whether and to what extent the compensation is to be credited.

This recommendation has been implemented in accordance with the aforementioned explanations to the recommendation G.15: The contractual basis for the compensation of the Management Board also provides for an agreement on how to deal with such mandates in individual cases. The implementation of the recommendation is therefore also laid down in the contractual basis and can therefore be implemented. The Supervisory Board shall ensure that in cases of Supervisory Board mandates from outside the Group the compensation is also taken into account in the future.

#### **17. Recommendation G.17 of the Code:**

The Code recommends that the compensation of Supervisory Board members should take appropriate account of the greater time commitment of the Chairman and Vice Chairman of the Supervisory Board and of the chairman and members of committees.

The compensation of Supervisory Board members currently takes into account the Chairman of the Supervisory Board, but not the Vice Chairman of the Supervisory Board or the chairman or membership of committees. In determining the compensation system for the members of the Supervisory

Board, the Company assumed that, in view of the intended division of tasks or work among the members of the Supervisory Board, the Chairman of the Supervisory Board would probably have a significantly higher time commitment, but not the Vice Chairman compared with the third member of the Supervisory Board. For this reason, the compensation of the Supervisory Board members only takes appropriate account of the higher time commitment of the Chairman. The Chairman of the Audit Committee is not taken into account because the Company does not anticipate any significant additional expenses in this respect either. As the Company has not formed any committees, apart from the Audit Committee, given the size of the Supervisory Board (three members), the above recommendation is not relevant to the members of committees.

Hallbergmoos, February 2022

**STS Group AG**

**Management Board**

**Supervisory Board**