STS Group

Half-year report

www.sts.group

January 1 to June 30

2018

AT A GLANCE

RESULTS OF OPERATIONS

in kEUR	H1 2018	H1 2017
Revenues	218,216	109,067
Segment Acoustics	68,577	68,066
Segment Plastics	107,210	41,001
Segment China	25,951	0
Segment Materials	21,876	0
Corporate/consolidation	–5,398	0
EBITDA	6,936	44,535
Adjusted EBITDA	16,496	5,215

Reconciliation to Adjusted EBITDA		
EBITDA	**6,936**	**44,535**
Adjustments	9,560	–39,320
Income from bargain purchases	0	–41,965
Legal and consulting fees	3,798	2,034
Severance costs	1,277	505
TSA costs	877	106
IPO costs	3,608	0
Adjusted EBITDA	**16,496**	**5,215**

The STS Group AG and its subsidiaries (together also referred to as the "Group" below) is a globally leading commercial vehicle system supplier for the automotive industry in the soft and hard trim sector and counts international commercial vehicle manufacturers and car makers among its customers. With currently 17 locations in seven countries and over 2,500 employees, the Group is in a good position.

In the first half of 2018, the Group generated revenue growth of over 100% compared to the first half of 2017. Revenue amounted to 218.2 mEUR as of June 30, 2018. All segments, namely Acoustics, Plastics, China and Materials, contributed to this increase, which was highest in the Plastics segment with growth of 41.0 mEUR to 107.2 mEUR. The considerable revenue increase due to inorganic growth underscores the positive development for the achievement of the Group's growth targets. In addition, the new orders won in North America and China in the first half of 2018 also support the pursued growth strategy.

The more than threefold increase compared with the first half of 2017 in adjusted EBITDA is equally gratifying to report. Adjusted EBITDA is derived from EBITDA. EBITDA amounted to 44.5 mEUR as of June 30, 2017 as a result of the extraordinary income from acquisitions and declined to 6.9 mEUR as of June 30, 2018. The EBITDA as of June 30, 2018 is adjusted for the extraordinary items of the IPO and legal and consulting costs, severance costs and TSA costs in this context and resulting from integration. This results in adjusted EBITDA of 16.5 mEUR as of June 30, 2018.

CONTENT

DEAR SHAREHOLDERS,

The first report as a publicly traded company is something special.
We are delighted to present the business performance of STS Group AG and its subsidiaries in the first half of 2018 to you in this half-year report.

STS Group AG makes its stock market debut in the Prime Standard

The main event in the reporting period from January to June 2018 was of course our initial public offering. As a subsidiary of Munich-based investment company Mutares AG, which continues to hold 63.8% of the shares as strategic majority shareholder, we made our debut on the Frankfurt trading floor in the Prime Standard on June 1, 2018. Including the greenshoe option, 2,300,000 shares were offered. The placement volume amounted to 52.1 mEUR. 2,172,172 shares were effectively placed at an issue price of 24.00 EUR. STS Group AG received 24.0 mEUR of this as gross proceeds. At 24.00 EUR, the initial listing was equal to the issue price. Overall, we therefore generated a very good result in a challenging market environment with our IPO. In line with our strategy, we want to invest the funds raised in growth and thus simultaneously in the future viability of our Company.

Business performance in the half-year reporting period

We met our targets in the first half of 2018. STS Group AG generated revenue of 218.2 mEUR. The Company posted earnings before interest, taxes, depreciation and amortization (EBITDA) of 6.9 mEUR. Adjusted EBITDA amounted to 16.5 mEUR, having been adjusted primarily for integration costs and expenses for the IPO and the conversion of Group accounting to International Financial Reporting Standards (IFRS) that this required. Revenue and earnings therefore developed in line with the management's expectations in the reporting period. All four business units – Acoustics, Plastics, China and Materials – contributed to the positive business figures and the sound statement of financial position. All in all, the acquired entities were integrated faster than expected in the half-year reporting period. However, the start-up costs at our Polish plant were higher than expected.

Sustainable growth through acquisitions

Development in the reporting period was chiefly influenced by the three strategic acquisitions made in the last financial year and the 2016 financial year, namely the Mecaplast Group's (today: Novares) commercial vehicle supplier business acquired at the end of 2016, the Plastic Omnium Group's commercial vehicle supplier business and a Brazilian plant acquired from the Autoneum Group. In particular, the truck business of the Plastic Omnium Group and the Mecaplast Group with production sites in China, Mexico, France and Germany significantly expands our product portfolio with injection-molded and SMC components for external and internal parts and for truck cabins and light commercial vehicles. At the same time, we are expanding our market presence with the important regions of China and North America. By acquiring the Autoneum Group's Brazilian production site, we have also successfully expanded our business activities into South America. Following the full integration of the acquired companies, synergies are expected to be realized in the current and the next financial year.

The acquisitions we have made form a solid foundation for further growth. At the same time, we operate in a steadily growing market in which we have established ourselves as a reliable partner with many years of expertise. Our products are in demand from leading OEMs. This is also reflected in the new orders from two renowned truck manufacturers that we received at the beginning of the second half of 2018. For example, the Group will supply front modules for a major European commercial vehicle manufacturer with a total volume of 150.0 mEUR in the years to come. The order from a North American commercial vehicle manufacturer is of strategic importance to us. From the second half of 2021, the Group will supply driver's cab parts for heavy trucks to the customer. With this order, we are entering the North American commercial vehicle market and enlarging our global presence. In connection with our IPO, this was one of the priority targets of our corporate strategy. At the beginning of the second half of the year, we were able to enter the Chinese market with another new order to supply a battery cover for an electric vehicle model. This strategically important order will enable us to become a Tier 1 supplier for an EV OEM in China.

Strong footprint

Thanks to our broad geographical footing, we are in a very good position to benefit from the robust growth of the commercial vehicle market. With our 17 sites and four development centers, we are represented in seven countries and on four continents. At the same time, it is important to us that our plants are located close to the respective OEMs, our customers. We are well positioned in Europe. The expansion of our presence into Eastern Europe has already begun with our plant in Poland. As mentioned above, we are entering one of the largest commercial vehicle markets in the world in North America. By comparison, we have already long been represented in the world's largest truck market: China. With our clear focus on the production of high-quality plastics components and our profound market knowledge, we are excellently qualified to grow sustainably in this market. Two plants are already in operation in China; a third is under construction and is scheduled to start production in the first quarter of 2019. We also have a state-of-the-art development center in Jiangyin. We are therefore able to promote and influence developments with regard to cutting-edge components. We can also adapt trends as soon as possible and implement them profitably. In addition, we will open our new Chinese headquarters in Wuxi at the end of 2018.

Partner for our customers

We aim to offer our customers everything from a single source, literally from the initial idea to the finished product. With our three technologies, we can offer our customers a broad and attractive product range. Thanks to our high vertical integration, we can respond quickly and flexibly to customer requirements. We have great know-how and great experience and simultaneously the ambition to convince with innovative products and a first-class cost/benefit ratio.

Outlook

The integration of the companies acquired at the end of 2016 and in 2017 is going according to plan. This includes all important steps such as the separation of the IT systems from the previous groups and the termination of the ongoing transitional service agreements by the end of the current financial year.

With sales and earnings figures for the first half of 2018, STS Group AG is on target. The current course of business shows continued robust demand for the STS Group's products and services. Based on the acquisitions made in the second half of 2017, the Management Board currently expects consolidated revenue to be at least 30% above the prior-year level of 310 mEUR. With regard to the Adjusted EBITDA, the Management Board expects a significant increase compared to the Adjusted EBITDA of the 2017 financial year of 14.2 mEUR.

We would also like to take this opportunity to thank our employees for their passion and commitment in the first half of 2018. We thank you, dear shareholders, for the trust you have placed in us.

Hallbergmoos, September 26, 2018

Andreas Becker (CEO) **Stephan Vrublovsky (CFO)** **Patrick Oschust (COO)**

STS GROUP AG ON THE CAPITAL MARKET

STS GROUP AG HEADS TO THE TRADING FLOOR

The parent company Mutares AG directed the capital market's attention to its holding the STS Group AG for the first time on March 8, 2018 when it signaled a potential (partial) exit. On April 23, 2018, the Executive Board of STS Group AG officially announced the planned flotation on the Frankfurt Stock Exchange: the placement of new and existing ordinary shares in the Prime Standard segment of the Regulated Market in order to finance the leading commercial vehicle system supplier's growth strategy, especially the expansion of the strong market position in the global automotive market. China and North America also present the STS Group AG with significant growth potential in the dynamic market for vehicles.

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144 mEUR
market capitalization of STS Group AG at the end of the first trading day

The STS Group AG announced the details of the initial public offering on May 14, 2018 and set the price range for the placement of new and existing ordinary shares at 26.00 EUR to 32.00 EUR per share when it published the approved securities prospectus. The subscription offer comprised a total of 2,300,000 shares, of which 1,000,000 shares from a capital increase, 1,000,000 shares from the holding of the sole shareholder Mutares AG and 300,000 shares from greenshoe option, likewise from the placement of existing shares. The placement volume amounted to 52.1 mEUR. On June 29, 2018, all the 2,172,172 shares offered were placed at an offer price of 24.00 EUR per share, of which STS Group AG received EUR 24.0 mEUR as gross issue proceeds.

On June 1, 2018, STS Group AG made its trading floor debut when it was listed on the Frankfurt Stock Exchange. The initial price quoted in the Prime Standard segment of the Regulated Market was equal to the issue price at 24.00 EUR. At the end of the first day of trading, the share was listed at 24.00 EUR and had held out against generally muted sentiment on the stock markets. At this point, the market value of STS Group AG was 144.0 mEUR with a free float of around 28.2%.

The IPO was assisted by Hauck & Aufhäuser Privatbankiers Aktiengesellschaft as sole global coordinator and MAINFIRST BANK AG as joint bookrunner.

SHARE INFORMATION

Stock exchange	Xetra, Frankfurt, Berlin, Dusseldorf, Stuttgart, Tradegate
Symbol	SF3
Total number of shares	6,000,000
Share capital	6,000,000 EUR
ISIN	DE000A1TNU68
WKN	A1TNU6
Market segment	Regulated market
Transparency level	Prime standard
Designated sponsor	Hauck & Aufhäuser Privatbankiers AG

CAPITAL MARKET ENVIRONMENT

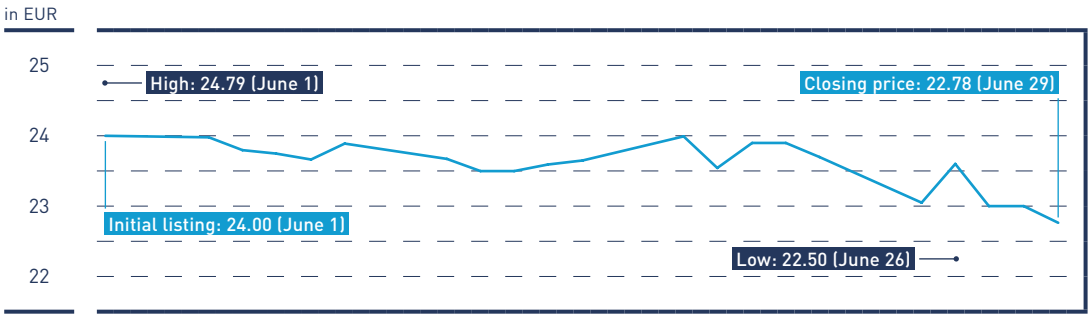
With tailwind from economic data and leading indicators, which depicted a dynamically growing global economy in conjunction with a low rate of inflation, capital market participants made a confident start to the 2018 trading year. Nevertheless, the first part of the year became unexpectedly challenging for international stock markets as it went on. Concerns about negative consequences for the global economy due to the escalation of simmering trade disputes, financing stress on the US bond market and the USA's protectionist foreign policy marred the growth prospects at the end of the first quarter of 2018, which remained fundamentally positive on a global scale. In the second quarter, the global stock markets partially compensated for the price losses at the start of the year, supported by initial signs of a restabilizing global economy and the persistently positive development of corporate profits.

The international stock markets experienced an unexpectedly challenging start at the beginning of 2018.

The DAX (German stock index) opened the trading year on January 2, 2018 at 12,897.69 points and after an interim high of 13,596.89 points on January 23, 2018 registered a price decline to 11,726.62 points on March 26, 2018. The DAX, a barometer of German industry, ceased trading in the first half of 2018 on June 29, 2018 with a closing level of 12,306.00 points and a price loss of around 4.7%.

SHARE: PRICE PERFORMANCE AND TRADING VOLUME

PRICE PERFORMANCE (JUNE 1, 2018 TO JUNE 30, 2018)



136.7 mEUR

Market capitalization as of June 29, 2018

After a successful IPO, the STS Group AG share proved resilient in a generally weak capital market environment. Its high was 24.79 EUR on June 1, 2018. It marked its low at 22.50 EUR on June 1, 2018. At a closing price of 22.78 EUR on June 29, 2018, the STS Group AG's shares closed the first half of the year down 5.1% and on a similar level to the German stock index (DAX).

STS Group AG's market capitalization amounted to 136.7 mEUR as of June 29, 2018 on the basis of 6,000,000 outstanding shares. At the IPO on June 1, 2018, the market value was 144.0 mEUR with the same number of shares and the initial listing of 24.00 EUR (all information based on Xetra prices). Since the IPO, the average daily trading volume of STS Group AG shares on all German stock exchanges has amounted to 12,156.

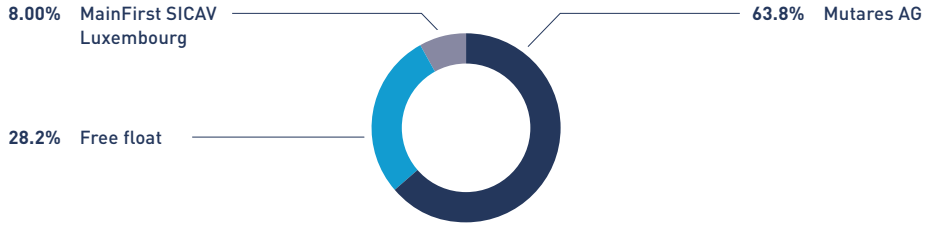
SHAREHOLDER STRUCTURE

28.2 %

As of June 30, 2018, 28.2% of the shares were in free float.

The Company has a balanced ratio of free float and institutional investors, including the majority interest of a strategic anchor investor. As of June 30, 2018, 28.2% of the shares were in free float. Mutares AG is STS Group AG's largest shareholder with 63.8% of the voting rights. MainFirst SICAV Luxembourg holds 8.0% of the shares.

SHAREHOLDER STRUCTURE



ANALYST RESEARCH

STS Group AG's share was analyzed and evaluated in the reporting period by Hauck & Aufhäuser Privatbankiers, a renowned research house. The analysts focused their assessments on a major order that underscored the expansion strategy. In a study published on July 12, 2018, analyst Christian Glowa affirmed his buy recommendation for the STS Group AG share with a price target of 33.00 EUR.

INVESTOR RELATIONS ACTIVITIES

FINANCIAL CALENDAR

11/21/2018
Quarterly Report (Q3)

11/26 – 11/28/2018
German Equity Forum, Frankfurt/Main, Germany

STS Group AG's share is listed in the strictly regulated Prime Standard market segment of the Frankfurt Stock Exchange. The Company informs its shareholders and the participants in the capital market about major business events or events with significance for price performance immediately via ad hoc notification or Corporate News. In addition, the Executive Board of STS Group AG maintains close contact to investors, analysts and the financial and business press. The Executive Board continued to hold numerous individual discussions with the above target groups after the successful IPO and the end of the reporting period. Furthermore, the Executive Board presented STS Group AG at roadshows and participated in the ZKK Zürich Capital Market Conference in Zürich, Switzerland, in early September 2018. The Investor Relations pages of STS Group AG's website at sts.group offer a comprehensive insight into business performance.

Hauck & Aufhäuser Privatbankiers AG acted as designated sponsor in the first half of 2018 and continuously supported the appropriate tradability of the STS Group AG share with binding bid and ask prices.

BASIS OF THE GROUP

BUSINESS MODEL

STS Group AG is a globally leading system supplier for the commercial vehicle and automotive industry in the soft and hard trim sector. The Group has more than 2,500 employees around the world. Headquartered in Germany, the Group operates 17 locations in seven countries on four continents with production sites in its regional markets in Europe, China and the Americas.

OVERVIEW OF LOCATIONS

17
Locations worldwide

4
Research and development centers

>2,500
Employees

The Group produces parts and systems for commercial vehicles and cars. The customer base includes most well-known commercial vehicle manufacturers and carmakers, including many market leaders. For fast product development and innovation, the Group has four research and development centers, two in France and one each in Italy and China.

The Group's business activities are divided into four segments:

- **Acoustics:** This segment encompasses all soft trim products. Soft trim applications have acoustic and thermal properties that reduce noise and protect against heat.
- **Plastics:** This segment contains hard trim products made via injection molding and SMC thermo-compression (excluding the China segment, as the segment is presented separately). Hard trim applications are used for external parts (e. g. front modules and aerodynamic paneling) or interior modules ("bunk box" under the driver's bed and shelf elements) and structural components (tailgate). The segment also has its own capacity for painting plastics.

- **China:** This segment concentrates its production of plastic parts, mainly for commercial vehicles, on the regional market in China. The product range comprises external parts (bumpers, front paneling, deflectors, fenders, step plates, etc.) and structural components, e. g. for the tailgate or battery covers. These are made with SMC compression processes and thermoplastic technologies. The segment also has its own capacity for painting plastics.
- **Materials:** This segment comprises the production of semifinished products, namely sheet molding compounds (SMC), bulk molding compounds (BMC) and advanced molding compounds (AMC). The semifinished products are used within the Group for hard trim applications as well as supplied to external third parties.

2016 and 2017 the STS Group grew significantly through acquisitions

Historically, the Group has seen significant growth through acquisitions, especially in the 2016 and 2017 financial years. It originally arose from the acquisition of the commercial vehicle business of the Swiss-based Autoneum Group, which was acquired in 2013 by the STS Group AG's majority shareholder, Mutares AG, as part of a carve-out. The Group acquired the truck business of the French automotive supplier Mecaplast France SAS (now Novares France) in December 2016, thus entering the hard trim business. By acquiring the Plastic Omnium Group's commercial vehicle supplier business in June 2017, the Group significantly expanded its product portfolio with SMC pre-products and SMC components for external parts for truck cabins and light commercial vehicles and structural components for cars (tailgate). The production site in Poland has been operating since 2017. This increased production capacity and guaranteed direct proximity to essential customers. In addition, the Group expanded the Acoustics business by acquiring the Autoneum Group's production site in Brazil in September 2017. As a consequence, the Group's global presence was enlarged by the extra business gained in the South American region.

OBJECTIVES AND STRATEGY

4

Strategic pillars

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

The Group's objective is to become a globally leading provider of injection-molded products, products made of composite materials and components for noise and thermal insulation for the automotive and commercial vehicle industry. In order to expand its competitive position and work profitably in the long term, the Group is concentrating on four strategic pillars: "market leadership", "technology leadership", "customer proximity" and "operational excellence".

As part of the Company's strategy to achieve further growth in new geographical markets and to expand its business activity in China, the Group is constructing its third production site in Shiyan, China, for which the start of production is scheduled in the first quarter of 2019.

In addition, the Company plans to extend its presence in Europe, e. g. by expanding its capacity in Eastern Europe as well as expanding activities in the Americas. The growth strategy is supported by the increasing automation of production processes and the response to technological trends such as autonomous driving and electric mobility.

MANAGEMENT SYSTEM

All segments and subsidiaries provide reports on their results of operations, financial position and net assets on a monthly basis, which are included in the Company's half-year and annual reports. In addition, the business units submit a monthly estimate of current and expected business performance, and business unit managers present monthly variance analyses regarding certain key operating figures (e. g. productivity, rates of absence, waste) to the Executive Board.

All segments and subsidiaries provide reports on their results of operations, financial position and net assets on a monthly basis

In addition, the following elements largely ensure compliance with the internal management system:

- Regular Executive Board and Supervisory Board meetings
- Regular shareholders' meetings and Annual General Meetings
- Risk and opportunity management
- Liquidity planning
- Management reporting

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

The significant financial performance indicators for the Group particularly include revenue, earnings (EBITDA = earnings before interest, taxes, depreciation and amortization) and adjusted EBITDA. Adjusted EBITDA is adjusted for extraordinary items effects such as the costs of the IPO, legal and consulting costs, severance costs and TSA fees. Adjusted EBITDA measures and evaluates operating performance – without extraordinary items. Please see the notes (Note 12) for a reconciliation of adjusted EBITDA with EBITDA and earnings before taxes.

The significant non-financial performance indicator for the Group is customer satisfaction, which is measured, among other things, by customer surveys. Customer satisfaction plays a vital role in keeping the Group's own products and services competitive in the future. Indicators of customer satisfaction are therefore a priority in all of the Group's segments. The quality of the products is evaluated with regard to selected aspects on a monthly basis. Our customers regularly carry out audits of our service provision.

RESEARCH AND DEVELOPMENT

Innovative products are a cornerstone of the Group's strategy and are expected to contribute to the medium-term targets of profitable and sustainable growth.

The development of new products for the commercial vehicle and automotive industry is a long-standing competence of the Group. Thanks to its combination of know-how regarding injection molding, composite materials and acoustics, the Group is now benefiting from the interesting possibility of combining structural, aesthetic, acoustic and thermal solutions.

A reinforced and reorganized innovation team accelerates the pace of development.

The four research and development centers in France, Italy and China have networked their capabilities and cooperate closely. Methods, processes and organizations have been standardized and harmonized. At the end of 2017, an innovation team was formed to coordinate the development of innovative products. This team was reinforced in early 2018 in order to accelerate the pace of the developments.

The R&D activities focus on three main pillars:

- Continuous improvement of the existing product lines in order to offer customers of the Group attractive value for money.
- Combination of the know-how and the existing technologies of the Group for innovative solutions.
- Development of new applications in order to meet customers' expectations for lighter and more comfortable vehicles.

The know-how of the Group research and development team and our well-equipped laboratories and prototyping facilities around the world will allow us to provide innovative and reliable solutions for these new opportunities.

ECONOMIC REPORT

MACROECONOMIC AND SECTOR CONDITIONS

MACROECONOMIC DEVELOPMENT

Global economic momentum declines

According to the Kiel Institute for the World Economy (IfW), the expansion of the global economy slowed palpably at the start of 2018. After a sharp rise of 3.9% in the previous financial year, global production lost momentum in the first half of 2018 and grew by 0.8% in the first quarter. A slowdown was seen in the advanced economies in particular, while the growth rate in emerging markets dropped only slightly. For the second quarter of 2018, the IfW expected global gross domestic product (GDP) to grow more strongly again. Figures for the entire reporting period of the first half of the year were only available in certain cases.

+0.8%

global output in the first quarter of 2018 grew by only 0.8%.

China grows thanks to domestic consumption

In the People's Republic of China, production growth in the first six months of the year was unchanged on the previous year at 6.8%, the National Bureau of Statistics of China announced. The rate of industrial expansion even increased slightly. The development in China was mainly driven by increasing domestic consumption, which led to the economy's robust performance while momentum declined slowly. In support of this, the Chinese Finance Minister held out the prospect of further major investments in infrastructure in March 2018 and announced the reduction of taxes and fees. According to Germany Trade & Invest (GTAI), the Federal Republic of Germany's agency for foreign trade and location marketing, this would benefit small and medium-sized enterprises in particular, but also private individuals. In the first quarter of 2018, imports grew faster than exports at 18.9% year-on-year compared to 14.1%. This was due in particular to the strong domestic demand for both consumer goods and modern capital goods. Products "Made in Germany" have an excellent reputation in the People's Republic. China has been Germany's largest foreign trade partner in terms of volume since 2016.

China with strong domestic demand for capital goods

Eurozone economy in line with production potential

Gross domestic product in the eurozone increased by just 0.4% in the first quarter of 2018 and thus in line with production potential. Exports lost momentum in particular, but corporate investments also grew more slowly after previous significant growth. Nonetheless, capacity utilization in the eurozone was on a par with the historic highs.

Capacity utilisation in eurozone with historic highs

High capacity utilization was also to be seen in countries in which gross domestic product had grown comparatively weakly in recent years, such as France and Italy. Meanwhile, the unemployment rate sank further to 8.5%, the lowest figure since the end of 2008, while the working population continued growing. The inflation rate in the eurozone increased significantly from 1.3% to 1.9% due to the rise in oil prices.

Political uncertainties overshadow the Americas

+20%

Brazil with double digit expenditure for equipment

After a hopeful start to the year 2018, growth forecasts for the Brazilian economy became more cautious from the second quarter. Poor global economic sentiment caused a strain, while turbulence in global trade and the expectation of interest rate hikes in the USA affected the exchange rate. Despite the strong currency depreciation, it seemed that interest rates and inflation were developing stably. Nonetheless, capacity utilization was less than satisfactory despite rising production. Gross capital formation was up 3.5% year-on-year in the first quarter of 2018. Expenditure for equipment in particular grew by double digits. Imports were 15.9% and exports 9.4% higher than the figures for the same period of the previous year. In the first four months of 2018, Germany increased goods imports to Brazil by 20%.

Mexican economy benefits from demand from US

Since the beginning of the current 2018 financial year, the Mexican economy has benefited from positive demand from the USA and higher household expenditure. Accordingly, the exports together with the consumer spending have given the economy a boost. Meanwhile, businesses held their investments back. Industrial expansion projects, especially in the automotive industry, were hit by uncertainty over the NAFTA free trade agreement. Nonetheless, German mechanical engineering firms increased their sales in the first half of 2018. The imports were driven by the high exports, as Mexico imports many preproducts for subsequent processing. German deliveries include machinery and vehicle parts in particular.

SECTOR DEVELOPMENT

Global commercial vehicle markets develop positively

According to the German Association of the Automotive Industry (VDA), the global commercial vehicle markets with units with a total weight of over six metric tons have developed positively in the year from January to May 2018. The European Automobile Manufacturers' Association (ACEA) puts the rise in demand for new commercial vehicles in the EU at 4.1%, with more than one million units. The US truck market, which has picked up significant momentum again since the second half of 2017, grew by 18% with an increase in sales to 183,300 vehicles from January to May 2018. The world's largest truck market in China grew by 12% with around 645,000 vehicles. Brazil also offers cause for optimism with growth of over 50% to 25,000 units, although this still falls short of earlier highs.

More detailed figures on other markets were not available at the time this report was prepared.

Digitalization, under the catchwords Industry 4.0 and Internet of Things (IoT), provides brand new opportunities for making mobility more efficient and reducing emissions. By networking the various means of transportation in transport and logistics chains, the commercial vehicle industry is making a material contribution to the management of increasing goods traffic. One example is truck platooning, with networked convoys of self-driving trucks representing the future of transport. The vehicles communicate with each other so that the first truck sets the speed and all others can follow in order to reduce headway and speed up reaction times. This reduces fuel consumption and CO_2 emissions by up to 10%.

BUSINESS PERFORMANCE

The first half of 2018 was defined by the preparations for the initial public offering in the Prime Standard of the Frankfurt Stock Exchange as of June 1, 2018. 2,172,172 shares were effectively placed at an issue price of 24.00 EUR. STS Group AG received 24.0 mEUR as gross proceeds. At 24.00 EUR , the initial listing was equal to the issue price and STS Group AG therefore generated a good result in a challenging market environment with its IPO. The funds raised will be invested in growth and thus simultaneously in the future viability of the Company.

In the first half of 2018, the Group generated revenue of 218.2 mEUR (June 30, 2017: 109.1 mEUR). The Company posted earnings before interest, taxes, depreciation and amortization (EBITDA) of 6.9 mEUR (June 30, 2017: 44.5 mEUR). Adjusted EBITDA amounted to 16.5 mEUR (June 30, 2017: 5.2 mEUR). Revenue and earnings therefore developed in line with our expectations in the reporting period. All four segments – Acoustics, Plastics, China and Materials – contributed to the positive business figures and the sound statement of financial position. All in all, the acquired entities were integrated faster than expected in the half-year reporting period. In contrast, the business development in Poland is not as advanced as planned due to the temporary underutilization of the plant and expected start-up costs.

Contribution of all segments to positive business figures

The three strategic acquisitions of the previous 2017 and 2016 financial years had a positive influence on the first half of 2018. In particular, the acquisition of Plastic Omnium with production sites in China, Mexico, France and Germany significantly expands the product portfolio with injection-molded and SMC components for external and internal parts and for truck cabins and light commercial vehicles. At the same time, we are expanding our market presence with the important regions of China and North America. By acquiring the Brazilian production site, the business activities were also successfully expanded into South America. The acquired entities and plants were integrated faster than planned. The carve-out of the IT systems from the former corporate groups was successfully completed in the first half of the year.

At the beginning of the second half of 2018, the Group received new orders from two renowned truck producers. For example, we will supply front modules for a major European commercial vehicle manufacturer with a total volume of 150.0 mEUR in the years to come. The order from a North American commercial vehicle manufacturer is of strategic importance to us. From the second half of 2021, the Group will supply driver's cab parts for heavy trucks to the customer. With this order, we are entering the North American commercial vehicle market and enlarging our global presence. In connection with our IPO, this was one of the priority targets of our corporate strategy.

Second half of the year begins with new orders from renowned truck producers

Moreover, the Group increased its market share in China, which will support the Group's revenue growth in the long term. In addition, construction was begun on a third production plant in China. Production is scheduled to begin in the first quarter of 2019. In addition, the Group will relocate its headquarters in China along with the research and development activities to Wuxi, which will increase our attractiveness as an employer for young and talented graduates.

STS Group increases market share in China

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

RESULTS OF OPERATIONS

+100%
revenue with expansion of business activities

The Group boasted strong revenue growth in the first half of 2018 and exceeded the previous year's revenue in all segments. Consolidated revenue increased from 109.1 mEUR as of June 30, 2017 to revenue of 218.2 mEUR as of June 30, 2018. The revenue growth of 100% follows the inorganic growth from acquisitions in the 2017 financial year and the resulting expansion in business activities.

The EBITDA of 6.9 mEUR is well below the previous year's EBITDA (H1 2017: 44.5 mEUR). This change of –84.4% is primarily attributable to positive extraordinary items (bargain purchase gain) in the first half of 2017 amounting to 42.0 mEUR.

16.5 mEUR
Adjusted EBITDA 16.5 mEUR – significantly higher than previous year

After subtracting the extraordinary items from the IPO, the legal and consulting costs, the severance costs and the TSA costs, adjusted EBITDA amounted to 16.5 mEUR and thus increased considerably compared with the adjusted EBITDA of the previous year (H1 2017: 5.2 mEUR).

in kEUR	H1 2018	H1 2017	Delta	Delta %
Revenues	218,216	109,067	109,149	100.1%
Segment Acoustics	68,577	68,066	511	0.8%
Segment Plastics	107,210	41,001	66,209	161.5%
Segment China	25,951	0	25,951	–
Segment Materials	21,876	0	21,876	–
Corporate/consolidation	–5,398	0	–5,398	–
EBITDA	6,936	44,535	–37,599	–84.4%
Segment Acoustics	102	1,513	–1,411	–93.3%
Segment Plastics	6,857	2,224	4,633	208.3%
Segment China	3,834	0	3,834	–
Segment Materials	1,188	0	1,188	–
Corporate/consolidation	–5,045	40,798	–45,843	–112.4%
EBITDA (in % of revenue)	3.2%	40.8%		
Adjusted EBITDA	16,496	5,215	11,281	216.3%
Segment Acoustics	1,026	2,151	–1,125	–52.3%
Segment Plastics	11,124	3,780	7,344	194.3%
Segment China	4,453	0	4,453	–
Segment Materials	1,330	0	1,330	–
Corporate/consolidation	–1,437	–716	–721	100.7%
Adjusted EBITDA (in % of revenue)	7.6 %	4.8 %		

In the first half of 2018, the **Acoustics** segment saw stable revenue of 68.6 mEUR at the previous year's level (H1 2017: 68.1 mEUR). Due to high start-up costs at the new production plant in Poland and one-time charges due to acquisitions, EBITDA fell significantly to 0.1 mEUR (H1 2017: 1.5 mEUR). Adjusted EBITDA declined more moderately to 1.0 mEUR (H1 2017: 2.2 mEUR).

Acoustics with costs for production start-up and acquisitions

With the biggest share in total revenue, the **Plastics** segment was the Group's largest segment in the half-year reporting period. Revenue in the Plastics segment grew by 161.5% from 41.0 mEUR to 107.2 mEUR. In association with this, EBITDA rose by 208.4% from 2.2 mEUR to 6.9 mEUR and thus made a decisive contribution to comprehensive income. The operating improvements carried out in the context of integration and associated personnel savings contributed to the Plastics segment's very good performance. An increase of 194.3% can therefore also be seen in adjusted EBITDA, making this the segment with the highest adjusted EBITDA as of June 30, 2018 at 11.1 mEUR (H1 2017: 3.8 mEUR).

+194.3%

Adjusted EBITDA – Plastics as largest segment

The **China** segment was presented as a separate segment for the first time in the first half of 2018. As of December 31, 2017, China was still reported in the Plastics segment. Revenue in the China segment amounted to 26.0 mEUR and highlighted the Group's corporate strategy of further growth in new geographical markets. Unlocked savings potential in the cost of materials had a positive influence on EBITDA and led to an increase in EBITDA to 3.8 mEUR. Adjusted EBITDA exceeded expectations slightly at 4.5 mEUR.

China with realisation of savings potential – adjusted EBITDA slightly above expectations

The **Materials** segment generated sales for the first time in the first half of 2018. As of June 30, 2018, the Materials segment reported revenue of 21.9 mEUR. EBITDA amounted to 1.2 mEUR as of June 30, 2018 and adjusted EBITDA was 1.3 mEUR on June 30, 2018.

Materials with revenues for the first time

Results of operations with pro forma comparative figures

Following the acquisitions in the 2017 financial year, the Group has carried the business figures of the Dolmen Group (Plastic Omnium truck business) and the Opus Group (Brazilian plant of the Autoneum Group) on its books since July 1, 2017 and October 1, 2017 respectively. The business figures are therefore consolidated for a full year for the first time in the 2018 reporting year, so the financial key figures for the first half of 2018 are not directly comparable with those of the same period of the previous year. The account below presents pro forma financial information in which the Dolmen and Opus activities are shown consolidated for the full year since January 1, 2017, comparable with 2018.

The Company has compiled the consolidated pro forma financial information, comprising its pro forma consolidated income statement for the period from January 1, 2017 to June 30, 2017 and pro forma explanations (the "consolidated pro forma financial information").

The Company's consolidated pro forma financial information is based on assumptions described in the accompanying explanations and is presented exclusively for illustrative purposes. In particular, the consolidated pro forma financial information assumes that the acquisitions of the Dolmen Group and the Opus Group took place on January 1, 2017 and that any expenses in connection with the transactions were incurred before January 1, 2017. By its very nature, this financial information describes a hypothetical situation only and thus does not reflect the actual results of operations of the reporting entity.

Historical financial information

The consolidated pro forma financial information is based on the following historical financial information:

- A consolidated income statement of STS Group AG for the period from January 1, 2017 to June 30, 2017, prepared according to International Financial Reporting Standards ("IFRS") and subjected to a review .
- An unaudited consolidated income statement of the Dolmen Group for the period from January 1, 2017 to June 30, 2017, prepared according to IFRS.
- An unaudited consolidated income statement of the Opus Group for the period from January 1, 2017 to June 30, 2017, prepared according to IFRS.

Basis of preparation

The Dolmen Group
The Dolmen Group comprises the five legal entities STS Composites France S.A.S., MCR S.A.S., STS Composites Germany GmbH, Inoplast Trucks S.A. de C.V. and STS Plastics Co., Ltd.
The STS Group AG acquired all capital shares in the five Group companies as of June 30, 2017.

The Opus Group
The Opus Group comprises Minas Têxteis – Fabricação de Peças e Partes Automotivas Ltda. and STS Brazil Holding GmbH. As of September 30, 2017, the STS Group AG acquired all shares in Minas Têxteis – Fabricação de Peças e Partes Automotivas Ltda., Betim, Minas Gerais, Brazil, via STS Brazil Holding GmbH.

Pro forma consolidation: revenue and earnings performance of the Group

	Basic Figures Historical financial information							Current period
	January 1 to June 30, 2017				January 1 to June 30, 2017			January 1 to June 30, 2018
in kEUR	STS Group	Adjusted Dolmen Group	Opus Group	Totals column	Pro forma note	Total pro forma adjustments	Pro forma consolidated income statement	Consolidated income statement
Revenues	109,067	109,782	3,031	221,880			221,880	218,216
Increase or decrease of finished goods and work in progress	357	1,012		1,369			1,369	416
Other operating income	43,715	4,996	26	48,737			48,737	2,366
Material expenses	–70,896	–59,192	–1,437	–131,525			–131,525	–125,513
Personnel expenses	–26,942	–29,172	–836	–56,950			–56,950	–54,833
Other operating expenses	–10,766	–18,727	–557	–30,050	(i) (ii)	788	–29,262	–33,716
Earnings from operations before depreciation and amortization expenses (EBITDA)	**44,535**	**8,699**	**228**	**53,462**		**788**	**54,250**	**6,936**
Depreciation and amortization expenses	–1,836	–2,906	–272	–5,015	(ii)	–784	–5,799	–6,753
Earnings before interest and income taxes (EBIT)	**42,699**	**5,792**	**–44**	**48,447**		**3**	**48,450**	**183**
Interest and similar income	62	3		65			65	10
Interest and similar expenses	–418	–303		–721	(iii)	–67	–788	–1,138
Earnings before income tax	**42,343**	**5,493**	**–44**	**47,792**		**–64**	**47,728**	**–945**
Income taxes	92	–416	15	–309	(i) (ii) (iii)	26	–283	–1,845
Net income	**42,435**	**5,077**	**–29**	**47,483**		**–38**	**47,445**	**–2,790**

The pro forma financial information is only meaningful in combination with the respective interim consolidated financial statements of STS Group AG. The consolidated income statement for the period from January 1, 2018 to June 30, 2018 is therefore also shown for information only.

Explanation of results of operations with pro forma comparative figures

	Reporting period January 1 to June 30		
in kEUR	H1 2018	H1 2017 Pro forma	H1 2017
Revenues	218,216	221,880	109,067
Segment Acoustics	68,577	71,098	68,066
Segment Plastics	107,210	124,546	41,001
Segment China	25,951	22,177	0
Segment Materials	21,876	21,249	0
Corporate/consolidation	–5,398	–17,190	0
EBITDA	6,936	54,248	44,535
Segment Acoustics	102	1,741	1,513
Segment Plastics	6,857	4,546	2,224
Segment China	3,834	4,960	0
Segment Materials	1,188	1,791	0
Corporate/consolidation	–5,045	41,210	40,798
EBITDA (in % of revenue)	3.2%	24.4%	40.8%
Adjusted EBITDA	16,496	14,517	5,215
Segment Acoustics	1,026	2,379	2,151
Segment Plastics	11,124	6,103	3,780
Segment China	4,453	4,960	0
Segment Materials	1,330	1,791	0
Corporate/consolidation	–1,437	–716	–716
Adjusted EBITDA (in % of revenue)	7.6%	6.5%	4.8%

In the first half of 2018, the Group generated revenue of 218.2 mEUR, EBITDA of EUR 6.9 million and adjusted EBITDA of 16.5 mEUR. On a pro forma basis, assuming that the Dolmen acquisition and the Opus acquisition had been effective as of January 1, 2017, the Group generated pro forma revenue of 221.9 mEUR, pro forma EBITDA of 54.3 mEUR and pro forma adjusted EBITDA of 14.5 mEUR in the first half of 2017.

The **Acoustics** segment's revenue of 68.6 mEUR in the 2018 reporting period was slightly lower than the pro forma value of the previous period (pro forma revenue H1 2017: 71.1 mEUR), which is primarily attributable mainly to lower customer call-offs at the production sites in Italy. Due to start-up costs at the new production plant in Poland and one-time charges in connection with the acquisitions, the segment's EBITDA fell to 0.1 mEUR in the first half of 2018. EBITDA decreased by 1.6 mEUR compared to the pro forma first half of 2017. As expected, adjusted EBITDA amounted to 1.0 mEUR in the first half of 2018 (pro forma adjusted EBITDA H1 2017: 2.4 mEUR).

The revenue of the **Plastics** segment amounted to 107.2 mEUR in the first half of 2018, down by a slight 17.3 mEUR on the level of the pro forma previous period. The decline in revenues is mainly due to an expired project in the first half of 2018. However, this effect was largely compensated for by restructuring measures and associated personnel savings of 2.4 mEUR. Due to the usual inventory increase ahead of the summer holidays, EBITDA of 6.9 mEUR was generated in the first half of 2018 (pro forma EBITDA H1 2017:4.5 mEUR), which exceeded expectations. Adjusted EBITDA was higher than expected at 11.1 mEUR (pro forma adjusted EBITDA H1 2017: 6.1 mEUR).

In the first half of 2018, the **China** segment generated revenue of 26.0 mEUR and thus exceeded the pro forma level of the previous period (pro forma revenue H1 2017: 22.2 mEUR). Foreign currency effects had a slightly negative effect on development. On the basis of technical savings potential, material expenses in the China segment were lowered, totaling EUR 11.6 million in the first half of 2018. As a result, EBITDA of 3.8 mEUR (pro forma EBITDA H1 2017: 5.0 mEUR) was achieved. Adjusted EBITDA amounted to 4.5 mEUR in the first half of 2018 (pro forma adjusted EBITDA H1 2017: 5.0 mEUR), slightly exceeding expectations.

The **Materials** segment's revenue was higher than in the pro forma previous period at 21.9 mEUR (pro forma revenue H1 2017: 21.2 mEUR). However, there was higher expenditure for material expenses, as the purchase prices of raw materials continued to rise in the first half of 2018 and contractually could not be passed onto customers. In order to reduce purchased services from external labor and build up internal know-how, the employee base was increased in the first half of 2018, which resulted in higher personnel expenses. Overall, both EBITDA at 1.2 mEUR (pro forma EBITDA H1 2017: 1.8 mEUR) and adjusted EBITDA at 1.3 mEUR (pro forma adjusted EBITDA H1 2017: 1.8 mEUR) were below the level of the pro forma previous period and below expectations.

NET ASSETS AND FINANCIAL POSITION

Net assets

in kEUR	June 30, 2018	December 31, 2017
Non-current assets	117,155	114,794
Current assets	184,363	160,159
Total assets	**301,518**	**274,953**
Total equity	84,549	60,666
Non-current liabilities	44,034	45,867
Current liabilities	172,935	168,420
Total equity and liabilities	**301,518**	**274,953**

Total assets amounted to 301.5 mEUR as of June 30, 2018 and increased by 26.6 mEUR compared with December 31, 2017.

Non-current assets increased slightly from 114.8 mEUR as of December 31, 2017 to 117.2 mEUR as of June 30, 2018. This development is primarily attributable to the increase in income tax receivables by 0.9 mEUR to 2.5 mEUR and the rise in deferred tax assets by 2.6 mEUR to 11.1 mEUR. Intangible assets and property, plant and equipment declined slightly by 0.9 mEUR to 102.7 mEUR.

Increase in trade receivable

Current assets increased by 24.2 mEUR to 184.4 mEUR. The change was due to the growth in cash from 15.8 mEUR to 30.9 mEUR as of June 30, 2018 as an effect of the IPO. Similarly, the Group's trade and other receivables increased by 8.9 mEUR to 108.2 mEUR as of June 30, 2018. The application of IFRS 15 resulted in a reclassification of 6.3 mEUR from inventories to contract assets, so inventories amounted to 23.8 mEUR as of June 30, 2018.

Equity rose from 60.7 mEUR as of December 31, 2017 to 84.5 mEUR as of June 30, 2018. This increase in equity resulted from the IPO, from which the STS Group AG received gross proceeds of 24.0 mEUR.

–2.7 mEUR

Higher repay-ments of loans than new borrowings

Non-current liabilities fell slightly compared with December 31, 2017 to 44.0 mEUR as of June 30, 2018. The 1.8 mEUR decline is primarily attributable to other financial liabilities, which fell to 14.1 mEUR. Higher repayments of loans than new borrowings led to a decline of 2.7 mEUR in liabilities to banks. On the other hand, deferred tax liabilities increased by 1.1 mEUR to 8.1 mEUR.

Current liabilities developed in the opposite direction, resulting in a slight increase from 168.4 mEUR to 172.9 mEUR. This increase resulted firstly from the current financial liabilities, which rose from 64.0 mEUR to 70.1 mEUR as of June 30, 2018. These changes are attributable to the increase in liabilities to banks from 7.1 mEUR to 8.4 mEUR and in liabilities from factoring from 37.2 mEUR to 41.2 mEUR. Secondly, the current other liabilities increased from 33.9 mEUR to 37.8 mEUR as of June 30, 2018. This is due to a closing date related increase in personnel-related liabilities from 14.0 mEUR to 20.0 mEUR.

Investments

5.8 mEUR

STS Group with 5.8 mEUR investments in Acoustics, Plastics and China

In the first half of 2018, 5.8 mEUR was invested throughout the Group. **The main investments** here were 1.4 mEUR in the Acoustics segment, 2.1 mEUR in the Plastics segment and 1.5 mEUR in the China segment.

Financial position

The **negative net cash flow from the Group's operating activities** in the first half of the year amounted to - 5.4 mEUR. The further decline in cash flow from operating activities resulted primarily from the increase in working capital.

Cash flow from investing activities amounted to –5.8 mEUR in the first half of 2018. This resulted from payments for investments in property, plant and equipment and intangible assets.

There was cash inflow of 28.3 mEUR from **financing activities** in the first half of 2018. The IPO had a particularly positive influence with gross issue proceeds of 24.0 mEUR. A further 3.9 mEUR was received as a result of the cash capital increase carried out on April 25, 2018. Inflows of 4.1 mEUR were posted in the first half of the year due to the use of factoring. Borrowing resulted in incoming payments of 4.6 mEUR. This was countered by payments made to repay loans amounting to 6.3 mEUR. In total, cash flow from financing activities improved by 3.6 mEUR (June 30, 2017: 24.7 mEUR).

24.0 mEUR
IPO with gross issue proceeds of 24.0 mEUR

in kEUR	H1 2018	H1 2017
Net cash flows from operating activities	–5,394	–536
Net cash flows from investing activities	–5,810	–10,592
Net cash flows from financing activities	28,331	24,717
Effect of currency translation on cash and cash equivalents	–20	0
Net increase/decrease in cash and cash equivalents	**17,107**	**13,591**

Cash and cash equivalents rose from 16.2 mEUR to 32.9 mEUR as of June 30, 2018, resulting in a change of 17.1 mEUR. The cash and cash equivalents primarily comprise bank balances of 30.9 mEUR.

Principles and objectives of financial management and dividend policy

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

No dividend payout is planned for the 2018 financial year. The Company intends to use a significant portion of its potential profits less the amounts to be transferred to the statutory reserve to finance its further growth in the financial years to come and to pay a dividend only if this is compatible with its business and investment plans.

Appropriation of profit to finance further growth

GENERAL STATEMENT BY THE EXECUTIVE BOARD ON THE ECONOMIC SITUATION

The Executive Board believes that business performance developed positively in the first half of 2018. The Group continued to grow and expand its business globally in the first half of the year. The objective for financial policy is always to have the necessary financial flexibility to drive the Group's further growth. The development of revenue and EBITDA is in line with the management's expectations. All four segments – Acoustics, Plastics, China and Materials – contributed to the positive business figures and the sound statement of financial position. All in all, the companies acquired in 2017 were integrated faster than expected. However, the start-up costs at our Polish plant were higher than expected.

Revenues and EBITDA performance meets expectations

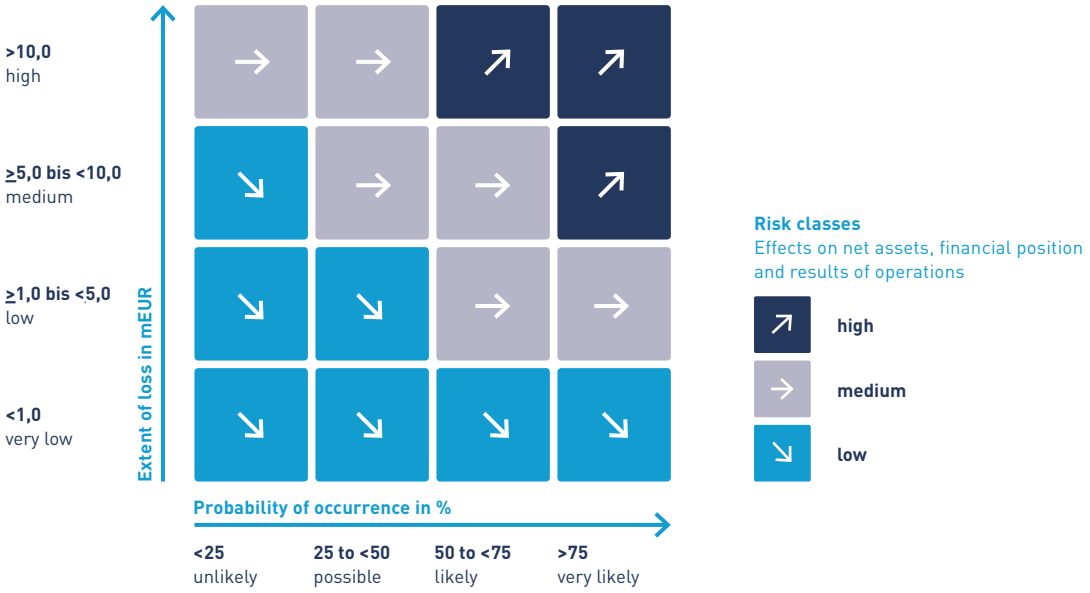
OPPORTUNITIES AND RISKS

RISK MANAGEMENT SYSTEM

Risk management, as the body of all organizational rules and measures for early risk detection and the adequate handing of the risks of our business operations, is a high priority in our Group and plays a key role in our business model. The Executive Board has installed an early risk detection system in order to identify developments that could potentially threaten the Company as a going concern at an early stage. All critical contractual elements, business developments and liability risks are subjected to a critical review and regularly tracked in the reviews of the subsidiaries and in Executive Board and Supervisory Board meetings. The Executive Board examines the business performance of the subsidiaries in regular reviews and is informed about the revenue, earnings and liquidity situation of all investments on the basis of the implemented reporting system. If necessary, the Group maintains enough free capacity to respond flexibly and appropriately.

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

RISK MATRIX



In the risk assessment, a distinction is drawn between gross and net assessment. Measures already taken can reduce the gross risk in terms of both the monetary impact and the possible occurrence of the risk. The net risk is then the extent of loss and probability of occurrence taking the loss-reducing measures taken before the reporting date into account. The identified risks are to be managed actively in order to achieve the risk reduction targeted by the Company. All risks against which no suitable measures can be taken must be classified as business risks. The management of risks with a minor influence on the Group is up to the operationally responsible management. Current risks are regularly reported to the Executive Board. Within its respective area of responsibility, the Executive Board determines any necessary measures and sees to their continuous implementation.

Internal control and risk management system within the financial reporting process

The internal control and risk management system has an appropriate structure and processes that are defined accordingly. It is set up to guarantee the prompt, uniform and correct accounting entry of all business transactions. For the consolidation of the subsidiaries included in the consolidated financial statements, the internal control system ensures that legal standards, financial reporting requirements and internal instructions on financial reporting are complied with. Changes therein are continuously analyzed with regard to relevance to and impact on the consolidated financial statements and accounted for accordingly. The Group's Finance department actively supports all segments and Group companies here, both in the preparation of uniform guidelines and work instructions for processes relevant to financial reporting and in the monitoring of operating and strategic targets. In addition to defined controls, automated and manual coordination processes, the segregation of implementing and controlling functions and compliance with guidelines and work instructions are essential elements of the internal control system.

Group companies are responsible for compliance with the applicable guidelines and financial reporting processes and the proper and timely preparation of financial statements. In the financial reporting process, the Group companies are supported by central contact partners.

Financial risk management

The management of the Group monitors and manages the financial risks associated with the Group's businesses by means of internal risk reporting, in which the Group analyses risks according to their scale and scope. These risks include credit risk, liquidity risk and market risk (foreign currency risk and interest rate risk).

In some cases, the Group minimizes the effects of these risks with derivative financial instruments. The use of financial derivatives is governed by guidelines set by the Group management, which contain requirements for the management of currency, interest rate and default risks. In addition, basis rules are laid down for the use of derivative and non-derivative financial transactions and for the investment of excess liquidity. Compliance with the guidelines and risk limits is monitored continuously. The Group does not contract or trade financial instruments, including derivative financial instruments, for speculative purposes.

MACROECONOMIC OPPORTUNITIES AND RISKS

GLOBAL ECONOMY CONCERNED ABOUT TRADE DISPUTES

Escalating trade conflicts as risks for global economy

According to the Kiel Institute for the World Economy (IfW), there are risks for the global economy in the United States' trade disputes. A spiral of action and reaction could palpably inhibit global economic momentum. In connection with the imminent normalization of monetary policy, sudden upsets on the capital markets are a possibility, resulting in corrections that would negatively affect the emerging economies. Just the concern over an escalating trade dispute could curb investments and dampen the global economy.

CHINA UNPERTURBED BY GLOBAL UNCERTAINTY

Since China has reduced its dependency on exports in recent years, GTAI sees the risks for the national economy from a potential trade war with the United States as manageable. Nonetheless, an additional decline in the export ratio would have a damping effect on Chinese gross domestic product (GDP).

POLITICAL RISKS IN THE EUROZONE

Increasing volatility in financial markets could put a strain on European economy.

The IfW believes that risks for the eurozone have risen again with the government changeover in Italy and the associated uncertainty regarding the future direction of Italian economic policy. Moreover, the European Commission sees rising volatility on the financial markets as a result of geopolitical risks as a potential strain on the eurozone's economic development.

POLITICAL UNCERTAINTY IN THE AMERICAS

In a stable economic environment, Brazil could benefit from permanently lower borrowing costs as a result of economic recovery. With elections coming up, however, the political crisis could tarnish the growth of the Brazilian economy, as shown by delays in privatization and licensing in public private partnerships. According to GTAI, there is not enough political stability for investments to recover significantly.

North American Free Trade Agreement NAFTA unsettles Mexico.

The North American Free Trade Agreement (NAFTA) results in uncertainties for the Mexican economy. After the presidential election in July 2018, businesses are worried that the liberal reforms of recent years could be walked back and government debt ramped up in favor of transfer payments. At the same time, the peso exchange rate could come under pressure and accelerate inflation. The new president will not be sworn in until December 2018.

SECTOR OPPORTUNITIES AND RISKS

The German Association of the Automotive Industry (VDA) sees digitalization in particular as an opportunity for the commercial vehicle industry, but also emphasizes corresponding infrastructure as a key requirement. It says that innovative mobility offerings require the supply of state-of-the-art mobile communications technology on federal highways and in the secondary road network. Electric mobility is also considered formative for the further development of the sector, even though the diverse applications are still limited to transporters, city buses and battery-powered vehicles of up to 26 metric tons. In addition to digitalization and electric mobility, e-fuels from renewable electricity, such as natural gas, also offer the prospect of CO_2-neutrality for trucks. The commercial vehicle industry can thus make a decisive contribution to setting the course for climate policy. In the efficiency-driven commercial vehicle market, low consumption is also a crucial competitive advantage. The market research company Technavio expects additional opportunities for the commercial vehicle industry's vehicle sales from the increasing installation and use of modern safety systems such as autonomous emergency braking, blind-spot detection and collision warning systems.

Digitisation as an opportunity

In contrast, the VDA sees risks for the commercial vehicle market as a result of the European Commission's potential CO_2 regulation for heavy commercial vehicles. The planned targets for CO_2 reduction of 15% by 2025 and 30% by 2030 are double the values deemed achievable, albeit ambitious, by the commercial vehicle industry. In association with this, additional stresses would result from substantial fines should the targets be missed. Other potential risks relate to the as yet unforeseeable impact of Brexit and isolationist and protectionist policies in the target markets relevant to the commercial vehicle industry.

Possible CO_2 regulation as a risk

OTHER RISK AREAS, MATERIAL OPPORTUNITIES AND INDIVIDUAL RISKS

RISKS

- General disruptions in the automotive and truck supply chain could have negative effects on the Company's businesses, even if the Company itself is not exposed to delivery bottlenecks in the case of its suppliers. If the Group's suppliers are no longer able to deliver the raw materials or components required for the Group's business operations, the Group's ability to meet the demand from its customers and continue its business operations at the current production level could be impaired.

- An unexpected price increase for raw materials, components and equipment that the Group needs for the development and production of its products could result in price increases that cannot be passed onto the Group's customers or otherwise be compensated for through other cost savings programs.

- The Group depends on a limited number of major customers and the relationships with them. The loss of these business relationships could have a substantial negative effect on the business activity and net assets, financial position and results of operations of the Group.

- The development of negative economic and political circumstances in the main regional markets in which the Group operates or in which its customers use its products could have a substantial negative effect on the business activity and net assets, financial position and results of operations of the Group.

STS Group with established competitors

- The Group is currently competing with established competitors and expects that other companies will also engage in competition with the Group in the future. The Group may be unable to remain competitive in the entire automotive and truck industry.

- The Group depends on its ability to adapt to changing technologies and new trends and to continue developing new products. If in the future the Group is unable to introduce new products for the automotive and truck industry, it could lose its competitive edge and market shares.

The Executive Board assesses the individual cross-segment risks listed as very low to low in terms of the extent of damage and probability of occurrence and their impact on the net assets, financial position and results of operations, or low to medium in individual cases, and sorts them in descending order of severity. In the opinion of the Management Board, there are no risks that could jeopardize the continued existence of the company.

OPPORTUNITIES

- Growth in Eastern Europe. In order to improve its presence in Europe, the Group is planning to further expand its production capacity in the low-cost countries of Eastern Europe. With the lower production costs, the Group will be able to further hone its competitive edge and increase its market share in Europe.

Growth by focusing on technology trends

- Focus on technology trends. New technology trends such as autonomous driving and electric mobility will drive the Group's growth in the future. The Group sees growth as an opportunity and is developing the appropriate solutions for these trends. In addition, the Group expects that the trend for autonomous driving will require an adjustment in the product range in order to adapt to the specific properties of electronic and electric devices.

  Demand in the Group's most important target markets is increasingly being influenced by a range of trends, especially by trends for reducing emissions and the increasing focus on electric mobility, which are being driven primarily by the emissions targets demanded in various regions of the world. The Group is in line with these trends, as its materials enable lightweight products that reduce the total weight of vehicles and thus lead to lower emissions, while product costs for structural components fall in comparison with metal products.

- The Group's technological know-how enables the Company to offer its customers noise protection and thermal insulation in the interior and exterior from a single source. The Group is one of the few global automotive suppliers with the technological know-how to offer all components of the structural, visual, acoustic and thermal elements of its products and to combine them in order to offer its customers a "one-stop shop" for automotive and truck parts. The Group believes STS Plastics is the only provider on the market that can offer both thermosetting and thermoplastic technologies and is thus able to serve all markets for such products and even to combine both technologies into comprehensive system solutions.

Global one-stop shop: technological know-how for all components from a single source

- The Group can scale its batch sizes to its customers' individual requirements. The Group has the advantage that it can produce small and large batch sizes for its customers thanks to its applied technologies such as SMC. The Group can thus address a broad range of customers for all its products and thus distinguishes itself from larger automotive and truck part suppliers that concentrate only on customers with high-volume orders and are thus exposed to business downturns if these large customers reduce the quantity of car and truck parts purchased from them.

- In its key markets, the Group has a strong, globally integrated base from which it can generate further international growth. The Group operates 17 locations in seven countries on three continents with large locations in the key regional markets of Europe, China, North and South America. These plants are strategically located close to or integrated into the sequencing plants of their major OEM customers and enable the Group to offer the services and products that its customers need quickly and cost-effectively by using local staff who are qualified to operate such plants and attuned to the requirements of the local customers. In addition, the Group can grow organically with its key customers and better respond to the changing requirements of its international customers, because it knows their situation thanks to its proximity to and understanding of its customers' business.

STS Group with globally integrated base in key markets

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

The Company has a lean corporate structure with direct reporting to the Executive Board. The long-standing customer relationships of over 20 years on average (Europe >20 years, China >10 years and America ~10 years) support a strong position in a fiercely competitive market environment on the basis of a high order backlog. In addition, this results in cross-selling potential between Acoustics and Plastics in the use of technological synergies.

FORECAST

GLOBAL ECONOMY SLOWS ONLY SLIGHTLY

Increase in global production capacity utilization by 2019

According to the Kiel Institute for the World Economy (IfW), the growth in global production will fall slightly from 3.9% in the previous year to 3.8% in 2018 and 3.6% in 2019. The IfW reduced its March forecasts for both 2018 and 2019 by 0.2 percentage points. This growth is lower than the rates of expansion in the upturns of the 1990s and 2000s, but the utilization of global production capacity is expected to keep rising until the end of 2019. For the developed economies, the IfW expects another substantial production increase supported by only a slow tightening of expansionary monetary policy, fiscal stimuli and rising demand in developing and emerging economies. The economic recovery in the other emerging markets thus continues, but is devloping little momentum compared to earlier phases of expansion.

PRODUCTION GROWTH IN CHINA GRADUALLY DECLINES

+6.7%

gross domestic product in China +6.7% 2018

The IfW expects production growth in the People's Republic of China to gradually decline. After China's gross domestic product grew somewhat more strongly again last year at 6.9%, an increase of 6.5% is expected for 2018 and of 6.3% for 2019. At the same time, the government's measures intended to inhibit credit growth and cool down the overheated real estate market will worsen financing conditions and curb the economy in the forecast period. According to Germany Trade & Invest (GTAI), the Federal Republic of Germany's agency for foreign trade and location marketing, Chinese institutions expect gross domestic product (GDP) to grow by 6.7% in 2018 and forecast 6.4% to 6.6% for 2019.

UPTURN IN THE EUROZONE CONTINUES AT SLOWER PACE

Production growth in eurozone above growth rate of production potential

Although the eurozone's economic momentum has slowed discernibly since the beginning of 2018 after the very robust production growth last year, the IfW expects the upturn to continue, albeit less dynamically. Accordingly, production growth in the eurozone will be lower at 2.1% this year and 2.0% in 2019, but still higher than the growth rate of production potential. The unemployment rate is expected to fall to 8.4% on average this year and 7.9% in 2019. According to the IfW, increased commodity prices will push the consumer price rise closer to the European Central Bank's target at 1.7% both this year and next year.

DIFFICULT OUTLOOK FOR AMERICAS ECONOMY

+1,8 %

2018 Brazil with gross domestic product +1.8%, Mexico +2.3%

In the Americas market relevant to the Group, especially in the Latin American markets of Brazil and Mexico, lowered forecasts by the International Monetary Fund (IMF) reflect a more difficult outlook. The Brazilian economy, inhibited by ongoing strikes and political uncertainty, is apparently expected to grow by only 1.8% in 2018, a revision of 0.5 percentage points. A recovery to 2.5% is anticipated in 2019. In Mexico, meanwhile, economic development cannot escape the trade tensions and ongoing uncertainty over the renegotiations of the NAFTA trade agreements. According to the IMF, Mexican gross domestic product (GDP) is set to grow by 2.3% this year as expected. Growth of 2.7% is expected in 2019, 0.3 percentage points fewer than originally forecast.

SECTOR FORECAST

For the commercial vehicle markets, the German Association of the Automotive Industry (VDA) delivers a positive outlook for 2018 as a whole in light of the robust performance of the global economy. Growth impetus is also expected from the important automobile fair 67th IAA Commercial Vehicles, whose motto this year is "driving tomorrow." Digitalization, networking, automated driving and alternative drives are driving innovation in commercial vehicles. Overall, the industry is clearly benefiting from the economic tailwind. According to the VDA, the commercial vehicle markets in Germany, Europe and the USA are on course for growth in 2018. Russia and Brazil are also expected to grow substantially again after years of crisis. The market research company Technavio forecasts an average growth rate of around 5% per year up to 2022; 4.2% is expected for 2018.

Commercial vehicle markets in Americas, Europe and Germany on growth course

GROUP FORECAST FOR 2018

As no Group management report was published in the previous 2017 financial year, the previous year's forecast cannot be analyzed here.

Based on the acquisitions made in the second half of 2017, the Management Board currently expects consolidated revenue to be at least 30% above the prior-year level of 310 mEUR. In contrast, EBITDA 2018 is expected to be significantly below the previous year's level. This is attributable to the extraordinary income of 47 mEUR due to acquisitions in 2017. With regard to the Adjusted EBITDA, the Management Board expects a significant increase compared to the Adjusted EBITDA of the 2017 financial year of 14.2 mEUR.

+30%

2018 consolidated revenues +30% – adjusted EBITDA significantly higher than 2017

REPORT ON EVENTS AFTER THE END OF THE REPORTING PERIOD

Please refer to events after the end of the reporting period in the notes (Note 15).

STS GROUP AG OBTAINS MAJOR ORDER FROM LEADING COMMERCIAL VEHICLE MANUFACTURER WITH A VOLUME OF EUR 150 MILLION

Complex systems from a single source

After the end of the reporting period, STS Group AG obtained a new high-volume order. In the next few years, the Company will produce and deliver front modules for one of the leading commercial vehicle manufacturers. In total, the order is worth more than 150 mEUR over its term. The new STS front module systems will be used in heavy commercial vehicles. Specifically, the Group will assemble the front modules from nearly a hundred individual components and deliver the complex systems to the customer entirely from one source. The injection-molded components will be produced, painted and assembled in the Group's French plants.

STS GROUP AG SUCCESSFULLY ENTERS THE NORTH AMERICAN COMMERCIAL VEHICLE MARKET

Important milestone on strategic growth journey

On July 24, 2018, STS Group AG announced an important milestone on its journey of strategic growth: For the first time, the system supplier for the commercial vehicle industry acquired a major commercial vehicle manufacturer based in North America as a customer. From the second half of 2021, the Group will supply driver's cab parts for heavy trucks to the customer. The Group has its own production site in Ramos in Mexico, which supplies the local automotive industry. Now, it will produce exterior paneling and aerodynamic parts for a significant American commercial vehicle manufacturer for the first time, using the material SMC (sheet moulding compound), which is processed by way of thermo-compression, is easy to shape, and combines high stability with low weight.

STS GROUP AG TAPS INTO CHINESE ELECTRIC CAR MARKET WITH NEW ORDER

STS Group as Tier 1 supplier for EV OEM in China

On September 5, 2018, the Group announced that it had received an order to supply a battery cover for a model of electric vehicle. With this strategically important order, the Group is tapping into a new segment and will thus become a Tier 1 supplier for an EV OEM in China.

No other reportable events occurred with particular significance for the results of operations, financial position and net assets of STS Group AG.

TAKEOVER-RELATED DISCLOSURES ACCORDING TO SECTION 289A AND SECTION 315A HGB

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

COMPOSITION OF SUBSCRIBED CAPITAL

STS Group AG's subscribed capital amounted to 6,000,000.00 EUR on June 30, 2018 (December 31, 2017: 50,000.00 EUR) and was divided into 6,000,000 no-par value bearer shares each with a notional interest in the share capital of 1.00 EUR. The shareholders' right to the certification of their shares is excluded in accordance with Article 5 (2) of the Articles of Association of STS Group AG to the extent that this is permitted by law and certification is not required under the rules of a stock exchange on which the shares are admitted to trading. STS Group AG is entitled to issue individual or global certificates for the shares. Bearer shares are not required to be entered in a share register in accordance with Section 67 (1) of the German Stock Corporation Act (AktG).

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

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

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

The shares of the Company are freely transferable in accordance with the statutory provisions concerning the transfer of bearer shares. With the exception of the lock-up agreements described below, there are no restrictions on transferability or lock-ups affecting the shares of the Company.

In the acquisition agreement between the Company, the Selling Shareholder and the Joint Bookrunners that was concluded on May 14, 2018, the Company undertook not to perform any of the following actions for a period of six months following the admission of the shares of the Company to trading on the Frankfurt Stock Exchange and a subsequent period of a further six months without the prior written consent of the Joint Bookrunners:

(i) the announcement or implementation of capital increases from subscribed capital;
(ii) the proposal of a capital increase to the General Meeting;
(iii) the announcement, incitement or proposal to the General Meeting of an issue of securities with conversion or option rights in respect of shares of the Company, with the exception of the issue of stock options under an employee option plan, and
(iv) the conclusion or announcement of transactions or measures with the same economic effect as those described in (i) to (iii) above.

In respect of its shares in the Company that are not subject to placement or overallotment, the Selling Shareholder undertook not to perform any of the following actions for a period of six months following the admission of the shares of the Company to trading on the Frankfurt Stock Exchange and a subsequent period of a further six months without the prior written consent of the Joint Bookrunners:

(i) the granting, offering for sale, assignment, allotment, distribution, sale or agreement to sell shares of the Company or other securities of the Company granting a conversion or option right in respect of shares of the Company held by the Selling Shareholder at the prospectus date, either directly or indirectly;
(i) the proposal to the General Meeting of a capital increase or the issue of securities with conversion or option rights in respect of shares of the Company, and
(iii) the conclusion or announcement of transactions or measures with the same economic effect as those described in (i) and (ii) above.

INTERESTS IN CAPITAL THAT EXCEED 10.0% OF THE VOTING RIGHTS

As of June 30, 2018, there were the following direct and indirect interests in the capital of STS Group AG that exceeded the threshold of 10% of the voting rights: The largest shareholder in STS Group AG, Mutares AG, Munich (Germany), most recently informed us that it held 63.8% of the voting rights in STS Group AG on June 29, 2018. STS Group AG has not been informed and is not otherwise aware of any other direct or indirect interests in the capital of the Company that amount to or exceed the threshold of 10% of the voting rights.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROLLING POWERS

No shares were issued with special rights conferring controlling powers.

CONTROL OF VOTING RIGHTS IN THE EVENT OF EMPLOYEE INVESTMENT

To the extent that STS Group AG has issued or issues shares to employees under employee participation plans, these shares are transferred to the employees directly. The participating employees may exercise the control rights conferred upon them in connection with the employee shares directly in the same way as other shareholders as set out in the statutory provisions and the Articles of Association.

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

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

In accordance with Sections 119 (1) No. 5 and 179 AktG, amendments to the Articles of Association require a resolution of the General Meeting. The authority to make amendments to the Articles of Association relating solely to their wording has been transferred to the Supervisory Board in accordance with Section 179 (1) Sentence 2 AktG in conjunction with Article12 (4) of the Articles of Association of STS Group AG. By resolution of the General Meeting on May 3, 2018, the Supervisory Board is also authorized to amend Article 4 of the Articles of Association to reflect the utilization of Authorized Capital 2018/I and Contingent Capital 2018/I and the expiry of the respective authorization period.

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

EXECUTIVE BOARD'S AUTHORITY TO ISSUE OR BUY BACK SHARES

a) Authorized Capital 2018/I

By resolution of the General Meeting on May 3, 2018, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to 2,500,000.00 EUR on one or more occasions in the period to May 2, 2023 by issuing up to 2,500,000 new no-par value bearer shares in exchange for cash and/or non-cash contributions (Authorized Capital 2018/I). Shareholders are to be granted subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply shareholders' subscription rights for one or more capital increases from Authorized Capital 2018/I,

(i) in order to exclude fractional amounts;
(ii) where this is necessary to grant subscription rights for new no-par value bearer shares of the Company to the bearers or creditors of bonds with conversion or option rights or obligations that were or will be issued by the Company or a direct or indirect affiliate thereof in the extent to which they would be entitled as shareholders following the exercise of the conversion or option rights or the fulfillment of the conversion or option obligations;

(iii) to issue shares in exchange for cash contributions where the issue price of the new shares is not significantly lower than the stock exchange price of the shares that are already listed within the meaning of Sections 203 (1) and (2), 186 (3) Sentence 4 AktG and the proportionate amount of the share capital attributable to the new shares issued with shareholders' subscription rights disapplied in accordance with Section 186 (3) Sentence 4 AktG does not exceed 10% of the share capital in total;

(iv) to issue shares in exchange for non-cash contributions, particularly for the purposes of – but without being limited to – the acquisition of parts of companies, equity investments in companies or other assets (including indirectly) or the servicing of bonds issued in exchange for non-cash contributions.

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

b) Contingent Capital 2018/I

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

c) Contingent Capital 2018/II

By resolution of the General Meeting on May 3, 2018, the share capital of the Company is contingently increased by up to 500,000.00 EUR through the issue of up to 500,000 new no-par value bearer shares each with a notional interest in the Company's share capital of 1.00 EUR (Contingent Capital 2018/II). Contingent Capital 2018/II is to be exercised only to the extent that subscription rights are issued under the 2018 stock option plan in accordance with the resolution of the General Meeting on May 3, 2018, these subscription rights are exercised by the holders and the Company does not grant treasury shares in fulfillment of the subscription rights. Further details can be found in the authorization resolution and in Article 4 (4) of the Articles of Association of STS Group AG.

d) Share buyback

The Executive Board of STS Group AG is authorized to buy back shares of the Company and to sell repurchased shares in the cases set out in Section 71 AktG. By resolution of May 3, 2018, the General Meeting authorized the Executive Board, with the approval of the Supervisory Board, to purchase shares of the Company amounting to up to 10% of the share capital of the Company at the resolution date or – if lower – at the exercise date in the period up to and including May 2, 2023. Taken together with the other shares of the Company purchased and still held by the Company or attributable to the Company in accordance with Section 71a ff. AktG, the shares purchased under this authorization may not exceed 10% of the share capital of the Company at any time. The Executive Board may choose whether to purchase the treasury shares via the stock exchange or a public purchase offer addressed to all shareholders or a public invitation to all shareholders to submit offers for sale.

In addition to sale via the stock exchange or an offer to all shareholders, the General Meeting on May 3, 2018 resolved to authorize the Executive Board to utilize treasury shares for all permissible purposes, and in particular as follows:

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

Further details can be found in the authorization resolution.

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

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

STS Group AG has concluded no significant agreements that include provisions for the event of a change of control.

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

There are no compensation agreements of STS Group AG concluded with the members of the Executive Board or the employees in case of a takeover bid.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDING ON JUNE 30, 2018

in kEUR	Note	H1 2018	H1 2017 [1]
Revenues		218,216	109,067
Increase or decrease of finished goods and work in progress		416	357
Other operating income		2,366	43,715
Material expenses		–125,513	–70,896
Personnel expenses		–54,833	–26,942
Other operating expenses	5	–33,716	–10,766
Earnings from operations before depreciation and amortization expenses (EBITDA)		**6,936**	**44,535**
Depreciation and amortization expenses		–6,753	–1,836
Earnings from operations (EBIT)		**183**	**42,699**
Interest and similar income		10	62
Interest and similar expenses		–1,138	–418
Earnings before income taxes		**–945**	**42,343**
Income taxes		–1,845	92
Net income		**–2,790**	**42,435**
Thereof attributable to: owners of STS Group AG		–2,790	42,435
Earnings per share in EUR (basic)	7	**–1.42**	**848.70**
Earnings per share in EUR (diluted)	7	**–1.42**	**848.70**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory details in the condensed notes to the consolidated financial statements under "Basis of preparation of the interim consolidated financial statements".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDING ON JUNE 30, 2018

in kEUR	H1 2018	H1 2017 [1]
Net income	**–2,790**	**42,435**
Currency translation differences	–302	0
Items that may be reclassified subsequently to profit or loss	**–302**	**0**
Remeasurements of defined benefit pension plans, net of tax	123	–143
Items that will not be reclassified to profit or loss	**123**	**–143**
Other comprehensive income	**–178**	**–143**
Total comprehensive income	**–2,968**	**42,292**
Thereof attributable to: owners of STS Group AG	–2,968	42,292

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory details in the condensed notes to the consolidated financial statements under "Basis of preparation of the interim consolidated financial statements".

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2018

ASSETS

in kEUR	Note	June 30, 2018	December 31, 2017 [1]
Intangible assets		24,355	24,567
Property, plant and equipment		78,316	79,049
Other financial assets		245	267
Income tax receivables		2,496	1,579
Other non-financial assets		624	768
Deferred tax assets		11,119	8,564
Non-current assets		**117,155**	**114,794**
Inventories		23,758	28,124
Contract assets		6,330	0
Trade and other receivables		108,223	99,335
Other financial assets		5,788	13,051
Other non-financial assets		7,321	3,813
Cash and cash equivalents	8	30,943	15,836
Restricted cash	8	2,000	0
Current assets		**184,363**	**160,159**
Total assets		**301,518**	**274,953**

EQUITY AND LIABILITIES

Share capital		6,000	50
Capital reserve		22,152	1,615
Retained earnings		57,376	59,802
Other reserves		–979	–801
Equity attributable to owners of STS Group AG	9	84,549	60,666
Total equity		**84,549**	**60,666**
Trade and other payables		705	642
Other financial liabilities		14,105	17,127
Provisions		21,144	21,116
Deferred tax liabilities		8,080	6,982
Non-current liabilities		**44,034**	**45,867**
Trade and other payables		62,674	65,464
Other financial liabilities		70,082	63,995
Provisions		1,072	3,397
Income tax liabilities		1,271	1,673
Other non-financial liabilities		37,836	33,891
Current liabilities		**172,935**	**168,420**
Total equity and liabilities		**301,518**	**274,953**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory details in the condensed notes to the consolidated financial statements under "Basis of preparation of the interim consolidated financial statements".

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDING ON JUNE 30, 2018

	Equity attributable to owners of STS Group AG							
	Number of shares	Share capital	Capital reserves	Retained earnings	Other reserves			Total
in kEUR					Remeasuring gains/ losses	Foreign currency translation	Total	
Balance at January 1, 2017 [1]	**50,000**	**50**	**1,594**	**14,547**	**82**	**0**	**82**	**16,273**
Equity-settled share-based payment			7				0	7
Income after income tax expense				42,435			0	42,435
Dividends paid				–1,710			0	–1,710
Other comprehensive income					–143	0	–143	–143
Balance at June 30, 2017 [1]	**50,000**	**50**	**1,601**	**55,272**	**–61**	**0**	**–61**	**56,862**
Balance at January 1, 2018 before adjustments IFRS 9 and IFRS 15 [1]	**50,000**	**50**	**1,615**	**59,802**	**–190**	**–611**	**–801**	**60,666**
Adjustments IFRS 9				–74			0	–74
Adjustments IFRS 15				438			0	438
Balance at January 1, 2018	**50,000**	**50**	**1,615**	**60,166**	**–190**	**–611**	**–801**	**61,030**
Capital increase, cash based	4,950,000	4,950	23,000				0	27,950
Capital increase from retained earnings	1,000,000	1,000	–1,000				0	0
Costs of capital procurement			–1,480				0	–1,480
Equity-settled share-based payment			17				0	17
Income after income tax expense				–2,790			0	–2,790
Other comprehensive income					123	–302	–178	–178
Balance at June 30, 2018	**6,000,000**	**6,000**	**22,152**	**57,376**	**–67**	**–913**	**–979**	**84,549**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory details in the condensed notes to the consolidated financial statements under "Basis of preparation of the interim consolidated financial statements".

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDING ON JUNE 30, 2018

in kEUR	Note	H1 2018	H1 2017 [1]
Net income		**–2,790**	**42,435**
Changes in			
Inventories		–1,225	–281
Contract assets		–160	0
Trade and other receivables		–8,991	–26,347
Other receivables		1,283	1,228
Trade payables		–2,727	15,807
Other liabilities		4,678	11,376
Provisions		–2,396	–4,582
Adjustments for			
Bargain purchase gain from business combination		0	–41,965
Loss on disposal of property, plant and equipment		3	–22
Depreciation of property, plant and equipment		4,999	1,561
Amortization of intangible assets		1,754	275
Other non-cash income and expenses		–143	–136
Income taxes paid	10	–2,652	–149
Income tax expense		1,845	–92
Net interest expense		1,128	356
Net cash flows from operating activities		**–5,394**	**–536**
Proceeds from sale of property, plant and equipment		12	0
Proceeds from sale of intangible assets		0	22
Disbursements for acquisition of a business, net of cash acquired		0	–6,530
Disbursements for investments in property, plant and equipment		–4,281	–3,355
Disbursements for investments in intangible assets		–1,541	–729
Net cash flows from investing activities		**–5,810**	**–10,592**
Proceeds from capital increase		27,950	0
Dividends paid		0	–1,710
Proceeds from borrowings		4,631	12,859
Repayments of borrowings		–6,289	–1,425
Proceeds from factoring		4,089	15,359
Interest paid		–570	–366
Costs of capital procurement		–1,480	0
Net cash flows from financing activities		**28,331**	**24,717**
Effect of currency translation on cash and cash equivalents		**–20**	**0**
Net increase/decrease in cash and cash equivalents		**17,107**	**13,591**
Cash and cash equivalents at the beginning of the period		**15,836**	**2,608**
Cash and cash equivalents at the end of the period [2]		**32,943**	**16,199**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory details in the condensed notes to the consolidated financial statements under "Basis of preparation of the interim consolidated financial statements".
2 Cash and cash equivalents include restricted cash and cash equivalents.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 — GENERAL DISCLOSURES

STS Group AG (also referred to as the "Company") is a listed stock corporation based in Germany with its registered office at Zeppelinstraße 4, 85399 Hallbergmoos. It is entered in the commercial register of the Local Court of Munich under HRB 231926. Until 9 March 2017, the Company traded under the name Mutares Holding-17 AG and was based in Weißenberg, Germany.

The parent company of STS Group AG is Mutares AG, Munich, Germany.

On June 1, 2018, STS Group AG was listed in the Regulated Market of the Frankfurt Stock Exchange (Prime Standard). In connection with this, 1,000,000 new shares from an STS Group AG capital increase and a further 1,000,000 shares from the placement of shares previously held by the former sole shareholder Mutares AG were offered at a bid price of EUR 24.00 per share. The above transaction increased STS Group AG's share capital to 6,000,000 no-par value shares.

STS Group AG's interim consolidated financial statements as of June 30, 2018 cover STS Group AG and its subsidiaries (also referred to collectively as "the Group"). The Group is a globally leading system supplier of interior and exterior parts for commercial vehicles. The Group develops, produces and delivers products and solutions for acoustic and thermal insulation (called "soft trim products") and components of plastic or composite material (called "hard trim products") for the automotive and truck industry.

2 — BASIS OF PREPARATION OF THE INTERIM FINANCIAL STATEMENTS

These interim consolidated financial statements were prepared according to the provisions of the International Financial Reporting Standards (IFRS) in force and applicable in the European Union on the reporting date and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The interim consolidated financial statements of STS Group AG, for the reporting period ending on June 30, 2018 were prepared in condensed form in compliance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". They do not contain all the information required for complete consolidated financial statements.

In these interim consolidated financial statements, the accounting policies are generally based on the same accounting policies that were used for the preparation of the 2017 IFRS consolidated financial statements, where they are explained in detail. These policies were applied consistently to these interim consolidated financial statements with the exception of the IFRS amendments and new requirements whose application is mandatory from the 2018 financial year. For information on the expected effects of IFRS 16 Leases, which is to be applied for the first time for the financial year beginning on January 1, 2019, please refer to the commentary in the notes to the consolidated financial statements of the 2017 annual report. At the current time, there has been no significant change in the ongoing implementation project compared to the assessment there.

When preparing financial statements in line with IFRS, the management must use its discretion to make estimates and assumptions. These estimates and judgements are fundamentally unchanged compared to the matters described in STS Group AG's consolidated financial statements as of December 31, 2017.

Income taxes were determined by way of the best possible estimate.

Differences can arise due to the commercial rounding of amounts (in thousands of euros) and percentages.

The initial application of IFRS 9 and IFRS 15 since January 1, 2018 has resulted in transitional effects for the Group in the areas described below, which have led to a change in accounting policy. The Group has applied the modified, retrospective approach for the transition to IFRS 9 and IFRS 15.

IFRS 9

Classification and measurement of financial assets

In the classification and measurement of financial assets, IFRS 9 changes the classification for some receivables. Receivables are generally allocated to the "hold" business model and measured at amortized cost. In the case of trade receivables covered by a factoring agreement, the receivable continues to be allocated to the "hold" business model so long as factoring does not result in the derecognition of the receivable when the receivable is sold. To change this categorization, the business model must provide for an actual sale that results in a disposal on the statement of financial position. A purely legal sale without disposal is not a selling business model in accordance with IFRS 9. Receivables portfolios that are subject to the possibility of non-recourse factoring are allocated to the "hold and sell" business model and measured at fair value through other comprehensive income (FVTOCI).

Securities previously categorized as "available for sale" under IAS 39 are measured at fair value through profit or loss (FVTPL).

The other financial assets are allocated to the "amortized cost" category.

Impairment model for financial assets

IFRS 9.5.5 introduces a new impairment model. This applies to financial assets measured at amortized cost and at fair value through other comprehensive income, contract assets, loan commitments and financial guarantees. The previous model (incurred loss model) determined impairment on the basis of incurred losses, while the new model (expected loss model) is based on expected credit losses.

The Group applies the simplified approach according to IFRS 9 in order to measure expected credit losses; accordingly, full lifetime expected credit losses are recognized for all trade receivables and contract assets.

To measure the expected losses, financial assets were grouped on the basis of shared credit risk characteristics or individual default information was consulted. In any case, the calculation is based on current default probabilities as of the respective reporting date.

For the Group, this resulted in a transitional effect that decreased retained earnings by 74 kEUR as of January 1, 2018 (including deferred taxes in the amount of 29 kEUR). This is attributable exclusively to changed impairment allowances for trade receivables. There were no material effects for the other assets under the scope of IFRS 9's altered impairment model.

The table below contains a reconciliation of the carrying amounts of financial instruments. Changes in the carrying amounts result from changed impairment and are attributable exclusively to the "amortized cost" category, which was previously classified as "loans and receivables (LaR)." They are broken down by class of the consolidated statement of financial position and category according to IFRS 9 compared to the previous categories according to IAS 39.

RECLASSIFICATION OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 9 AS OF JANUARY 1, 2018

	January 1, 2018		December 31, 2017	
in kEUR	Category per IFRS 9	Carrying amount	Category per IAS 39	Carrying amount
Financial assets				
Trade receivables	Amortized cost	66,561	LaR	66,664
Trade receivables	FVOCI	32,400	LaR	32,400
Other receivables	Amortized cost	271	LaR	271
Other financial assets				
Securities	FVTPL	38	AfS	38
Security deposits	Amortized cost	209	LaR	209
Loans to affiliates	Amortized cost	5,000	LaR	5,000
Miscellaneous financial assets	Amortized cost	8,051	LaR	8,051
Free standing derivatives	FVTPL	20	FAHfT	20
Cash and cash equivalents	Amortized cost	15,836	LaR	15,836
Financial liabilities				
Trade payables	FLAC	66,106	FLAC	66,106
Other financial liabilities				
Liabilities to banks	FLAC	16,758	FLAC	16,758
Third party loans	FLAC	7,741	FLAC	7,741
Liabilities from factoring	FLAC	37,159	FLAC	37,159
Leasing liabilities	n/a	1,056	n/a	1,056
Miscellaneous financial liabilities	FLAC	18,408	FLAC	18,408

IFRS 15

The Group has applied IFRS 15 "Revenue from Contracts with Customers" since January 1, 2018. This resulted in changes to accounting policies and adjustments to amounts recognized in the financial statements. In compliance with the transitional provisions of IFRS 15, the Group applied the new requirements retrospectively in a modified manner. The new standard was applied on to contracts that had not yet been fulfilled as of January 1, 2018.

Customer tools

The new rules for revenue recognition according to IFRS 15 have applied since January 1, 2018. Because of the amended rule on the passing of control, STS has a separate contractual obligation to the customer from certain contracts for first series tools. Revenue is recognized at the point in time at which control is passed to the customer. At the same time, the costs incurred are reported in cost of sales.

Customer-specific products

The new requirements of IFRS 15 mean that customer-specific products have been subject to revenue recognition over time since January 1, 2018 if the products have no alternative use according to their specifications and STS has an enforceable right to payment equal at least to a refund of the costs incurred due to the services already performed including an appropriate profit margin.

For the Group, the transition resulted in a transitional effect that increased retained earnings by 438 kEUR as of January 1, 2018.

In summary, the amounts shown on the statement of financial position were adjusted as follows as of the date of initial application (January 1, 2018):

IFRS 15 – IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR JANUARY 1, 2018

in kEUR	January 1, 2018	Impact IFRS 15	December 31, 2017 before applying IFRS 15
ASSETS			
Non-current assets	**114,794**	**0**	**114,794**
Inventories	22,533	–5,591	28,124
Finished goods	4,797	–2,405	7,202
Unfinished goods	2,901	–3,186	6,087
Contract assets	6,170	6,170	0
Current assets	**160,738**	**579**	**160,159**
Total assets	**275,532**	**579**	**274,953**
EQUITY AND LIABILITIES			
Transition reserve	60,240	438	59,802
Total equity	**61,104**	**438**	**60,666**
Deferred tax liabilities	7,123	141	6,982
Non-current liabilities	**46,008**	**141**	**45,867**
Current liabilities	**168,420**	**0**	**168,420**
Total equity and liabilities	**275,532**	**579**	**274,953**

The table below gives an overview of the effects of IFRS 15 on the interim consolidated financial statements as of June 30, 2018:

IFRS 15 – IMPACT ON CONSOLIDATED STATEMENT OF PROFIT OR LOSS

in kEUR	H1 2018	Impact IFRS 15	H1 2018 before applying IFRS 15
Revenue	218,216	798	219,014
Decrease of finished goods	416	–718	–302
Earnings before income taxes	**–945**	**–80**	**–865**
Income taxes	–1,845	–20	–1,865
Net income	**–2,790**	**–60**	**–2,730**

IFRS 15 – IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in kEUR	June 30, 2018	Impact IFRS 15	June 30, 2018 before applying IFRS 15
ASSETS			
Non-current assets	**117,155**	**0**	**117,155**
Inventories	23,758	–5,834	29,592
Finished goods	5,039	–1,496	6,535
Unfinished goods	3,420	–4,338	7,758
Contract assets	6,330	6,330	0
Current assets	**184,363**	**496**	**183,867**
Total assets	**301,518**	**496**	**301,022**
EQUITY AND LIABILITIES			
Retained earnings	57,376	376	57,000
Total equity	**84,549**	**376**	**84,173**
Deferred tax liabilities	8,080	120	7,960
Non-current liabilities	**44,034**	**120**	**43,914**
Current liabilities	**172,935**	**0**	**172,935**
Total equity and liabilities	**301,518**	**496**	**301,022**

3 — SCOPE OF CONSOLIDATION

The scope of consolidation is unchanged in the reporting period compared to the 2017 consolidated financial statements.

There was no new information in the reporting period with regard to the provisional purchase price as of December 31, 2017 for the acquisition of STS Composites France S.A.S., Lyon, France (formerly: Inoplast Truck S.A.S.), MCR S.A.S., Lyon, France, STS Composites Germany GmbH, Munich, Germany (formerly: Inoplast Trucks GmbH), Inoplast Trucks S.A. de C.V., Ramos Arizpe, Mexico, and STS Plastics Co., Ltd., Jiangyin, China (all five companies together constitute the "Dolmen business combination"), as of June 30, 2017. In this respect, the provisional purchase price allocation presented in the 2017 consolidated financial statements equals the final purchase price allocation as of June 30, 2018. However, further negotiations with the seller on the final purchase price are scheduled for the second half of 2018.

4 — SEASONAL INFLUENCES ON THE BUSINESS

Seasonal influences during the financial year can lead to fluctuations in revenue and the resulting earnings. The Group's revenue and earnings are usually higher in the first half of the year because major customers close their production plants for the summer break at the beginning of the second half of the year.

5 — OTHER EXPENSES

Other expenses of the reporting period include expenses of 3,608 kEUR for the IPO and the conversion of Group accounting to International Financial Reporting Standards that this required.

6 — INCOME TAXES

Tax expenses are stated on the basis of the best possible estimate of the weighted annual income tax rate for the entire financial year, multiplied by the pre-tax earnings of the interim reporting period.

7 — EARNINGS PER SHARE

EARNINGS PER SHARE

		H1 2018	H1 2017
Net income attributable to owners of STS Group AG	in kEUR	–2,790	42,435
Weighted average number of ordinary shares to calculate earnings per share			
Basic	Number	1,961,050	50,000
Diluted	Number	1,961,050	50,000
Earnings per share			
Basic	in EUR	–1.42	848.70
Diluted	in EUR	–1.42	848.70

8 — CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS

in kEUR	June 30, 2018	December 31, 2017
Cash and cash equivalents in the balance sheet	30,943	15,836
Restricted cash	2,000	0
Cash and cash equivalents in the cash flow statement	**32,943**	**15,836**

9 — EQUITY

In the reporting period, the Company increased its equity in several tranches by a total of 5,950,000 no-par value shares. The capital increases were performed partly with company funds and partly with cash contributions. Gross issue proceeds of 24,000 kEUR were generated for the new 1,000,000 shares placed as part of the IPO. Transaction costs in direct connection with the IPO of 1,480 kEUR were recognized outside of profit or loss in the capital reserves.

10 — STATEMENT OF CASH FLOWS

The income tax payments of the reporting period include income tax payments of 1,673 kEUR resulting from tax audits of previous periods before the Group affiliation of a subsidiary. A corresponding exemption claim against the former shareholder of the subsidiary likewise affected payments in the reporting period.

11 — SEGMENT INFORMATION

The former China business unit within the Plastics segment became a segment in its own right with effect from January 1, 2018. The Group thus manages its business in the four segments of Acoustics, Plastics, China and Materials:

- **Acoustics:** This segment encompasses all soft trim products. Soft trim applications have acoustic and thermal properties that reduce noise and protect against heat.
- **Plastics:** This segment contains hard trim products made via injection molding and SMC thermo-compression. Hard trim applications are used for external parts (e. g. front modules and aerodynamic paneling) or interior modules ("bunk box" under the driver's bed and shelf elements) and structural components (tailgate). The business unit also has its own capacity for painting plastics.
- **China:** This segment concentrates its production of plastic parts, mainly for commercial vehicles, on the regional market in China. The product range comprises external parts (bumpers, front paneling, deflectors, fenders, step plates, etc.) and structural components, e. g. for the tailgate or battery covers. These are made with SMC compression processes and thermoplastic technologies. The business unit also has its own capacity for painting plastics.
- **Materials:** This segment comprises the production of semifinished products, namely sheet molding compounds (SMC), bulk molding compounds (BMC) and advanced molding compounds (AMC). The semifinished products are used within the Group for hard trim applications as well as supplied to external third parties.

The previous year's figures have been adjusted to the new segment structure.

	Acoustics		Plastics		China		Materials		Corporate/ Consolidation		Group	
in kEUR	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]
Revenue – third parties	68,577	68,066	107,208	41,001	25,951	0	16,480	0	0	0	218,216	109,067
Revenue – intersegment	0	0	2	0	0	0	5,396	0	–5,398	0	0	0
Revenue segment	**68,577**	**68,066**	**107,210**	**41,001**	**25,951**	**0**	**21,876**	**0**	**–5,398**	**0**	**218,216**	**109,067**
EBITDA	102	1,513	6,857	2,224	3,834	0	1,188	0	–5,045	40,798	6,936	44,535
Adjusted EBITDA	1,026	2,151	11,124	3,780	4,453	0	1,330	0	–1,437	–716	16,496	5,215
Adjusted EBITDA in % of revenue	1.5%	3.2%	10.4%	9.2%	17.2%	n. a.	6.1%	n. a.	26.6%	n. a.	7.6%	4.8%
Depreciation and amortization expenses	–1,543	–1,209	–3,452	–617	–1,105	0	–639	0	–14	–10	–6,753	–1,836
EBIT	–1,441	304	3,405	1,607	2,729	0	549	0	–5,059	40,788	183	42,699
CAPEX	1,418	3,167	2,072	739	1,462	0	244	0	626	178	5,822	4,084

The following table breaks down revenue with third parties according to IFRS 15:

	Acoustics		Plastics		China		Materials		Group	
in kEUR	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]	H1 2018	H1 2017[1]
Timing of revenue recognition										
Transferred at a point in time	0	68,066	10,415	41,001	25,772	0	16,480	0	52,667	109,067
Transferred over time	68,577	0	96,793	0	179	0	0	0	165,549	0
Revenue – third parties	**68,577**	**68,066**	**107,208**	**41,001**	**25,951**	**0**	**16,480**	**0**	**218,216**	**109,067**

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

in kEUR	H1 2018	H1 2017[1]
Adjusted EBITDA Group	**16,496**	**5,215**
Management adjustments (netted)	–9,560	39,320
EBITDA Group	**6,936**	**44,535**
Depreciation and amortization expenses	–6,753	–1,836
Earnings from operations (EBIT)	**183**	**42,699**
Finance result	–1,128	–356
Earnings before income taxes	**–945**	**42,343**

1 The Group has initially applied the new standards IFRS 9 and IFRS 15 effective January 1, 2018. For the transition to the new regulations, the modified, retrospective approach was applied, according to which the previous year's figures were not adjusted. See explanatory details in the condensed notes to the consolidated financial statements under "Basis of preparation of the interim consolidated financial statements".

12 — FINANCIAL INSTRUMENTS

The following table shows the fair value according to IFRS 13 for the financial instruments:

DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS BOOK VALUE IFRS 7. 25–30

	June 30, 2018		December 31, 2017		
in kEUR	Book value	Fair value	Book value	Fair value	Level per IFRS 13
Financial assets					
Trade receivables	107,860	107,860	99,064	99,064	
Other receivables	363	363	271	271	
Other financial assets					
Securities	38	38	38	38	
Security deposits	208	180	209	209	Level 3
Loans to affiliates	5,000	5,000	5,000	5,000	
Miscellaneous financial assets	787	787	8,051	8,051	
Free standing derivatives	0	0	20	20	Level 2
Cash and cash equivalents	30,943	30,943	15,836	15,836	
Restricted cash	2,000	2,000	0	0	
Financial liabilities					
Trade payables	63,379	63,379	66,106	66,106	
Other financial liabilities					
Liabilities to banks	15,379	15,354	16,758	16,734	Level 3
Third party loans	7,436	8,221	7,741	8,612	Level 3
Liabilities from factoring	41,248	41,248	37,159	37,159	
Leasing liabilities	973	973	1,056	1,056	Level 3
Miscellaneous financial liabilities	19,151	19,151	18,408	18,408	

The fair value of financial instruments is determined according to current parameters such as interest or exchange rates at the end of the reporting period and recognized, customary measurement models. For further details, especially on allocation to fair value levels, please refer to the comments in the notes to the consolidated financial statements as of December 31, 2017. Any reclassifications to and from the levels of the measurement hierarchy are recognized at the end of the respective reporting period.

For current financial instruments, the carrying amount is the best estimated value of fair value.

The financial instruments are categorized into classes below:

FINANCIAL INSTRUMENTS BY CLASS AND CATEGORY IN ACCORDANCE WITH IFRS 7.8

in kEUR	June 30, 2018		January 1, 2018	
	Category per IFRS 9	Carrying amount	Category per IFRS 9	Carrying amount
Financial assets				
Trade receivables	Amortized cost	70,625	Amortized cost	66,561
Trade receivables	FVOCI	37,235	FVOCI	32,400
Other receivables	Amortized cost	363	Amortized cost	271
Other financial assets				
Securities	FVTPL	38	FVTPL	38
Security deposits	Amortized cost	208	Amortized cost	209
Loans to affiliates	Amortized cost	5,000	Amortized cost	5,000
Miscellaneous financial assets	Amortized cost	788	Amortized cost	8,051
Free standing derivatives	FVTPL	0	FVTPL	20
Cash and cash equivalents	Amortized cost	30,943	Amortized cost	15,836
Restricted cash	Amortized cost	2,000	Amortized cost	0
Financial liabilities				
Trade payables	FLAC	63,379	FLAC	66,106
Other financial liabilities				
Liabilities to banks	FLAC	15,379	FLAC	16,758
Third party loans	FLAC	7,436	FLAC	7,741
Liabilities from factoring	FLAC	41,248	FLAC	37,159
Leasing liabilities	n/a	973	n/a	1,056
Miscellaneous financial liabilities	FLAC	19,151	FLAC	18,408
Summary by category				
Financial assets at amortized cost (amortized cost)	Amortized cost	109,927	Amortized cost	95,928
Financial assets at fair value through profit or loss (FVTPL)	FVTPL	38	FVTPL	58
Financial assets (equity instruments) at fair value through other comprehensive income (FVOCI)	FVOCI	37,235	FVOCI	32,400
Financial liabilities at amortized cost (FLAC)	FLAC	146,593	FLAC	146,172

13 — CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

The statements on the contingent liabilities and other financial obligations described in the 2017 IFRS consolidated financial statements remain largely unchanged.

14 — RELATED PARTIES

The extent of related party relationships was as follows in the reporting period:

14.1 Business relations with Mutares AG and other subsidiaries and investments not belonging to the STS Group

in kEUR	H1 2018	H1 2017
Goods and services received from		
Mutares AG	2,356	762
subsidiaries and other investments of Mutares AG not belonging to the STS Group	1,118	485
of which: expenses for management services received from		
Mutares AG	2,356	760
subsidiaries and other investments of Mutares AG not belonging to the STS Group	1,118	485

in kEUR	June 30, 2018	December 31, 2017
Loans to Mutares AG	5,000	5,000
Commitments to		
Mutares AG	1,451	1,373
subsidiaries and other investments of Mutares AG not belonging to the STS Group	995	1,347
Collateral received from		
der Mutares AG	1,750	5,750
der Mutares AG – jointly and severally	1,700	1,700

14.2 Business relations with and payments to members of the Executive Board and the Supervisory Board

COMPENSATION TO MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

in kEUR	H1 2018	H1 2017
Short-term benefits	1,749	105
Share-based payment	17	7
Total benefits	**1,766**	**112**

Parts of the short-term payments due to the Management Board are borne by the majority shareholder Mutares AG and charged to the company.

OBLIGATIONS TOWARDS MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

in kEUR	June 30, 2018	December 31, 2017
Obligations towards members of the Management Board and the Supervisory Board	236	448

15 — EVENTS AFTER THE REPORTING PERIOD

An Annual General Meeting resolution of May 3, 2018 authorized the Company's representatives up to May 2, 2023 to grant executives of the Company, members of the management of subsidiaries, employees of the Company and employees of subsidiaries a total of up to 500,000 options to a total of up to 500,000 shares in the Company with full dividend entitlement for the financial year in which the option is exercised.

At the exercise date, shares in the Company that the Company has acquired or that the Company holds as treasury shares can be issued instead of satisfying the obligations with the contingent capital created for that purpose.

Under this share option plan, a first tranche totaling 68,000 share options with an issue price of EUR 18.77 was issued to the beneficiaries as of July 2, 2018. The exercise price equates to 80% of the share's average, volume-weighted market price of the last 20 trading days before being granted.

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that, in accordance with the applicable accounting policies, the interim consolidated financial statements present a true and fair view of the Group's results of operations, financial position and net assets and that the combined management report presents a true and fair view of the business performance, including the business results and the position of the Group, and describes the material opportunities and risks of the Group's expected development in the remainder of the financial year.

Hallbergmoos, September 26, 2018

Andreas Becker (CEO) **Stephan Vrublovsky (CFO)** **Patrick Oschust (COO)**

REVIEW REPORT

TO THE STS GROUP AG, HALLBERGMOOS

We have reviewed the condensed consolidated interim financial statements – comprising the condensed statement of profit or loss, condensed statement of comprehensive income, condensed statement of financial position, condensed statement of cash flows, condensed statement of changes in equity and selected explanatory notes – and the interim group management report of STS Group AG, Hallbergmoos for the period from January 1, 2018 to June 30, 2018, which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Munich, September 25, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer
German Public Auditor

ppa. Christoph Tübbing
German Public Auditor

FINANCIAL CALENDAR

11/21/2018	Publication of Quarterly Report (Q3)
11/26 – 11/28/2018	German Equity Forum, Frankfurt/Main, Germany

FURTHER INFORMATION

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