



Sto at a glance

Sto Group	2013	2014	2015	2016	2017	2018	Changes in % 18/17
Turnover	1,166.0	1,208.7	1,216.6	1,230.7	1,277.4	1,332.4	4.3 %
Germany	534.7	549.2	535.4	548.7	562.8	596.0	5.9 %
Non-Germany	631.3	659.5	681.2	682.0	714.6	736.4	3.1 %
Investments (not including financial assets)	32.4	39.1	35.8	37.5	32.7	32.1	-1.8 %
Depreciation/amortisation (without financial assets)	29.0	29.9	31.0	32.7	33.3	31.3	-6.0 %
EBITDA	128.9	126.9	112.6	103.0	117.3	113.2	-3.5 %
EBIT	99.9	97.0	81.5	70.3	84.0	81.9	-2.5 %
EBT	99.0	96.2	81.2	68.1	82.2	80.2	-2.4 %
EAT (earnings after taxes)	68.4	66.0	55.7	45.7	55.8	53.8	-3.6 %
Earnings per limited ordinary share (EUR)	10.68	10.29	8.71	7.14	8.62	8.33	-3.4 %
Earnings per limited preference share (EUR)	10.74	10.35	8.77	7.20	8.68	8.39	-3.3 %
Cash flow from current operating activities per share (EUR)	80.9 12.60	93.9 14.61	78.9 12.28	95.4 14.85	86.5 13.46	80.7 12.56	-6.7 % -6.7 %
Total assets	703.6	751.3	641.9	714.2	749.6	784.4	4.6 %
Equity capital in % of total assets	481.4 68.4	506.5 67.4	404.7 63.0	425.2 59.5	450.1 60.1	477.5 60.9	6.1 %
Employees (year end)	4,791	4,979	5,032	5,251	5,308	5,333	0.5 %
of which in Germany	2,586	2,623	2,652	2,895	2,884	2,887	0.1 %
of which non-Germany	2,205	2,356	2,380	2,356	2,424	2,446	0.9 %

Sto SE & Co. KGaA (HGB)	2013	2014	2015	2016*	2017*	2018*	Changes in % 18/17
Turnover	589.1	604.2	598.8	610.7	627.0	667.1	6.4 %
Export ratio in %	16.8	17.4	18.7	20.5	19.9	20.2	
Investments							
in property, plant and equipment, and Intangible assets	12.3	11.6	20.1	15.5	9.5	14.5	52.6 %
in financial assets	6.1	6.4	9.6	14.7	18.4	5.5	-70.1 %
Depreciation/amortisation (without financial assets)	12.8	13.4	13.4	12.7	12.8	12.5	-2.3 %
Earnings before income taxes**	88.8	79.1	64.6	56.5	62.0	59.3	-4.4 %
Net profit for the year	71.7	62.8	48.2	45.4	45.8	40.8	-10.9 %
Cash flow from current operating activities***		35.1	41.9	35.6	47.6	56.3	18.3 %
Dividend							
per limited ordinary share (EUR)	0.25/4.56	0.25/25.14	0.25/4.56	0.25/3.00	0.25/3.78	0.25/3.78	
per limited preference share (EUR)	0.31/4.56	0.31/25.14	0.31/4.56	0.31/3.00	0.31/3.78	0.31/3.78	
Total assets	526.0	560.6	446.0	475.2	508.2	531.5	4.6 %
Equity capital in % of total assets	402.0 76.4	433.9 77.4	318.7 71.5	333.1 70.1	357.9 70.4	372.6 70.1	4.1 %
Employees (year end)	2,118	2,134	2,148	2,133	2,102	2,093	-0.4 %

(figures in EUR million unless otherwise indicated)

* From 2016 in accordance with BilRUG (Accounting Directive Implementation Act)

** Until 2015 earnings on ordinary activities

*** From 2014 cash flow was adapted to comply with the new DRS 21 (German accounting standard)

Rounding of amounts may lead to minor deviations in totals and in the calculation of percentages in this report.

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For reasons of simplification, the terms 'colleague' and 'employee' shall be used to refer to both female and male colleagues and employees in this Annual Report.

Picture caption for title page:

The new construction of the Anton Bruckner Private University brings together twelve institutes in one building, which had previously been spread all over the Austrian city of Linz. The spectacular facade consists of elements that were prefabricated at the factory. Insulation was provided by the StoVentec R rainscreen cladding system and the StoTherm Classic external wall insulation system. The planners of the architectural office Architekturbüro 1 placed hundreds of white slats in front of the areas rendered in white. These slats wrap the three-storey building, which serves as an education centre for music, dance and drama, in an undulating curtain. The slats provide shade to the classrooms and lend the entire building complex a playful lightness.

Foreword



Rainer Hüttenberger, Spokesman of the Executive Board

Dear Shareholders,

Sto SE & Co. KGaA reached its forecast targets in the 2018 fiscal year and once again managed to grow significantly through its own strength. Without the considerable negative currency translation effects, which significantly slowed down growth within the Group, we would have even exceeded our turnover forecast. However, even with the increase of 4.3 % to EUR 1,332.4 million, we are overall satisfied with business development, at least in terms of sales. We are particularly pleased, as we were able to strengthen our core business of facade systems, despite the German market for external wall insulation systems (EWIS) looking like it has only marginally grown according to first calculations.

Despite the consolidated EBIT reaching the forecast bandwidth, it decreased by 2.5 % to EUR 81.9 million year-on-year. As a result, return on sales, relating to earnings before taxes, also decreased from 6.4 % to 6.0 %. The greatest pressure on gross profit came from the procurement side. The prices for raw materials

and purchased goods once again increased significantly over the course of the year, and we were unable to compensate for this trend, even though we had adjusted our sales prices. Incoming freight costs increased considerably with a negative effect on the gross profit margin.

The development of business in 2018 showed two things: Firstly, it is becoming clear that the growth initiatives, which were launched in Germany as part of the New Balance programme, triggered the intended effects on the market side. Our growth in turnover as well as our new title, 'Global market leader for external wall insulation systems', which we were officially awarded at the beginning of 2018, is wonderful confirmation of the results that we have achieved. It once again testifies to our excellent position in the facade systems market, the most important product segment in the Sto Group.

We also made technological progress and once again strengthened our industry-wide, pioneering expertise with numerous innovations and also the acquisition of Liaver GmbH & Co. KG, which became effective on 1 January 2019.

The second trend confirmed by the development of business in 2018 is the need for action when it comes to returns in the Sto Group. We have moved even further away from our targets and have to quickly counteract this trend. We are addressing this issue at all stages of the value added chain: from procurement and development to sales and the product mix, which must be aimed even more consistently at high-income offers and markets than before.

The improvement of profitability with a simultaneously rising business volume will be one of our main tasks in 2019. In the current year, we expect an increase in turnover of 4.1 % and EBIT between EUR 81 million and EUR 91 million in the Group. However, our environment is fraught with numerous factors that create uncertainty.

These include global economic developments, which are marked by trade disputes, customs duties, political unrest, and the increasing protectionism around the world, as well as a lack of a clear way forward in many respects at a political and regulatory level. One such example is climate protection, which currently is the hot topic after the Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMU) presented a relevant draft bill in February 2019. It aims to embed the 2030 climate target in law. We regard this as a massive opportunity for the industry and for Sto, as in objective terms, efficient building insulation is indispensable for achieving the specified CO₂ savings. However, if the necessary steps are not specified or implemented, these huge potentials cannot be exploited further.

In our opinion, the current draft of the Building Energy Act (GebäudeEnergieGesetzes – GEG) also lacks substance. This new law, which is to be introduced in 2019, combines the provisions of the Energy Conservation Act (Energieeinsparungsgesetz – EnEG), Energy Conservation Ordinance (Energieeinsparverordnung – EnEV), and Renewable Energies Heat Act (Erneuerbare-Energien-Wärmegesetz – EEWärmeG). The Building Energy Act defines aspects such as the building energy standards required by the EU. According to these standards, only buildings with the lowest possible energy consumption may be constructed as from 2021 onward, and for public buildings this rule already applies as from 2019. The new law, which is currently being reconciled by the political bodies, is also to stipulate the building restoration requirements crucial for potential subsidies. In our opinion, one critical aspect of the draft bill is that the required standard of the EnEV 2016 could be weakened due to the inclusion of electricity from renewable energies and that potential exceptions for over-indebted municipalities are mentioned.

The many uncertainties do not make it easy to act with foresight and to adapt to the requirements of the market and the customers. The weather is another factor that always has a crucial impact on Sto's turnover and earnings development as is the continuing significant uncertainty among building contractors in the German EWIS market, which we counteract by providing information and clarification. A huge increase in statutory provisions, e.g. relating to product licensing and labelling, and to fire protection also have an effect. Despite the numerous obstacles, we are confident that we will successfully meet the challenges ahead and achieve our long-term target of generating Group-wide income-oriented growth. Because it is one of our strengths to react to changes at an early stage and from a good starting position and to correct our course as required.

We are currently reviewing our strategic alignment, for instance. By doing so, we account for technological changes such as digitalisation and its far-reaching consequences, for example, as well as the increasing importance of sustainability topics which have always played an important role in our Group. This is expressed in our corporate mission of 'Building with conscience.', which we are now developing further and modernising under the catchphrase 'Building with conscience. Reloaded.' It continues to stand for our ambition for Sto to contribute to maintaining the value and aesthetic appeal of buildings. The review of our strategy does not mean that we are turning our backs on the established Sto values. Quite the contrary – our mission remains strong and reliable. But our environment is changing, which is why we have to continuously reflect on our position, our image in the eyes of market participants, ways of exploiting opportunities, and how to best reach our targets.

Up to now, in over 60 years of Sto's company history, we are lucky that the company has mostly been on an upwards trajectory.

A flair for people, products, and markets, a good eye and courage to invest in the right projects at the right time, a long-term orientation – these and many other contributing factors

have made the Sto Group what it is today: a successful and strong international Group, with its majority share owned by the family – a Group that sets standards in its industry and holds an excellent, or even leading, position in numerous markets. Our shareholders also benefit from this position.

The personally liable partner STO Management SE proposed to once again distribute around EUR 26 million from the earnings in the 2018 fiscal year. This means that limited preference shareholders will receive an unchanged ordinary dividend of EUR 0.31 and a bonus of EUR 3.78 per share, and limited ordinary shareholders an ordinary dividend of EUR 0.25 plus a bonus of EUR 3.78 per share. This would result in a dividend yield per preference share of 5.0 % based on the 2018 closing price of EUR 82.00.

Our basis for the years to come is solid. We now have to improve the ratio between turnover and costs in the Group as this did not develop as planned in recent years. It is important that we have recognised the reasons for this development and are now jointly working on achieving our target returns. To do this, we need the effort of the entire workforce who is always highly committed to tackling challenges. Sto's employees are a crucial success factor for the company, and on behalf of the Executive Board I would like to take this opportunity to thank them for their impressive achievements.



Rainer Hüttenberger

Spokesman of the Executive Board of STO Management SE as the personally liable partner of Sto SE & Co. KGaA

Report of the Supervisory Board



Dr Max-Burkhard Zwosta, Chairman

Members of the Supervisory Board

Fritz Stotmeister,
Öhningen/Germany | Honorary Chairman

Dr Max-Burkhard Zwosta, Wittnau/Germany,
Chartered accountant and tax consultant | Chairman

Lothar Hinz*, Reutlingen/Germany,
Chairman of the Group Works Council and Chairman of the
Works Council for the Baden-Württemberg sales region of
Sto SE & Co. KGaA and StoCretec GmbH | Deputy Chairman

Maria H. Andersson
Munich/Germany, Managing
Director of N4 Beteiligungs-
gesellschaft mbH, Family
Officer/Single Family Office

**Dr Renate Neumann-
Schäfer**, Überlingen/Germany,
Business consultant, Economist

Cornelia Reinecke
Emmendingen/Germany,
Head of Human Resources and
Member of the Management
Board of Sick AG

**Prof. Dr Klaus Peter
Sedlbauer**, Rottach-Egern/
Germany, Chairholder at the
Institute of Building Physics
at the Technical University of

Munich/Germany, and Head
of the Fraunhofer Institute for
Building Physics

Peter Zürn
Bretzfeld-Weißenburg/Ger-
many, Member of the Manage-
ment of the Würth Group

Wolfgang Dell*
Hattersheim/Germany, Respon-
sible for Maintenance Plant
Technology, Sto SE & Co. KGaA

Frank Heßler*
Mannheim/Germany, Political
Trade Union Secretary and
Deputy regional manager IG
BCE of the regional district of
Baden-Württemberg

Barbara Meister*
Blumberg/Germany, Deputy
Chairperson of the Group Em-
ployee Representative Council
and Chairperson of the Weizen
Employee Representative Coun-
cil, Sto SE & Co. KGaA

Roland Schey*
Tengen/Germany, Head of
Finance and Accounting of the
Sto Group

Martina Seth*
Uelzen/Germany, Personnel
Developer and Trade Union
Secretary of IG BCE, Head
Office in Hanover/Germany

* Employee representatives

Dear Shareholders,

The Supervisory Board of Sto SE & Co. KGaA conscientiously and with due diligence fulfilled the duties incumbent upon it by law, the articles of association, the German Corporate Governance Code and the rules of procedure in the 2018 fiscal year. We have advised the personally liable partner STO Management SE in the management of the Group and continually monitored its work. This cooperation was constructive and based on an open and trusting exchange between the parties. The personally liable partner briefed the Supervisory Board on a regular, timely, and comprehensive basis on all issues relating to the company and the Group. These contents were discussed in detail within the Supervisory Board and its committees.

In addition to the Supervisory Board meetings, the Supervisory Board maintained constant contact with the Executive Board of the personally liable partner through its Chairman and obtained information about current developments within the Group as well as material business transactions. Important questions and decisions were also discussed with the Executive Board in a continuous and close exchange. Overall, the Supervisory Board was always comprehensively informed about the current situation of the company and Sto Group, the planned business policy, Group planning, including financial, investment, and personnel planning, the income situation, and the position of the individual company and Group, including the risk situation, risk management, and compliance situation.

The members of the Supervisory Board also comprehensively reviewed decisions and measures of the personally liable partner as and when required, sometimes based on the preparations of the responsible committees. In decisions that were of crucial importance to the Group, the Supervisory Board was always involved immediately. The economic situation

and development perspectives of the Group described in the reports of the Executive Board of the personally liable partner were discussed in detail. Furthermore, the Supervisory Board obtained assurances that the actions of the Executive Board of the personally liable partner STO Management SE were legitimate, orderly, and fit for purpose. None of the members of the Supervisory Board had any conflicts of interest regarding the execution of their offices during the reporting period, and none of them missed half or more of the meetings of the Supervisory Board.

Key issues dealt with by the Supervisory Board

During the 2018 fiscal year, the Supervisory Board held five regular meetings, on 19 April, 21 June, 27 July, 31 October, and 20 December 2018. The Supervisory Board was able to pass resolutions at all times. The members of the Executive Board of the personally liable partner STO Management SE were present at all the meetings unless topics had to be discussed in their absence.

The deliberations of the Supervisory Board focused on the regular reports prepared by the Executive Board on the business activities with detailed information on the strategy, the respective economic, turnover and earnings development, opportunities and risks for the company, personnel matters, and investments. In particular, the current development of raw material and purchase prices, and questions of sales price enforcement as well as the strategic approach in connection with the acquisition of potential acquisition objects were discussed intensively in 2018. The deliberations also focused on Group planning. Furthermore, the Board dealt with the following main topics at its individual meetings:

At the meeting on 19 April 2018, the focus was on the 2017 annual financial statements of Sto SE & Co. KGaA and the Sto Group. They

were explained in detail and discussed together with the respective management reports, audit reports of the auditor, who was present at the meeting, sustainability report and dependent company report in accordance with Sections 312 et seq. of the German Companies Act (AktG). The results of the Audit Committee, which had been intensively reviewing the documents in preparation, were included in the discussion. The annual financial statements of Sto SE & Co. KGaA, and the consolidated financial statements of the Sto Group for the 2017 fiscal year were approved by the Supervisory Board of Sto SE & Co. KGaA in accordance with Section 171 of the German Companies Act (AktG) after being subjected to comprehensive reviews by the latter which did not result in any reservations.

The Board also finalised the Supervisory Board report for the 2017 fiscal year and the agenda for the ordinary Annual General Meeting on 21 June 2018. The appropriation of earnings proposed by the personally liable partner was approved by the Supervisory Board. The 5-year plan for 2018 to 2022 for the Sto Group, including the planning principles reviewed by the Finance Committee, various corporate management measures of STO Management SE, and the digitisation strategy of the company were also discussed in detail.

The Supervisory Board meeting on 21 July 2018 dealt with topics relating to the Annual General Meeting taking place on the same day and questions relating to the restructuring of business activities in Eastern Europe.

At the Supervisory Board meeting on 27 July 2018, the Board discussed various topics, including current business developments, particularly the development of the raw material prices, which had a negative effect on the gross profit margin during the course of the year, and opportunities relating to pre-made modular construction methods. The company's central purchasing unit was also introduced

and discussed in this context. Furthermore, the Board addressed various structural corporate management measures.

On 31 October 2018, we examined the current development of business, and the projection of the Sto Group as at 31 December 2018. We also intensively talked about specific acquisition projects.

Planning for 2019 for both Sto SE & Co. KGaA and the Sto Group was the main item on the agenda to be deliberated at the Supervisory Board meeting held on 20 December 2018. The draft of the 5-year plan for 2019 to 2023 was also debated. It is to be finalised in the meeting scheduled for April 2019. Other important topics were the auditor's preliminary audit of the 2018 annual financial statement of Sto SE & Co. KGaA, the system for the early detection of risks, the risk situation, as arises from warranty risks for instance, and the adoption of the Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG).

The Supervisory Board reviewed its activities as part of an efficiency review in accordance with Item 5.6 of the German Corporate Governance Code (DCGK) in a special organisational meeting of the Supervisory Board on 26 February 2018.

Supervisory Board committees

In the 2018 fiscal year, the Supervisory Board of Sto SE & Co. KGaA formed an Audit Committee and a Finance Committee. These bodies make preparations for the agenda items to be discussed by the Supervisory Board and the decisions which need to be taken.

In 2018, the Audit Committee and Finance Committee held four meetings each. The Audit Committee primarily focused on the 2017 annual financial statement of Sto SE & Co. KGaA, the 2017 consolidated annual financial statement, the management reports, the dependent company report, and the auditor's report. The

2018 interim reports and the half-year report were also reviewed in detail. Furthermore, the committee members discussed the 2018 Declaration of Compliance, the effectiveness of the internal control and risk management system, as well as the internal audit. The Finance Committee examined the key management measures carried out by STO Management SE, particularly potential acquisitions, the development of some of the company's business sectors, as well as Group planning.

Corporate Governance and Declaration of Compliance

In the year under review, the Supervisory Board of Sto SE & Co. KGaA once more thoroughly dealt with the German Corporate Governance Code. A Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG) was issued in December 2018 which is based on the current version of the Code of 7 February 2017. It is permanently available on the company's website. Details can be found in the Corporate Governance section of the 2018 Annual Report.

Audit of the annual financial statement

On 21 June 2018, the ordinary Annual General Meeting of Sto SE & Co. KGaA appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, to act as the auditor for the 2018 fiscal year. It audited the annual financial statement of Sto SE & Co. KGaA, prepared by the personally liable partner STO Management SE, the management report, the consolidated annual financial statement, and the Group management report for the 2018 fiscal year as well as the dependent company report in accordance with Sections 312, 278 of the German Companies Act (AktG). The relevant audit partners with respect to Section 319a paragraph 1 sentence 4 of the German Commercial Code (HGB) were Dr Eckart Wetzel and Stephan Busser. The auditors confirmed

that the management reports appropriately describe the economic situation of Sto SE & Co. KGaA and the Sto Group as well as the opportunities and risks associated with future development. The effectiveness of the monitoring system within the scope of Section 91 paragraph 2 of the German Companies Act (AktG) was also confirmed. The auditors therefore issued an unreserved audit opinion.

The annual financial statements of the company and the Group, the management reports, and the auditor reports as well as statements to be published in the annual report which were not to be reviewed by the auditor were distributed to all Supervisory Board members in a timely manner. The Audit Committee pre-examined these documents in its meeting held on 24 April 2019. In advance of the committee and Supervisory Board meeting, other preliminary examinations and explanatory meetings were held between the personally liable partner STO Management SE, the Chairman of the Supervisory Board, and the Chairman of the Audit Committee to discuss key audit matters. At the ordinary Supervisory Board meeting on 25 April 2019, the statements and reports as well as declarations were discussed in detail and consequently reviewed. Auditor representatives were present at both meetings to report on the audit results and provided additional information when requested. They confirmed the effectiveness of the monitoring systems within the scope of Section 91 paragraph 2 of the German Companies Act (AktG) to the Supervisory Board. The auditors also confirmed in writing that, apart from the audit, they did not provide the company with any other significant services in the fiscal year and there were no circumstances that could impair their independence as auditors.

The auditors from Ernst & Young GmbH issued the dependent company report with the following audit certificate: 'In our opinion, based on the examination which we have car-

ried out in accordance with professional standards, the factual information contained in the report is correct, and the consideration given by the Company for the legal transactions referred to in the report was not unreasonably high.'

The Supervisory Board carried out its own in-depth audit of the annual financial statements, the management reports of Sto SE & Co. KGaA and the Sto Group as well as of the statements to be published in the annual report which were not to be reviewed by the auditor, and did not have any objections. The Supervisory Board approved the annual financial statement of Sto SE & Co. KGaA prepared by the personally liable partner STO Management SE, and the consolidated annual statement for 2018 after its own comprehensive review in accordance with Section 171 of the German Companies Act (AktG), as well as the dependent company report. The Supervisory Board will hence propose the approval of the financial statements of Sto SE & Co. KGaA for the 2018 fiscal year at the Annual General Meeting of Sto SE & Co. KGaA to be held on 19 June 2019. The non-financial statements, in particular those statements and data on sustainability and Corporate Social Responsibility, have been reviewed by the Supervisory Board and have been judged to be accurate in its analysis and objective.

The Supervisory Board agrees to the proposal of the personally liable partner STO Management SE to recommend a dividend distribution of EUR 26,049,060.00 at the Annual General Meeting. This means that limited preference shareholders are expected to receive an ordinary dividend of EUR 0.31 as well as a bonus of EUR 3.78 per share, and limited ordinary shareholders an ordinary dividend of EUR 0.25 and also a bonus of EUR 3.78 per share.

The Supervisory Board thanks all employees of Sto SE & Co. KGaA and the members of the Executive Board of the managing STO Management SE for their commitment and performance in the 2018 fiscal year. We wish them all every success in meeting the challenges they face in fiscal 2019 and in achieving their goals.

Stühlingen/Germany, April 2019



Dr Max-Burkhard Zwosta
Chairman of the Supervisory Board

Corporate Governance Report/ Declaration on management of the company

Corporate Governance at Sto

This next section contains a report from Sto SE & Co. KGaA and its personally liable partner STO Management SE on the company's corporate governance in accordance with Item 3.10 of the German Corporate Governance Code (the 'Code'). In addition, this summarised document incorporates the declaration on key company management practices in accordance with Sections 289f and 315d of the German Commercial Code (HGB). As a component of the 2018 Annual Report, this chapter is published on the website www.sto.de under 'Company' in the 'Investor Relations' section. The supplementary remuneration report is part of the Notes to the consolidated annual financial statement of the Sto Group.

As a basic principle, Sto is committed to responsible and transparent management and monitoring of the company (corporate governance), with a focus on sustainable value creation. All internal decision-making and control processes in the Sto Group are based on this guiding principle.

Statutory regulations, ethical standards, a sound financial policy, the Sto SE & Co. KGaA strategy that is geared towards sustainability, and the Code all provide the foundation for corporate governance. Sometimes, there are departures from the Code in relation to issues that concern the specific requirements of a medium-sized family business or the legal form of a partnership limited by shares (Kommanditgesellschaft auf Aktien). In these cases, adapted standards are applied instead. Deviations from the recommendations of the Code in its current version of 7 February 2017 and the reasons for deviating in each case are explained in the company's Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG). Current and previous versions of this declaration are published on the website at www.sto.de and can be found under 'Entsprechenserklärung nach § 161 AktG' (Declaration

of Compliance in accordance with Section 161 of the German Companies Act) in the 'Investor Relations' area of the 'Unternehmen' (Company) section.

Bodies

Responsibility for managing Sto SE & Co. KGaA lies with the personally liable partner STO Management SE. The bodies of the company also include the Supervisory Board of Sto SE & Co. KGaA and the Annual General Meeting. Thus, there is a separation in terms of personnel between management of the company and monitoring of the Management Board in accordance with the statutory regulations for a German public limited company (Aktiengesellschaft). Both the personally liable partner and the Supervisory Board of Sto SE & Co. KGaA consistently abide by the standards of proper corporate management at all times and collaborate closely for the company's benefit.

Shareholders and the Annual General Meeting

At the end of 2018, Sto SE & Co. KGaA's subscribed capital amounted to an unaltered figure of EUR 17.556 million. It is divided into 4.32 million registered limited ordinary shares ('ordinary shares') and 2.538 million limited preference bearer shares ('preference shares'). Each ordinary share always grants one vote. Preference shares do not have voting rights but take priority for the purpose of profit distribution and are entitled to a higher dividend. In the year under review, there were no shares with multiple or preferential voting rights.

The shareholders exercise their voting right at the Annual General Meeting. As the personally liable partner of Sto SE & Co. KGaA, STO Management SE is responsible for convening the Annual General Meeting and the timely dispatch of all statutory reports and documents, including the agenda. The documents and the Annual Report are also available on the Sto website.

At the Annual General Meeting, the personally liable partner presents the annual financial statement of Sto SE & Co. KGaA, the consolidated annual financial statement of the Sto Group as well as the management/Group management report for the previous fiscal year and explains the key events. The annual financial statement is then ascertained by the Annual General Meeting. For shareholders who are unable or unwilling to exercise their voting rights themselves, a proxy of the company bound by their instructions is available in each case.

Supervisory Board

The Supervisory Board of Sto SE & Co. KGaA monitors and advises the personally liable partner STO Management SE in the management of its business. Furthermore, it checks for compliance with the statutory disclosure rules in the manner detailed by the Supervisory Board. The work of the Board is regulated by law, the articles of association, the Code, and rules of procedure.

In accordance with the German Co-Determination Act, the Supervisory Board is composed of an equal number of shareholder and employee representatives, i.e. six shareholder and six employee representatives. They are introduced in the report of the Supervisory Board that forms part of this annual report. Information on remuneration of the Supervisory Board is contained in the Notes/Notes to the consolidated annual financial statement as well as in the Declaration of Compliance in accordance with Section 161 of the German Companies Act (AktG).

In accordance with Section 96 Paragraph 2 Sentence 1 of the German Companies Act, it must be ensured that at least 30 % of the Supervisory Board consists of women or men respectively when new members are being appointed to the Supervisory Board of co-determined listed companies. The minimum percentage must be fulfilled by the Supervi-

sory Board as a whole, unless the shareholder or the employee representatives object to the overall fulfilment in accordance with Section 96 Paragraph 2 Sentence 3 of the German Companies Act. A corresponding objection was unanimously agreed upon and declared by the Supervisory Board of Sto SE & Co. KGaA. Accordingly, the Supervisory Board must include at least two women and two men on both the shareholder and employee representative sides. Currently, three of the six shareholder representatives on the Supervisory Board and two of the six employee representatives are women.

The composition of the company's Supervisory Board ensures that the necessary expertise, skills, and professional experience required to properly carry out the Board's responsibilities are represented. All members are proven experts in their respective fields. They are solely responsible for engaging in the education and training measures that are necessary for them to meet the requirements placed on them as Supervisory Board members, and receive appropriate support from Sto SE & Co. KGaA in doing this. Among others, Maria H. Andersson and Dr Renate Neumann-Schäfer qualify as independent financial experts for the purposes of Section 100 Paragraph 5 of the German Companies Act (AktG).

When proposing new members, the Supervisory Board must ascertain that the candidates can invest the necessary time involved and must examine their personal and business relationships with the Group, corporate bodies, and major shareholders.

The Supervisory Board is directly involved in all decisions that are of fundamental importance to Sto SE & Co. KGaA. In the 2018 fiscal year, the Supervisory Board gathered for five ordinary meetings. The details of what was discussed and the focal points of the meetings are reported in depth in the report of the Supervisory Board. Beyond the regular gatherings, the Supervisory Board is briefed by the personally

liable partner STO Management SE on a continual, timely, and comprehensive basis about the Group strategy, planning, business development, the financial and income situation, the employee situation, as well as the risk situation, and risk management. Any departures from defined plans in the context of business development are discussed, and relevant documents are made available to the Supervisory Board in a timely manner.

It is the job of the Chairman of the Supervisory Board to coordinate the Board's work, steer the meetings, and represent it externally. Between meetings, he maintains close contact with the members of the Executive Board of the personally liable partner STO Management SE, discussing – in particular – issues relating to strategy, business development, and risk management.

The Supervisory Board reviews the consolidated annual financial statement of the Sto Group and the annual financial statement of Sto SE & Co. KGaA on the basis of the findings of the auditor and Audit Committee. Prior to the publication of the half-year financial report and the interim reports within the first and second half of the year, the Executive Board discusses these reports with the Chairman of the Supervisory Board and the Chairman of the Audit Committee, who consult with the other members of the Supervisory Board.

The Supervisory Board regularly checks the efficiency of its work. To increase the efficiency as much as possible, technically qualified committees are formed. Sto SE & Co. KGaA features an Audit Committee and a Finance Committee. In the periods leading up to the Supervisory Board meetings, they deal with complex issues and prepare the findings for the full Supervisory Board meetings. The Chairperson of the relevant committee provides the Supervisory Board with reports on the committee's work. The Chairman of the Audit Committee is independent and, as a financial expert, has the

special knowledge required for this position. He does not simultaneously serve as the Chairman of the Supervisory Board and has not been a member of the Executive Board for the past two fiscal years.

A Nomination Committee is formed in addition if there are upcoming Supervisory Board elections. The next ordinary elections for shareholder representatives to the Supervisory Board will take place at the Annual General Meeting in 2022. The elections of employee representatives are conducted in compliance with the Co-Determination Act from 1976. They start with the announcement by the company and finish with the election.

Personally liable partner

Sto SE & Co. KGaA is led and managed by the Executive Board of the personally liable partner STO Management SE. It acts under its own authority and in the interests of the company while keeping the needs of shareholders, employees, and other stakeholders in mind with a view to achieving sustainable added value. For this purpose, the Management Board develops a strategy and ensures its implementation. In addition, it makes arrangements necessary to ensure compliance with legal requirements and internal corporate guidelines within the Sto Group.

The responsibilities of the personally liable partner also include the preparation of the annual financial statement of Sto SE & Co. KGaA and the consolidated annual financial statement of the Sto Group, as well as the establishment and further development of the risk management and control system. Detailed information about risk management is provided in the Group management report, which is part of this annual report.

Without exception, the personally liable partner STO Management SE complies with statutory regulations, and observes the Code, as well as other recognised external standards,

and company regulations. Information about the applicable remuneration system of the STO Management SE Executive Board is summarised in the Group management report; the earnings of the Executive Board are summarised in the Notes to the consolidated annual financial statement of the Sto Group.

Diversity

In accordance with Section 76 Paragraph 4 of the German Companies Act (AktG), the Executive Board of listed companies sets target figures for the percentage of women in the two management levels below the Executive Board. At the Kommanditgesellschaft auf Aktien (corresponds approximately to a partnership limited by shares) established in accordance with Section 278 Paragraph 3 of the German Companies Act (AktG), this is the responsibility of the personally liable partner STO Management SE. The latter also promotes diversity as required by the Code and considers it an important success factor for the future of the Group. Industry-specific conditions and the current proportion of women in the workforce were also taken into account when setting the target quotas for the two management levels below the Executive Board.

The Executive Board of the personally liable partner STO Management SE has established the goal of achieving a quota of 0 % for management positions a level below the personally liable partner, i.e. the division manager level, and of 10.8% for the department manager level by 30 June 2017. On 31 December 2018, 0 % of the division manager positions and 8.2 % of the department manager positions were held by women. By 31 December 2020, these percentages are to be at 0 % and 12.0 % respectively.

Despite the relevant requests having been submitted during the process of searching for candidates when making new appointments at the first and second management levels below the Executive Board, it was not possible to find

any suitable female candidates during the 2018 fiscal year. This means that the proportion of women at the second management level below the Executive Board still falls short of the quota target set.

The obligation applicable to the Supervisory Board in accordance with Section 96 Paragraph 2 Sentence 1 of the German Companies Act (AktG) stipulating that it must be comprised of at least 30 % women or men respectively is fully satisfied: currently, three of the six representatives of the shareholders on the Supervisory Board and two of the six employee representatives are women.

Key practices of Corporate Governance/ Compliance

Over and above the statutory regulations and the German Corporate Governance Code, there are additional company management practices that Sto SE & Co. KGaA applies. These include both internal regulations and external standards such as the 'UN Global Compact'. Sto joined this global initiative in 2009. It is run under the auspices of the United Nations and encompasses ten principles in the areas of human rights, labour standards, environmental protection, and anti-corruption. Measures that we have put in place in order to implement the 'Global Compact' are outlined in the chapter on 'Sustainability and Corporate Social Responsibility'. This report also represents the annual Communication on Progress (COP) required by the 'Global Compact'.

Our most important internal regulations include the 'Principles for Cooperation and Management within the Sto Group', a set of Group-wide practice guidelines for all employees and managers. In addition to regulations for internal work procedures, they also include information on the principles stipulated by 'Global Compact'.

Compliance with laws, internal and external regulations, as well as responsible handling of

risks is part of the Corporate Governance at Sto. Procedures and systems for compliance are linked to the Group's risk and opportunity management. Within the framework of compliance management, Sto creates the prerequisites for making internal regulations and directives known throughout the Group and all business practices legally compliant. This illustrates our strong commitment to ethical and fair behaviour in our own organisation, and creates the framework for dealing with our environment. The compliance organisation and systems at Sto ensure legally compliant, risk-aware, opportunity-oriented, and informed action in a dynamic business environment, in order to guarantee the Sto Group's competitiveness and sustainable success.

Transparency

Sto provides information to its shareholders, financial analysts, the media, and the general public in an even-handed and timely manner through regular, open, and up-to-date communication. The most important topics include the economic situation and development of the company/Group as well as important business changes within the Group. The company uses a variety of media for this purpose.

All key information – such as annual and interim reports, press releases, and voting rights announcements, insider information, as well as all financial and sustainability reports – is available online under 'Company' on the Sto website (www.sto.de) – much of it also in English. Annual and half-yearly financial reports are lodged with the companies register and the German federal government gazette (Bundesanzeiger) on the day of publication.

All key dates for publications and functions are listed in the calendar of financial events, which is announced well in advance. The financial calendar, valid as of the end of March 2019, can be found both in the 2018 Annual Report and on the company's website.

Share trading

Persons with management functions at STO Management SE or Sto SE & Co. KGaA must disclose any private transactions involving Sto limited preference shares to the German Federal Financial Supervisory Authority (BaFin) and to Sto SE & Co. KGaA in accordance with Art. 19 of the MAR (Directors' Dealings). No notifications of Directors' Dealings occurred in fiscal 2018.

Accounting and auditing of financial statements

The accounting of the Sto Group is based on the International Financial Reporting Standards (IFRS) as applied in the European Union. The annual financial statement of the parent company Sto SE & Co. KGaA is based on the reporting standards of the German Commercial Code (HGB).

The annual financial statement of Sto SE & Co. KGaA as well as the statement of the Sto Group, including the respective management reports, are audited by an independent auditing company elected at the Annual General Meeting following a proposal by the Supervisory Board. The nomination proposal is preceded by an independence check in order to ensure that any conflicts of interest that might give rise to doubts concerning the impartiality of the auditor are ruled out at an early stage. The auditing company commissioned by Sto, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, has issued a corresponding statement in this regard. The auditor responsible takes part in the deliberations of the Supervisory Board of Sto SE & Co. KGaA concerning the annual financial statement and the consolidated annual financial statement as well as in the corresponding Audit Committee meeting where he reports on the key findings of his audit.

Information in accordance with Sections 289a and 315a of the German Commercial Code (HGB) and explanations by the personally liable partner

The following information reflects the situation as at the balance sheet date.

Composition of subscribed capital

The subscribed capital of Sto SE & Co. KGaA amounts to a total of EUR 17,556,480.00. It is divided into 4,320,000 registered limited ordinary shares ('ordinary shares') and 2,538,000 limited preference bearer shares ('preference shares') at a notional nominal value of EUR 2.56 each.

Restrictions on voting rights or the transfer of shares

To the knowledge of the personally liable partner STO Management SE, there are no restrictions relating to the transfer of preference shares. In accordance with Sections 4 Paragraph 1, 16 of the articles of association of Sto SE & Co. KGaA, the preference shares do not confer any voting rights. Of the 4,320,000 ordinary shares, the Stotmeister family holds a total of 3,888,000 shares (Stotmeister Beteiligungs GmbH 3,887,996 shares, Jochen Stotmeister 1 share, Gerd Stotmeister 1 share, Helga Stotmeister 1 share, Heidi Heimbürger 1 share), while 432,000 shares are held by Sto SE & Co. KGaA. The ordinary shares held by the family are limited in their transferability due to the fact that they are registered shares and hence require the consent of the company, represented by the personally liable partner (furthermore by family-internal agreements), and are not traded on the capital market.

Direct or indirect shareholdings in capital exceeding 10 % of the voting rights

The 432,000 ordinary shares held by Sto SE & Co. KGaA do not have any voting rights. As described above, the remaining ordinary shares

are held by the Stotmeister family who thus holds 90 % of the voting rights.

Holders of shares with special rights

At Sto SE & Co. KGaA, there are 2,538,000 preference shares with a special right in the form of an advance dividend in the amount of EUR 0.06 as well as a minimum dividend in the amount of EUR 0.13 per preference share in accordance with Section 16 of the articles of association of Sto SE & Co. KGaA.

Type of control of voting rights in case of employee shareholdings

The employees have no autonomous shareholding in Sto SE & Co. KGaA. Nevertheless, no employee is prevented from acquiring and selling preference shares on the capital market.

Appointment and dismissal of the Management Board as well as amendments to the articles of association

In the legal form of a 'Kommanditgesellschaft auf Aktien' (KGaA, partnership limited by shares), the personally liable partner has the legal authority to manage and represent the company. The personally liable partner of Sto SE & Co. KGaA is STO Management SE. It acts through its Executive Board. The co-determined Supervisory Board of Sto SE & Co. KGaA is not authorised to appoint or dismiss the personally liable partner or its Executive Board. Rather, the personally liable partner has joined the company by means of a corresponding declaration. The appointment and dismissal of the Executive Board of STO Management SE is carried out by the Supervisory Board of STO Management SE in accordance with the provisions of the articles of association and the law. As stipulated by Sections 278 Paragraph 3, 133, 179 of the German Companies Act (AktG), amendments to the articles of association of Sto SE & Co. KGaA require a resolution by the Annual General Meeting of Sto SE & Co. KGaA. This resolution requires a

majority of at least three quarters of the voting share capital represented at the adoption of the resolution. Furthermore, amendments to the articles of association also require the consent of the personally liable partner STO Management SE in accordance with Section 285 Paragraph 2 of the German Companies Act (AktG).

Powers of the personally liable partner STO Management SE, in particular with regard to the possibility of issuing or buying back shares

At Sto SE & Co. KGaA there is currently neither authorised nor contingent capital; no share buyback programme is in place either.

Material agreements of the company under the condition of a change of control following a takeover bid

With the exception of a syndicated loan contract, the company has not entered into any significant agreements which would become effective in the case of a change in control. The aforementioned syndicated loan contract stipulates legal consequences in the case that 50 % or more of the capital shares or voting rights in Sto SE & Co. KGaA are to be transferred to one or more persons acting in concert. This does not apply as long as Stotmeister Beteiligungs GmbH directly or indirectly holds more than 50 % of the capital shares and more than 50 % of the voting rights in Sto SE & Co. KGaA.

Compensation agreement of the company with the members of the Executive Board of the personally liable partner or employees in the event of a takeover bid

The company has not entered into any compensation agreements with the members of the Executive Board of the personally liable partner or employees in the event of a takeover bid.

Management Report for the Sto Group (IFRS)



The Sto Executive Board
(from left to right): Michael Keller,
Rainer Hüttenberger, Jan Nissen,
and Rolf Wöhrle.

Members of the Executive Board of STO Management SE in the fiscal year of 2018 (personally liable partner of Sto SE & Co. KGaA)

Rainer Hüttenberger,
Stein am Rhein/Switzerland | Spokesman of
the Executive Board responsible for Marketing
and Sales Sto Brand International

Michael Keller,
Bonndorf/Germany | Chief Sales Officer
responsible for Sales Sto Brand Germany,
Distribution, and Central Services

Jan Nissen,
Trossingen/Germany | Chief Technology
Officer responsible for Process Engineering, In-
novation, Materials Management, and Logistics

Rolf Wöhrle,
Bad Dürkheim/Germany | Chief Financial
Officer responsible for Finance, Controlling,
IT, Legal, and Internal Audit

The 2018 fiscal year at a glance

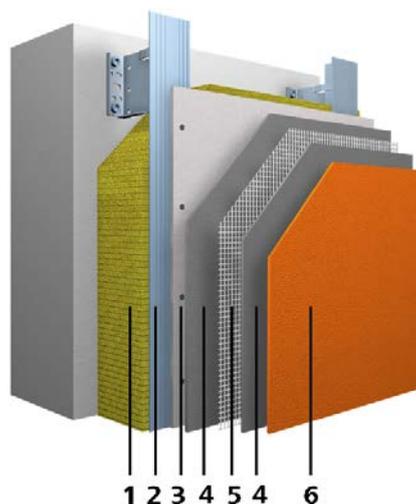
- The Sto Group grows organically in 2018: despite significant negative currency effects, turnover increases by 4.3 % to EUR 1,332.4 million
- Domestic turnover increases by 5.9 % to EUR 596.0 million, and turnover abroad by 3.1 % to EUR 736.4 million
- Earnings down on previous year due to significant increases in procurement costs, but achieving the forecast key figures
- Compared to the previous year, consolidated EBIT decreases by 2.5 % to EUR 81.9 million; earnings before tax (EBT) at EUR 80.2 million (previous year: EUR 82.2 million)
- Return on sales down from 6.4 % to 6.0 %
- Unaltered dividend of EUR 0.31 per limited preference share and EUR 0.25 per limited ordinary share plus a bonus of EUR 3.78 per share
- Cash flow from operating activities amounts to EUR 80.7 million (previous year: EUR 86.5 million)
- Slight rise in Group's workforce by 25 to 5,333 employees
- Outlook for 2019: increase in turnover of 4.1 % to around EUR 1,387 million and an EBIT of between EUR 81 million and EUR 91 million expected

A. Group fundamentals

Business model

The Sto Group is a major international manufacturer of products and systems for building coatings. The product range is divided into four product groups: the core business of **facade systems** encompasses external wall insulation systems (EWIS), a segment in which our company occupies a leading position, and rainscreen cladding facade systems (RSC). In the fiscal year of 2018, the share of this product group was 47.7 % of the total group turnover.

Facade coatings, which includes render and paint systems, made up 22.7 % of the turnover in the year under review. **Products for interiors**, such as plaster and paint systems for home and office spaces, decorative coatings, interior claddings, and acoustic systems for regulating sound, reported a turnover share of 14.3 %. Furthermore, Sto produces and sells high-quality floor coatings and products for concrete repair which are attributed to **Other product groups**.



System build-up of StoVentec R

- 1 Sub-construction
- 2 Insulation
- 3 Carrier board
- 4 Base coat
- 5 Reinforcement
- 6 Finishing render

StoVentec R is a ventilated rainscreen cladding system with a seamless render surface, which can be supplied in both a non-combustible and a flame-retardant version. StoVentec Carrier Boards made of expanded glass granulate form the core of the system, for which a thermal bridge-free sub-construction is available. The cover picture of our Annual Report shows the Anton Bruckner University in Linz/Austria. Its facade was constructed with StoVentec R.

The comprehensive **expertise of the Sto Group** is a strategic factor in its success. We can provide our customers with everything relating to facades from a single source, thanks to our range which offers products that complement one another perfectly, and at the same time give building owners maximum freedom to create their own designs. Sto boasts extensive

knowledge not only on our core business of facade systems, but also on related areas such as design and consultancy services and for alternative coating materials or claddings such as brick slip and stone facades. As the individual components of our range of services work in perfect harmony with one another, efficiency can be boosted and value maintained in the long term.

Our business model is built on a foundation of expertise, quality, and customer benefits, and is complemented by a consistent market presence in every country. This has enabled Sto to carve out a position for itself as one of the industry sector's **best-known product brands on the international stage**. We maintain four core values at the heart of our brand strategy – something that we continually optimise and adapt to suit the current general conditions. These core values are Close, Experienced, Performing, and Advanced. Since the beginning of 2018, Sto has had the honour of officially being able to call itself the ‘world market leader

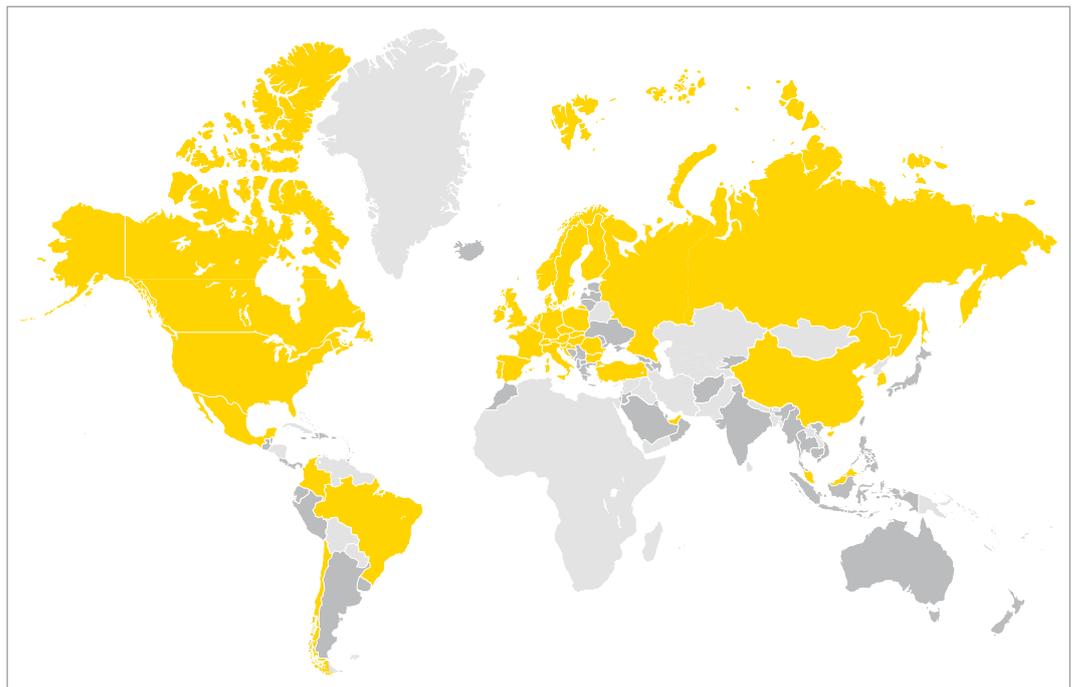
for external wall insulation systems’. A scientific study conducted by the University of St. Gallen in cooperation with the German business magazine ‘Wirtschaftswoche’ confirmed that Sto SE & Co. KGaA meets all the criteria required for being included in the world market leader index.



Building with conscience.

The Group's **innovative strength** is one of the keys to its corporate success and the positive image the Sto brand has cultivated. Worldwide, we are regarded as one of the technological pacesetters in the industry, establishing trends in the area of products, systems, and services. To secure this leading position while also developing new growth markets, research and development are considered core strategic activities at Sto. This is also reflected in our corporate vision ‘Technology leader in the sustainable design of living space tailored to human needs. Worldwide.’

- Sto subsidiaries
- Sto partners



Sales markets

The Sto Group's business activities are divided into the regional segments of **Western Europe** and **Other**, with the latter broken down into **Northern/Eastern Europe** and **America/Asia** for internal reporting purposes. Our corporate management is primarily focused on these regions. In Western Europe, which includes including Germany and which is also the most important market, Sto generated a share of 76.9 % of the consolidated turnover in 2018. 11.8 % was attributed to Northern and Eastern Europe while America and Asia generated 11.3 % of the business volume. The most significant individual market is Germany. In the year under review, it contributed around 44.7 % to the consolidated turnover of the Sto Group.

We continuously work on systematically targeting and tapping into selected regions in order to exploit additional sales potential worldwide, spread the business risk, and compensate for fluctuations in individual countries. The globalisation of our business activities is hence a key strategic target for Sto. At the end of 2018, the Group was represented in 36 countries with 49 subsidiaries of our own as well as their operating sites, and maintained supply partnerships with sales partners in numerous other countries.

Sto products are used both in the construction of new buildings and in the renovation of existing buildings. The comparative importance of these two market segments in individual regions depends on the characteristics specific to each country. Renovation business generates the majority of Group turnover worldwide.

Customers and distribution system

The Sto brand range is targeted at professional applicators such as painters and building contractors, as well as architects and planning offices, who are supported locally by means of a **direct distribution system**. In Germany, this covers almost the entire country. Additionally, Sto has also been developing **multi-stage dis-**

tribution as a second distribution channel for a number of years now. Via this channel, selected products that we have clearly defined as distinct from our core business and that have their own market niche, such as lacquers and fillers, are provided via wholesalers and specialist retailers. We intend to expand two-stage distribution gradually over the coming years and to tap into additional sales potentials.

Group structure

The registered office of the operating parent company is Sto SE & Co. KGaA in Stühlingen/Germany in the South of the state of Baden-Württemberg. In addition to functioning as the Group's holding company, it is also responsible for operating domestic business involving facade systems and coatings as well as interior products.

On a **domestic** level, the main companies of the Sto Group are the following:

- **StoCretec GmbH**, located in Kriftel/Germany, is responsible for the areas of floor coatings and concrete repair.
- **Innolation GmbH**, located in Lauingen/Germany, produces insulants and develops innovative insulant technologies.
- **Verotec GmbH**, located in Lauingen/Germany, produces carrier boards for acoustic systems, rainscreen cladding systems, and architectural elements on behalf of other Group companies. It also sells its products and services to external partners.
- **VeroStone GmbH**, located in Eichstätt/Germany, is the company within the Group that specialises in natural stone as a construction material.
- **Ströher GmbH**, located in Dillenburg/Germany, and its subsidiaries, focus on brick surfaces, outdoor ceramics, and interior tiles.
- **Südwest Lacke + Farben GmbH & Co. KG**, located in Böhl-Iggelheim/Germany, is the Group's specialist for paints and lacquers, and works primarily with trading companies.

Abroad, the Group's business is largely handled by national companies operating independently, with the service spectrum offered in each case being tailored to suit local conditions and specific requirements. For the most part, the products are either produced on site, or purchased via the Group. A list of all subsidiaries of Sto SE & Co. KGaA is reproduced in the Notes for the Group.

The business fields are each managed by a team of product managers which is responsible for products and systems worldwide. The Heads of the Business Fields are responsible for the strategic positioning of their areas and products, and coordinate marketing and sales objectives with the subsidiaries. This allows us to become better acquainted with the vast range of different requirements that the various markets have and tap into additional sales potential through our targeted market approach and specialist technical expertise.

The business fields are complemented by central units such as technical service or strategic marketing. These provide global support to all our subsidiaries and product groups when it comes to dealing with issues that are present on an overarching level. This creates the right conditions for efficient management on a global scale, and for targeted further development of the service portfolio.

Business management control system

Sto SE & Co. KGaA's business affairs are managed by the four-strong Executive Board of the personally liable partner STO Management SE. It develops the Group strategy and ensures its implementation. The parent company Sto SE & Co. KGaA, its subsidiaries, and the other Group units are controlled and managed by reference to strategic and operational targets as well as key financial covenants. These are based on business figures which are uniformly determined throughout the Group and which, in turn, are part of a standardised reporting sys-

tem. The primary key operating ratios employed are net turnover, earnings before interest and taxes (EBIT), earnings before tax (EBT), and return on sales. Additionally, ROCE (Return on Capital Employed) is used as a key figure for monitoring return on capital employed. It is based on the EBIT divided by the average capital employed. These key figures are also used in the planning and controlling process.

The reports compiled within this standardised reporting are submitted directly to the Executive Board of STO Management SE, which then forwards all relevant information to Sto's Supervisory Board. Additionally, management meetings between the Executive Board and the executive staff of the subsidiaries or sales regions take place on a regular basis. This control system strengthens the decentralised entrepreneurial responsibility of our employees at a local level while also guaranteeing a high degree of transparency within the Group.

In addition to the internal indicators, we also regularly monitor external early indicators as part of our planning processes and as a means of corporate and risk management. Especially relevant are economic data and detailed industry information such as the development of the building construction volume or the segments of new construction and renovation.

The specifications relating to the Declaration on management of the company, as outlined in Section 315d of the German Commercial Code (HGB), as well as the specifications according to Sections 289a and 315a German Commercial Code (HGB), and the explanations by the personally liable partner can be found in the 'Corporate Governance Report' chapter of the Annual Report and online at www.sto.de/Unternehmen/Investor-Relations. The non-financial statement in line with Section 315b of the German Commercial Code (HGB), provided as a supplement to the Group management report, is contained in the 'Sustainability and

Corporate Social Responsibility' chapter of the Annual Report, which is also available to view online at [www.sto.de/Unternehmen/Investor Relations](http://www.sto.de/Unternehmen/Investor-Relations). It provides information about key considerations in five areas: environmental matters, employee matters, social matters, respect for human rights, and combating of corruption and bribery.

Fundamentals of the remuneration system

The remuneration of the members of the Executive Board consists of a fixed component and a variable component, which can carry significantly more weight, but is capped. The variable element comprises a long-term incentive, based on the turnover development of the Sto Group, and the ROCE key figure of the past three fiscal years in comparison to the target for this reporting period, as well as an income-dependent short-term incentive. No stock options are granted.

The members of the Supervisory Board of Sto SE & Co. KGaA receive a fixed remuneration and a compensation for costs incurred. The Chairman of the committee is entitled to four times and his or her deputy to two and a half times the amount of the basic remuneration. The Chairman of a Supervisory Board Committee is additionally remunerated with a fixed annual amount. If a committee has only been formed for part of a fiscal year, it is paid on a pro rata basis.

The Notes contain additional information on the remuneration of administrative bodies in the company.

Strategic objectives

The Sto business model is oriented towards long-term success. In our view, the essential foundations for this are sustainable, solid business management, constant progress, and a financially strong basis. We pursue the goal of global technology leadership in the sustainable design of living space tailored to human needs.

This corporate vision, along with the other principles on which our practice is based, is defined in the Sto Guiding Principles, providing employees and managers with guidance when making strategic and operational decisions. Our Sto-Guiding Principles define our strategy, which contains the following core components:

- **Income-oriented growth** – We align our decisions with this overarching corporate objective.
- **Internationalisation** – By systematically developing and penetrating selected regions, we increase our sales opportunities and reduce our dependency on individual markets.
- **Development of alternative distribution channels** – Sto's proven direct distribution system is being expanded to include a multi-stage distribution concept. This will enable us to attract additional groups of customers and widen our base.
- **Group expertise** – Organic further development or suitable acquisitions reinforce and expand the Sto Group's expertise.
- **Attractive employer** – We develop and implement measures to recruit new specialists and managers, and to improve our employees' levels of qualification, performance, and satisfaction.
- **Research and development** – We continually intensify our activities in the area of R&D in order to consolidate our position as an innovative pacesetter in the sector, and underpin the vision as a technology market leader. Additionally, we take an active role in trade associations and interest groups so that we can contribute to the process of shaping general conditions within the industry and the technology it uses.
- **Corporate Social Responsibility** – By consistently implementing and developing our strategy of sustainability, we take responsibility towards customers, the company, employees, other stakeholders, shareholders,

and the environment. Our business activities support awareness of the importance of value-conserving construction and attractive building design.

B. Financial report

Overview of business performance in 2018 and general statement on economic development

Sto SE & Co. KGaA, a major international manufacturer of products and systems for building coatings, was able to grow from its own resources in the fiscal year of 2018. Consolidated turnover grew by 4.3 % year-on-year to EUR 1,332.4 million, almost reaching the forecast increase of 4.4 % that would have taken it to around EUR 1,333 million. Had it not been for the negative currency effects of EUR -15.3 million in the year under review, organic growth would have accounted for an increase of 5.5 % compared to the previous year, although the cold spell in March and the extremely hot weather at the end of July and during August inhibited construction work in some markets. On the other hand, the favourable weather conditions at the year end were highly conducive to positive development.

In particular, the turnover-generating growth initiatives that had been launched back in 2017 as part of the New Balance programme produced positive effects in the year under review. These initiatives primarily included medium- to long-term measures, such as the improvement of sales efficiency. Within certain sections, we were also able to benefit from the diversification of our product range, which was consistently geared towards growth areas.

The development of earnings in 2018 was disappointing even though all key performance indicators were in line with the forecast values. Standing at EUR 81.9 million, the consolidated EBIT was within the planned range of

between EUR 80 million and EUR 90 million, but remained below the previous year's level of EUR 84.0 million. This was mainly attributable to the enormous cost increases in procurement, which continued through the entire course of the year and which could not be fully offset by increasing the sales prices. Significantly higher incoming freight costs also exerted significant pressure on the gross profit margin. In 2018, earnings before taxes (EBT) totalled EUR 80.2 million (previous year: EUR 82.2 million; forecast: EUR 78 million to EUR 88 million), and the return on sales was 6.0 % (previous year: 6.4 %; forecast: 5.9 % to 6.6 %). Compared to 2017, consolidated net profit for the year dropped from EUR 55.8 million to EUR 53.8 million. At 15.6 %, the return on capital employed (ROCE) was also lower than the previous year (previous year: 16.1 %), but still within the forecast range of 14.9 % to 16.8 %.



Building with conscience.

The Sto Group's financial and asset situation remained solid, with the equity ratio increasing to 60.9 % (previous year: 60.1 %) and cash and cash equivalents to EUR 105.3 million (previous year: EUR 84.4 million). Taking borrowings into account, net financial assets stood at EUR 90.5 million (previous year: EUR 72.6 million). Cash flow from operating activities stood at EUR 80.7 million (previous year: EUR 86.5 million).

Through its Executive Board, the personally liable partner STO Management SE will propose an unaltered dividend payout of EUR 26,049,060.00 to the Annual General Meeting on 19 June 2019. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and a bonus of EUR 3.78 per share, and limited ordinary shareholders will receive an ordinary dividend of EUR 0.25 plus a bonus of EUR 3.78 per share.

The current reporting period got off to a good start because of the much more favourable weather conditions compared to the previous year. In total, consolidated turnover exceeded typical seasonal expectations during the first three months.

For 2019 as a whole, we expect to see growth in consolidated turnover of 4.1 % to around EUR 1,387 million. As things stand, earnings before interest and taxes (EBIT) are likely to amount to between EUR 81 million and EUR 91 million. The Executive Board of STO Management SE continues to view the business prospects of the Sto Group as positive at the time of compiling the Group management report. The expected development of the Sto Group is discussed in more depth in the 'Outlook report' section.

Overall economic and sector-related general conditions in 2018

Global economic development

The global economy slowed more and more over the course of 2018. According to the International Monetary Fund (IMF), which had originally expected the global economy to grow by 3.9 %, global growth in 2018 decreased from the previous year's rate of 3.8 % to 3.7 % once adjusted for price changes.

The industrial nations increased their 2018 gross domestic product (GDP) by a total of 2.3 % (previous year: 2.4 %). The biggest share of the growth was attributable to the USA, which saw an increase of 2.9 %. By contrast, the eurozone suffered a noticeable slowdown in growth from the previous year's rate of 2.4 % to 1.8 %. The primary factors hampering growth were the restrictive US trade policy and the less dynamic Chinese economy. In Europe, uncertainty was also created by the conflict be-

tween the EU and the Italian government, and the many questions surrounding Brexit.

As in previous years, the strongest sources of momentum were to be found in developing and emerging countries. In these countries, GDP rose by a total of 4.6 % (previous year: 4.7 %). In China, the economy lost some of its momentum, with its GDP rising by 6.6 %. Meanwhile, in Brazil and Russia, growth was up only slightly.

In 2018, the German economy grew for the ninth year in a row but lost some of its momentum: According to calculations by the Federal Statistical Office (Destatis), the price- and calendar-adjusted GDP was 1.5 % higher than the 2017 level, following on the heels of a 2.2 % increase in each of the two previous years. The main drivers of growth in 2018 came from within Germany: There was an increase in both private (+1.0 %) and public consumer spending (+1.1 %) compared to the previous year, but growth was also lower than in recent years. Gross investment rose much more sharply than consumption, increasing by a total of 5.4 %. Building investments were up by 2.4 % and most of these went into public civil engineering.

International trends for the construction sector

The **European construction industry** remained on a growth course in 2018 but lost a lot of momentum in the 19 member states of the EUROCONSTRUCT network. In their November forecast, the construction experts said they were expecting to see a lower increase than the previous year, with a drop from 4.1 % to 2.8 %. Growth in the construction sector was strongly supported by the largely healthy general economic conditions in most EU states, the very low interest level, and greater immigration and internal migration. Pent-up demand also played an important role in quite a few European countries. Whereas residential construction had been one of the key growth drivers in

previous years, it was civil engineering that was the greatest stimulator of growth in 2018. This sector is expected to have increased by 5.0 % (previous year: 1.8 %). By contrast, in residential construction – which accounted for around 47.6 % of all European construction in 2018 – the increase slowed to 2.8 % (previous year: 5.6 %). Within this context, new residential building projects still experienced an increase of 5.5 %. Meanwhile, the figure recorded for maintenance and modernisation measures on existing residential buildings was 0.7 %, only slightly above the previous year's level. In the non-residential construction sector, the volume of construction services rose by 1.5 %.

The **German construction market** maintained a stable growth rate in 2018: according to provisional calculations by the HDB (General association for the German construction industry) and the ZDB (German Construction Confederation), turnover in the main construction sector increased by 6.0 %. A nominal increase of 6.5 % in the residential construction sector is assumed by both organisations. However, expansion in the areas of production and building completions was limited to the still booming apartment construction sector, with the construction of conventional owner-occupied homes stagnating at the previous year's level. The HDB and ZDB are expecting a 7.0 % increase in turnover for the commercial and industrial construction sector in 2018; for the public sector, a rise of 5.0 % is anticipated.

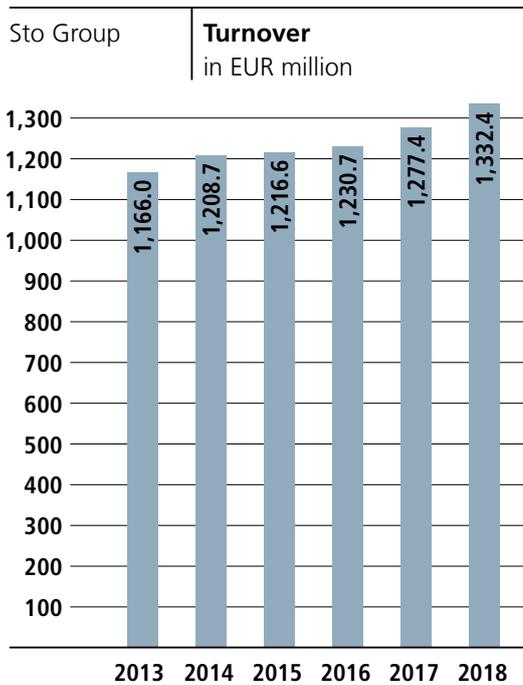
In the November edition of 'Germany Trade and Invest' (GTAI), building investments in the **USA** were predicted to increase by around 6 % in 2018, although the sector lost more and more steam in the second half of the year. Additional construction and real estate financing costs have acted as the main brake on demand for residential and commercial property since the summer of 2018. Overall, the residential construction volume is expected to have increased by 7 %. Meanwhile, growth of

6 % is forecast for the non-residential sector, including commercial buildings. Office space construction, which benefited from the healthy general economic situation, is thought to have seen particularly strong growth of 9 %.

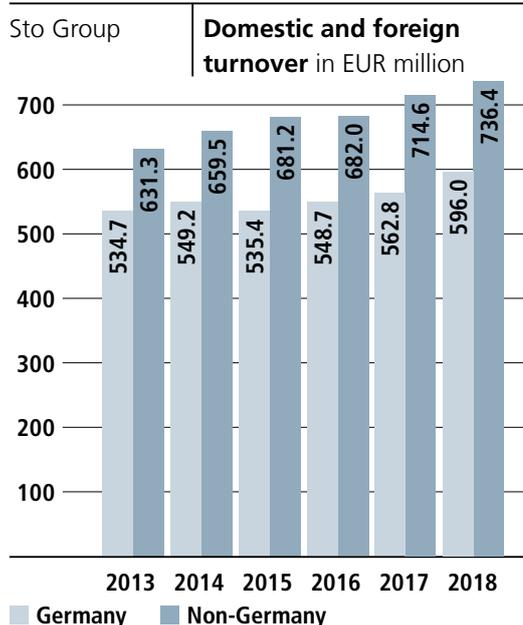
2018 was another successful year for the **Chinese construction industry**. According to GTAI, investments in real estate increased by a hefty 10.2 % in the first seven months compared to 7.9 % for the corresponding period of 2017. This growth was exclusively attributable to the residential construction sector, which experienced an increase of 14.2 %, while the office construction and retail space sectors suffered a decrease (-9.9 % and -8.9 % respectively). Over the course of the year, demand became slightly less dynamic overall due to rising prices and various purchasing restrictions. Energy efficiency is one area of the Chinese construction industry that offers considerable potential, as buildings account for a large share of primary energy consumption. The Chinese government also wishes to reduce this significantly, but the necessary initiatives are not currently in place. There is also appreciable demand in the area of refurbishments because so many buildings are in need of renovation. The emphasis here is on renovating interiors as the renovation of facades is usually subject to a complex decision-making process involving a large number of apartment owners.

Business performance and development of turnover

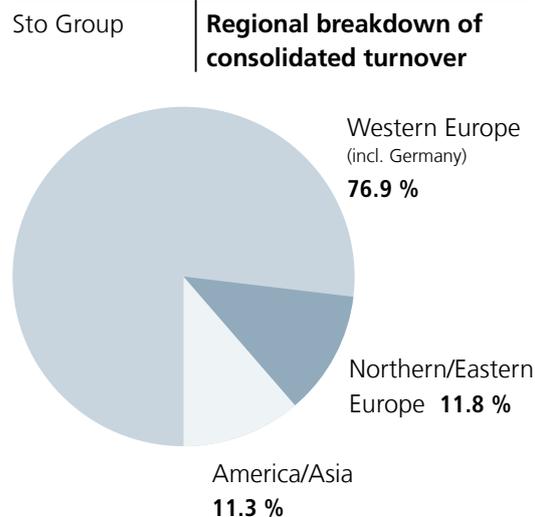
In the 2018 fiscal year, the Sto Group generated a **turnover** of EUR 1,332.4 million (previous year: EUR 1,277.4 million). Despite strong negative currency translation effects, this meant growth was up by 4.3 % compared to the previous year. The appreciation of the euro against the US dollar, Swiss franc, Swedish krona, and Turkish lira inhibited a stronger



increase. Once adjusted for these turnover-reducing currency translation effects, which amounted to EUR -15.3 million (previous year: EUR -6.7 million) in the reporting period, this equates to organic growth of 5.5 % as compared to 2017.



In 2018, consolidated turnover in **Germany** amounted to EUR 596.0 million – a plus of 5.9 % as compared to the previous year's value of EUR 562.8 million. An increase of 3.1 % to EUR 736.4 million (previous year: EUR 714.6 million) was achieved **outside of Germany**. Without including negative currency translation effects, this means that the underlying growth outside of Germany was 5.2 %. In comparison to the previous year, the share of Group turnover generated outside of Germany decreased slightly from 55.9 % to 55.3 %.



Turnover in the **Western Europe segment** (including Germany) grew by 5.5 % on 2017 to EUR 1,024.4 million (previous year: EUR 970.8 million). In contrast to the strong sales performance in Germany, business development in France and Switzerland, in particular, fell short of expectations. In Switzerland, exchange rate developments also had a negative impact on the level of turnover achieved.

In the **Northern/Eastern Europe segment**, Sto demonstrated growth of 3.4 %, with the turnover figure rising to EUR 156.7 million (previous year: EUR 151.5 million). Turnover in Northern Europe, which was additionally hit by negative exchange rate effects, fell short of

expectations. This contrasted with the development of the Eastern European companies, which although varied was largely positive.

The **America/Asia** segment recorded a decline in turnover from EUR 155.1 million to EUR 151.3 million. In addition to disappointing business development in the USA, the exchange rate losses in the US dollar zone – in particular – had a dampening effect. Net growth was achieved in Asia. This is exclusively attributable to demand in China, which remained strong in spite of difficult general conditions.

Performance of product groups

Much to its satisfaction, Sto managed to increase turnover in its core business of facade systems. Although provisional estimates for 2018 suggest that the volume only increased slightly on the German EWIS market – a market which has been waning for years – and although the controversial debate concerning the use of external thermal insulation composite systems continued to rage, Sto was still able to win market share and generate turnover growth. The main factors contributing to this were the diversified product range and the turnover-boosting growth initiatives of the New Balance programme, as well as the intensification of sales activities. Significant growth was recorded in the area of external wall insulation systems based on mineral wool.

In the product group of facade systems, which contributed 47.7 % of total turnover, the Sto Group achieved a total growth of 5.6 % to EUR 634.9 million. In the business area of facade coatings with its high margins, turnover fell by 1.7 % to EUR 302.3 million. This was particularly due to the decline in turnover in the USA and China, and meant that the corresponding share in Group turnover dropped to 22.7 %. In 2018, turnover generated by interior products increased by 2.5 % to EUR 190.7 million (share: 14.3 %). An increase of 12.2 % to EUR 204.5 million (share: 15.3 %) was recorded

in the other business fields. This was mainly the result of very good demand for floor coatings.

Income situation

In 2018, development of earnings at the Sto Group was heavily affected by the substantial increase in procurement costs for raw materials and purchased goods, which was higher than we expected it to be and continued to exert pressure over the entire course of the year. This led to a significant rise in **material costs**, which amounted to EUR 615.9 million in 2018, exceeding the 2017 value by 7.9 % (previous year: EUR 570.6 million).

To offset the persistent cost pressure when buying in raw materials and purchased goods, the focus of Sales in 2018 was on sales price adjustments. For example, sales prices were raised twice in the same calendar year in the German market of Sto SE & Co. KGaA. However, these measures have not yet proven sufficiently effective, with the result that the cost of goods sold rose significantly at the Sto Group from 44.7 % in the previous year to 46.2 %.

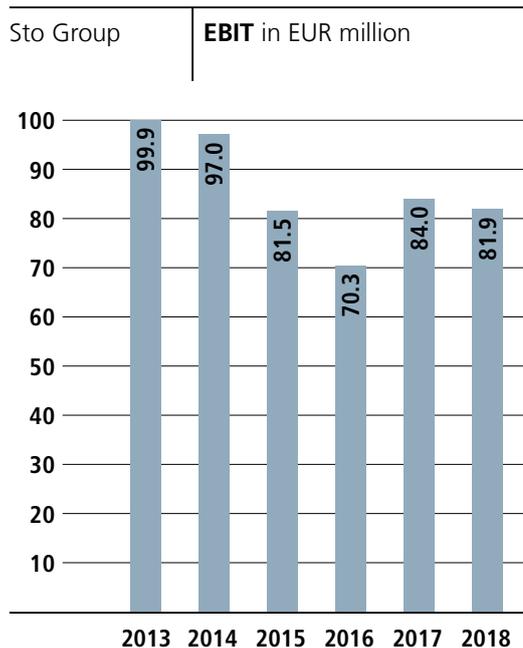
Personnel expenses in the Group increased to EUR 352.3 million, mainly due to collective wage agreements. As a result, they were 3.1 % higher than the previous year's value (previous year: EUR 341.8 million).

At EUR 273.9 million, the other operating expenses remained slightly below the previous year's level (previous year: EUR 274.8 million) despite significantly higher freight costs in the year under review. These were offset by reductions in other cost items. Other operating income fell by 16.1 % to EUR 22.9 million (previous year: EUR 27.3 million). This is because the value for the previous year included an extraordinary source of income amounting to EUR 3.8 million that had come as part of a settlement following the conclusion of court litigation proceedings in the USA. The **balance of other operating income and other operating expenses** stood at EUR -251.0 million as

compared to EUR -247.5 million in the previous year.

In comparison to the previous year, consolidated earnings before interest, taxes, and depreciation/amortisation (**EBITDA**) fell by 3.5 % from EUR 117.3 million to EUR 113.2 million.

Depreciation and amortisation of intangible assets as well as property, plant, and equipment amounted to EUR 31.3 million and was hence 6.0 % below the previous year's value (previous year: EUR 33.3 million). This had the effect of reducing consolidated earnings before interest and taxes (**EBIT**) by 2.5 % to EUR 81.9 million (previous year EUR 84.0 million).

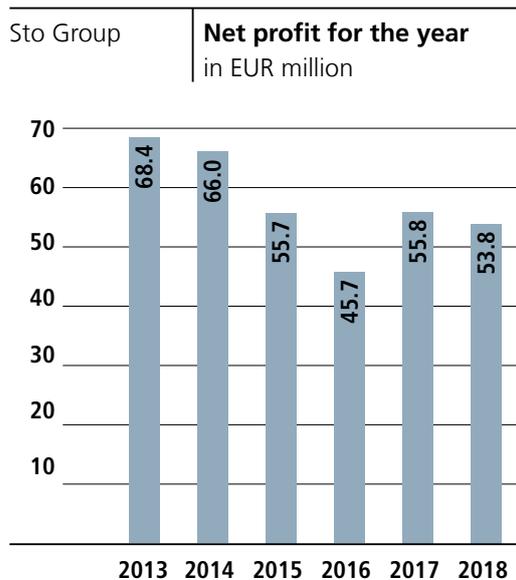


When broken down by **segment**, EBIT in Western Europe amounted to EUR 77.0 million and hence remained virtually unchanged in comparison to the previous year (previous year: EUR 77.1 million); in Northern/Eastern Europe, EBIT increased to EUR 1.9 million despite precautionary measures having proven necessary in Sweden (previous year: EUR -1.4 million). The America/Asia segment achieved a significantly lower EBIT of EUR 3.2 million (previous year:

EUR 7.9 million). Once again, this is because the value for the previous year included an extraordinary source of income amounting to EUR 3.8 million that had come as part of a settlement following the conclusion of court litigation proceedings in the USA.

In 2018, **income from financial investments and investment property** in the Sto Group totalled EUR -1.7 million, following EUR -1.8 million in the previous year. Within this context, interest income remained largely stable at EUR 0.7 million, with the interest expense increasing marginally from EUR 2.5 million to EUR 2.6 million.

The Sto Group recorded a drop in total consolidated earnings before tax (**EBT**): these decreased by 2.4 % to EUR 80.2 million (previous year: EUR 82.2 million), with a return on sales of 6.0 % following 6.4 % in the previous year. The tax rate rose from 32.1 % in the previous year to 32.9 %. The Sto Group's **net profit for the year** fell by 3.6 % from EUR 55.8 million to EUR 53.8 million.



Diluted and basic earnings were EUR 8.39 per limited preference share (previous year: EUR 8.68), and EUR 8.33 per limited ordinary share (previous year: EUR 8.62).

As at 31 December 2018, the **ROCE** (return on capital employed) figure had fallen from 16.1 % to 15.6 % as compared to the same day of the previous year.

Sto SE & Co. KGaA – Dividend

Earnings before income taxes of the parent company Sto SE & Co. KGaA, determined in accordance with the German Commercial Code (HGB), amounted to EUR 59.3 million compared to a figure of EUR 62.0 million for the previous year. **Net profit for the year** fell from EUR 45.8 million to EUR 40.8 million. The financial and asset situation of Sto SE & Co. KGaA remained extremely solid, with an equity ratio of 70.1 % (previous year: 70.4 %).

Through its Executive Board, the personally liable partner STO Management SE will propose a total unaltered dividend payout of EUR 26,049,060.00 to the Annual General Meeting on 19 June 2019. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and a bonus of EUR 3.78 per share. Limited ordinary shareholders will be paid an ordinary dividend of EUR 0.25 as well as a bonus of EUR 3.78 per share.

Financial situation

The most important objectives of **financial management** in the Sto Group are to ensure the Group's liquidity worldwide, optimise financial expenses and income, and control and minimise currency and interest risks. Sto uses a wide range of financial instruments in order to ensure as little dependence as possible on individual markets and methods of financing. When working with banks, top priority is given to those that enjoy the highest credit ratings and are able to build long-term relationships characterised by mutual trust.

We aim to establish a balanced relationship between equity and debt capital in order to ensure a long-term financing scope. Our current

financial requirements – which can fluctuate significantly with the seasons over the course of the year – are mainly covered using operating cash flow and available liquidity. Where necessary, we also make use of temporary credit facilities based on a syndicated loan agreement whose remaining term expires in 2022. Furthermore, we made use of leases during the year under review. At the 2018 year end, the present value of disbursements due from finance leases in the future stood at EUR 0.4 million (previous year: EUR 0.6 million).

To minimise the effect of exchange rate fluctuations on consolidated earnings, foreign currency items are netted within the Group. Additionally, during the planning phase we determine the foreign currency cash flows within the Group for the following year, and devise suitable **hedging strategies** on this basis. Planned cash positions are hedged through instruments congruent to the time and economic state from the area of derivatives.

Most of the Sto Group subsidiaries operating in the eurozone are integrated into a **cash-pooling system** which is used to control liquidity management centrally. This allows us to net cash surpluses and cash requirements within the Group, and minimise the number of external banking transactions. We invest any surplus liquidity under conditions that are as favourable as possible to improve our net interest income.

The duties of the Sto Group's **treasury** department include the recognition of financial resources for internal and external financing as well as the control of financial risk management. By doing this, we are taking into account the Group's continuing internationalisation and the increasing risk management requirements that come with it.

Liquidity movements in 2018

In 2018, **cash flow from operating activities** within the Sto Group dropped from EUR 86.5 million to EUR 80.7 million. The lower

earnings and higher income tax payments were essentially counteracted by effects from the change in provisions and the lower increase in capital that was tied up in net current assets. Net interest income and other financial earnings remained virtually stable at EUR -1.8 million. The cash flow margin fell from 6.8 % to 6.1 %.

A total of EUR 35.9 million was used for **investment activities** in 2018 (previous year: EUR 45.0 million). Outflows relating to investments in property, plant, and equipment as well as Intangible assets decreased slightly from the previous year's value of EUR 32.4 million to EUR 32.0 million. In addition, funds of EUR 11.0 million were disbursed in 2017 from the acquisition of an investment that was consolidated using the equity method (2018: EUR 0.0 million). In the year under review of 2018, funds amounting to EUR 33.0 million (previous year: EUR 49.7 million) were released from financial investments on expiry of the maturity date, and cash and cash equivalents of EUR 37.9 million were reinvested (previous year: EUR 54.0 million). Thus, **cash flow from investment activities adjusted** for deposits and disbursements for financial investments

amounted to EUR -31.0 million (previous year: EUR -40.7 million).

In 2018, **cash flow from financing activities** totalled EUR -24.2 million (previous year: EUR -24.9 million). Once again, the majority of this was accounted for by the dividend payout to shareholders, which increased from EUR 21.0 million to EUR 26.4 million compared to the previous year.

In 2018, net changes from exchange rates and, in accordance with IFRS 9, impairments due to anticipated losses on cash and cash equivalents, amounted to EUR 0.2 million (previous year: EUR -2.3 million).

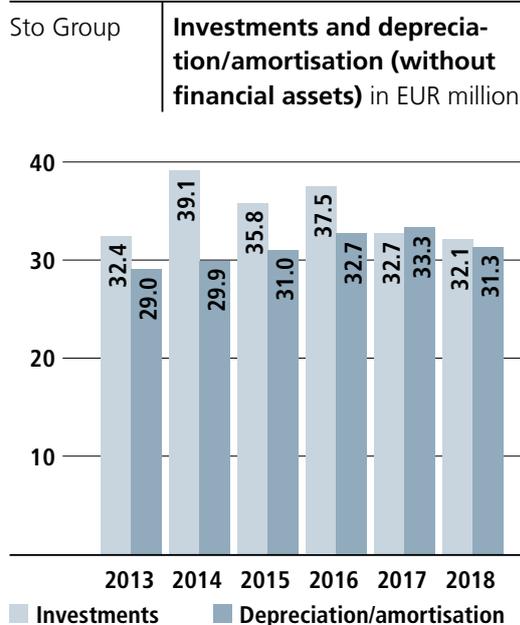
In the course of the year, the Sto Group's **cash and cash equivalents** rose by a total of EUR 20.9 million from EUR 84.4 million to EUR 105.3 million. Once again, this sum significantly exceeded the borrowings of EUR 14.8 million (31 December 2017: EUR 11.8 million) declared on the reference date of 31 December 2018.

Investments

There was a slight change in the amount invested in property, plant, and equipment, and Intangible assets at the Sto Group. This decreased from EUR 32.7 million in the previous year to EUR 32.1 million, which was significantly below the planned budget of EUR 42 million. Firstly, this was because of a greater reluctance to invest in companies that were not developing as planned and, secondly, because some projects ended up being postponed. Across the Group as a whole, EUR 26.8 million (previous year: EUR 27.4 million) of the total amount was invested in the Western Europe segment, EUR 2.0 million (previous year: EUR 1.8 million) in the Northern/Eastern Europe segment, and EUR 3.3 million (previous year: EUR 3.5 million) in America/Asia.

In the year under review, investments in tangible assets within the Group amounted to EUR 30.5 million and hence remained slightly

Sto Group	Cash flow statement in EUR K	
	2018	2017
Cash flow		
from operating activities	80,684	86,478
from investment activities	-35,866	-44,965
from financing activities	-24,192	-24,852
Change in cash and cash equivalents from changes in exchange rates and impairments in accordance with IFRS 9	246	-2,310
Cash and cash equivalents at beginning of period	84,422	70,071
Change in cash and cash equivalents	20,872	14,351
Cash and cash equivalents at the end of period	105,294	84,422



below the 2017 level of EUR 30.6 million. One focal point was the expansion of the Group-wide distribution network, primarily in Austria and Germany. In addition, we once again made replacement and expansion investments as part of the ongoing 'Retrofit' programme, such as the replacement of two stacker cranes at the logistics centre at the Stühlingen headquarters.

In total, intangible assets accounted for EUR 1.6 million (previous year: EUR 2.1 million) of the Group investments. In 2018, there were no investments in financial assets (previous year: EUR 11.0 million).

Asset situation

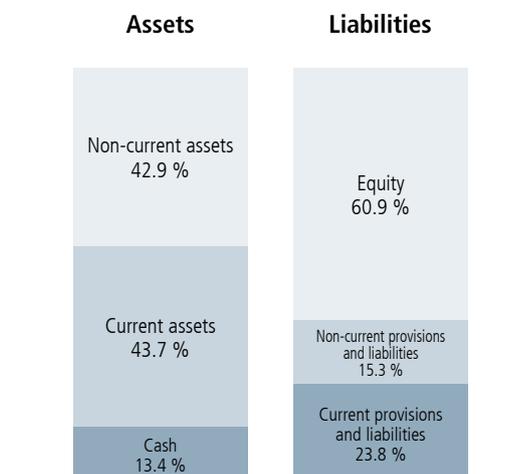
As at the reference date of 31 December, the **consolidated balance sheet** of Sto SE & Co. KGaA witnessed an increase from EUR 749.6 million in the previous year to EUR 784.4 million. In the category of **non-current assets**, which were worth a total of EUR 336.2 million (31 December 2017: EUR 336.8 million), fixed assets decreased slightly year-on-year by 0.2 % to EUR 313.8 million (31 December 2017: EUR 314.4 million).

Within this context, the reduction in intangible assets to EUR 47.8 million (31 December 2017: EUR 49.1 million) contrasted with a marginal increase to EUR 254.9 million in the area of property, plant, and equipment (31 December 2017: EUR 254.3 million) and with a marginal increase to EUR 11.1 million in terms of investments reported on the balance sheet using the equity method (31 December 2017: EUR 11.0 million). At EUR 22.4 million, other non-current assets remained at the previous year's value.

Current assets demonstrated a year-on-year gain of 8.6 % to EUR 448.2 million (31 December 2017: EUR 412.8 million). At EUR 97.9 million, inventories were slightly above the previous year's level (31 December 2017: EUR 96.7 million). Current trade receivables increased by 7.8 % to EUR 134.7 million (31 December 2017: EUR 125.0 million), in particular due to the healthy business development at the 2018 year end. There was also a clear increase in current financial assets from EUR 76.5 million to EUR 83.3 million due to financial investments with maturities ranging from more than three months up to a year. Other current assets decreased from EUR 27.7 million to EUR 24.5 mil-

Sto Group

Balance sheet structure as at 31 December 2018



lion. This item mainly includes refund claims. Cash and cash equivalents increased year-on-year from EUR 84.4 million to EUR 105.3 million.

On the **liabilities side, equity** rose from EUR 450.1 million to EUR 477.5 million thanks to the positive development of income, resulting in a figure that was 6.1 % above the value at the 2017 year end. The item of Share of minority interests, accounting for EUR 7.6 million (31 December 2017: EUR 7.8 million), primarily related to the proportion of minority shareholders with a stake in Ströher. As at 31 December 2018, the **equity ratio** within the Sto Group had improved to a very solid 60.9 % (31 December 2017: 60.1 %).

The total **non-current provisions and liabilities** increased slightly year-on-year from EUR 118.7 million to EUR 119.7 million. Both the post-employment benefit provisions and the other non-current provisions remained largely stable at EUR 99.3 million (31 December 2017: EUR 99.1 million) and EUR 14.6 million (31 December 2017: EUR 14.6 million) respectively. Deferred tax liabilities decreased slightly from EUR 2.3 million to EUR 2.1 million. Non-current borrowings increased to a total of EUR 3.3 million (31 December 2017: EUR 2.0 million), mainly because of a publicly funded investment loan. Meanwhile, non-current financial liabilities and other non-current liabilities remained at the previous year's level, amounting to EUR 0.3 million and EUR 0.01 million respectively.

There was a net increase in **current provisions and liabilities** to EUR 187.2 million (31 December 2017: EUR 180.7 million). Other current provisions decreased by EUR 3.4 million to EUR 45.5 million (31 December 2017: EUR 48.9 million). The most significant item in this case, recorded in the area of warranty provisions within sales, relates to insurance refund claims that are included on the assets side as other current assets. Current borrowings increased from EUR 9.8 million to EUR 11.5 million and current income tax

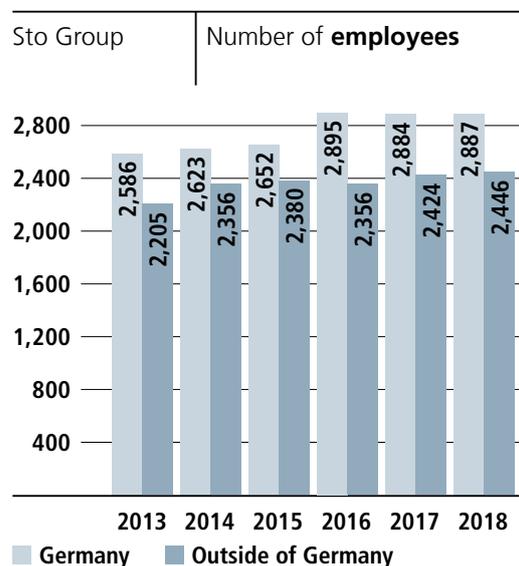
liabilities from EUR 2.2 million to EUR 6.1 million. Trade payables increased slightly year-on-year to EUR 47.2 million (31 December 2017: EUR 46.0 million). Current financial liabilities grew from EUR 28.5 million to EUR 32.6 million while other current liabilities fell from EUR 45.3 million to EUR 44.4 million.

At the end of December 2018, total borrowings amounted to EUR 14.8 million after EUR 11.8 million in the previous year. Taking into account cash and cash equivalents of EUR 105.3 million, net financial assets stood at EUR 90.5 million, an improvement on the previous year (31 December 2017: EUR 72.6 million).

C. Other performance indicators

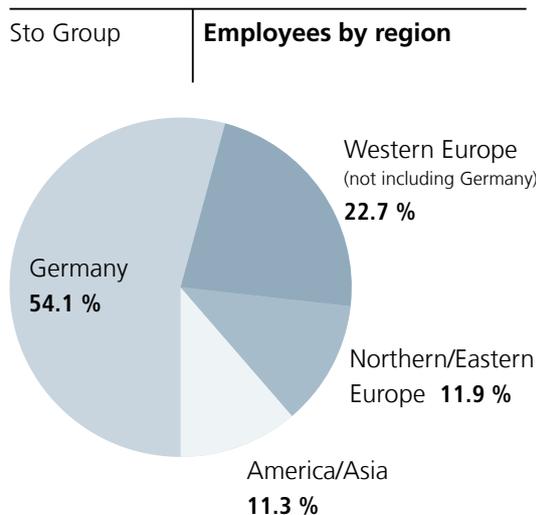
Employees

At the 2018 year end, the Sto Group had 5,333 employees worldwide as compared to 5,308 on the same day of the previous year (+25 employees; +0.5 %). While the number of personnel at the German locations remained more or less stable at 2,887 (previous year: 2,884), certain subsidiaries outside of Germany with short- and



medium-term growth prospects experienced a slight increase. These new appointments were contrasted by targeted restructuring measures in regions battling difficult general economic conditions. The total number of personnel employed outside of Germany stood at 2,446 (previous year: 2,424), meaning that the percentage of the Group's workforce employed outside of Germany rose from 45.7 % to 45.9 % year-on-year.

As at the end of December 2018, the workforce figures were as follows for each of the various segments: 4,094 employees in Western Europe (incl. Germany), 636 in Northern/Eastern Europe, and 603 in America/Asia.



The average age of the Sto workforce in 2018 was 43.5 (previous year: 43.4), and the proportion of female employees in the Group amounted to approximately 25 %, a figure similar to the previous year's. Sto recognises that teams with a heterogeneous make-up have shown themselves to be better at solving complex tasks, and it therefore considers diversity to be one of the keys to the company being successful in the future. We are constantly examining the extent to which diversity is present within the company, which enriches our corporate culture.

HR strategy

In the year under review, we consistently pursued the HR strategy defined for the Sto Group that keeps us steadily on course in the area of Human Resources (HR). The HR context within which we had to operate in 2018 was shaped by the following factors: the increasing importance of flexibility, cross-cultural competence, increased cost pressure, the ongoing shortage of specialists, the need to respond as quickly as possible, the ageing workforce, a noticeable shift in values, and new requirements for our specialist personnel and managers. Guided by these general conditions, we successfully introduced the measures that had been planned for all the key issues in our HR strategy in 2018, and made significant progress in these areas. To be specific, these included:

- **Promoting the Sto culture:** This culture is based on mutual respect, enables our workforce to play their part in shaping the company, and encourages our employees to take responsibility for ambitious targets. We are constantly developing the Sto culture while at the same time upholding its core values. During the year under review, we made the necessary preparations for the employee survey scheduled for 2019, and stepped up dialogue between Management and the workforce. In addition, the new concept for appraisal interviews at Sto SE & Co. KGaA was successfully introduced at the Stühlingen site and at StoCretec GmbH.
- **Professional personnel and managerial development:** Customised qualification programmes are our way of ensuring that our workforce is constantly prepared for the demands of the future, and systematically developing our stock of expertise. Additionally, we want to discern specific areas of management potential that are present in the Group. In addition to systematically improving managerial development, in 2018 we strengthened our network of consultants

in the areas of coaching and organisational development.

- **Employer attractiveness and securing the next generation of employees:** We are consistently working to boost our attractiveness as an employer and add talented young professionals to our team. We do this to ensure that the Group can keep expanding at all its locations around the world, and to play an active role in combating the shortage of young talent and skills. We also establish attractive general conditions for applicants and employees, as well as a solid vocational training programme. In addition to this, we established an IT system for applicant management at specific companies.
- **Creating competitive employment conditions:** Our aim is to give our employees an attractive working environment that affords them a great deal of flexibility, while at the same time ensuring that the Group is taking advantage of efficient cost structures. The previous year, various measures had been implemented as part of the New Balance programme. With a view to anchoring these securely within the Group, we offered our employees a wide range of support. In addition, the pay systems underwent further development, and the general conditions for mobile working were improved. Another item on the agenda for 2018 was occupational reintegration management.

Alongside these key issues, the HR department also works continuously to improve efficiency and professionalism in everything it does. To this end, a global HR conference was held in 2018 and a system was developed to provide key indicators for controlling the HR department.

Working safety

One of the most important elements of our HR policy is preventing accidents or at least keeping the number as low as possible. As a basic

principle, we aim to keep the rate of reportable accidents at work or on the way to and back from work consistently below 10 accidents per 1,000 employees per year. In 2018, the rate at Sto SE & Co. KGaA was 16.2 compared to 12.6 the previous year. Around half of these consisted of trips or falls, and were the result of inattentiveness or inappropriate practice. In the year under review, no incidents occurred due to defective machinery or installations. As a means of preventing accidents, employees receive ongoing training in occupational safety, and we raise their awareness on the subject to help them become more attentive and act in a less risky manner. In the event that serious accidents do occur, they are systematically subjected to an investigation and the relevant risk assessment is adapted or revised in light of the findings.



At the end of 2018, the Sto Group had 5,333 employees worldwide.

Our aim is to keep our fluctuation rate within the Sto Group in the lower single-digit percentage range. This rate is calculated by looking at the number of exits from the company (not including natural ones, such as people entering retirement) in relation to the average number of permanent staff. In the year under review, this value increased to 3.8 % in Germany (previous year: 2.9 %), which was

mainly attributable to the personnel restructuring measures implemented as part of the New Balance programme. The percentage of voluntary terminations remained virtually unchanged at 2.0 %, demonstrating that Sto continues to be an attractive employer.

In 2018, the average period of employment with the Sto Group was 10.8 years. During the completed fiscal year, one of our employees was honoured for 50 years of service, the first one ever to reach this milestone at Sto.

Health management

We believe that ensuring the well-being of our employees includes establishing an environment that promotes health and enhances performance. We support this through a health management programme that is structured around our target groups. In relation to this, further options were offered in 2018 in the areas of nutrition, sport, and protection against influenza. Furthermore, cooperation with the Sto Sports Club is to be stepped up even further over the coming years and its range of offers is also to be broadened. The Health Management Team was reorganised for even faster individually tailored support and authorisation of health-promoting measures.

Further education and training activities

With the aim of fostering the skills and interests of our workforce as well as preparing them for the requirements they will need to fulfil in the near future, the Sto Group offers a comprehensive range of opportunities for gaining qualifications and further training. In the year under review, the focus was on managerial and sales training, as well as the range of available methodology training, e.g. in the area of project management.

Training at Sto

At the start of the new training year in September 2018, 80 young people started their

professional training at Sto in Germany. The range of available options includes 25 different industrial and commercial training paths. In addition, we also offer the option of completing an integrated work/study programme in a variety of subjects within the Group.

At the year end, the number of trainees and work/study programme students in Germany totalled 214 (previous year: 199). In relation to the total German workforce, this equates to a share of 7.4 %. As a result, Sto far exceeds the 4.8 % training rate of all the businesses working in the chemical industry in Germany.



In autumn of 2018, Sto trainees constructed a woodland playground, which was an initiative of the 'Jung & Alt – Attraktives Dorfleben' (Young & old – Attractive village life) association in Stühlingen-Mauchen/Germany.

A special page dedicated to providing extensive information about professional training can now be found on the Sto Group website. Not only that, but in 2018 we once again took part in numerous education fairs and careers days within Germany. These events provide prospective employees with the opportunity to gain an in-depth insight into the Sto Group as an employer and find out more about the company.

Research and development

Through our intensive and continuous R&D work, we are consistently enhancing the skills

that are present within the Group, securing the position we are aiming for as a technology leader in our industry sector, and opening up opportunities for tapping into new markets and finding new customers for Sto. Furthermore, our extensive activities mean that the materials we need to ensure the high quality of our products are always available in sufficient quantities and offer a reasonable cost-benefit ratio – in spite of the constantly changing situation concerning raw materials, which is affected by general regulatory, ecological, and economic conditions.

Our Group-wide development activities take place predominantly at our Stühlingen headquarters. In addition, there are R&D departments based at various sites in and outside of Germany. Their activities are geared specifically towards the national situation concerning the supply of raw materials, product features, and price structures. In 2018, a total of EUR 13.5 million (previous year: EUR 14.1 million) was recorded with an impact on profit and loss for research and development – corresponding to 1.0 % (previous year: 1.1 %) of consolidated turnover.

The regulatory challenges surrounding research and development activities became even more severe during the year under review. Among other things, there were various reclassifications and changes in the labelling obligations with regard to the raw materials used, both in Europe and at a national level. For example, new EU-wide regulations were introduced concerning the limit values for the labelling of particular input materials. This resulted in considerable additional expense being incurred by Sto in some areas, e.g. the costs of qualifying alternative raw materials and suppliers. It has also tied up resources that were originally intended for areas of innovation. In addition, fire protection requirements have become much more stringent, with the result that existing systems have had to be adapted accordingly.

Product innovations

In terms of **product innovations** in 2018, the emphasis was on further expanding the Sto-Color Dryonic product line. The new additions to this included **StoColor Dryonic S**, a version offering optimised resistance to fading, and a particularly wide choice of colours. The biomimetic StoColor Dryonic facade paints follow a principle found in nature by repelling water to keep facades dry, thereby protecting them against algae and fungi.

Within the interior segment, the **StoColor Rapid** paint is one of the most successful products. In 2018, it underwent an extensive re-launch and further improvement. Among other things, the wet scrub resistance (an important indicator of the product's fitness for purpose) was further optimised without altering the other outstanding features of the product.

Sto has developed the **StoPrim GT** primer specifically for use with silicate products. With its special gel structure, it enables work to be carried out without any drips and ensures a streak-free result. It is suitable for virtually all interior substrates. This dispersion silicate primer is particularly beneficial when used on crumbling or absorbent substrates that place very high demands on the primer. In addition, StoPrim GT is free of solvents and plasticisers, is a low-emission product, and contains very few preservatives, thereby meeting the requirements for healthy and ecologically sound interior construction.

The **StoColl Mineral HP** high-performance bonding mortar is a newly developed product that has been designed for use in external wall insulation systems, specifically for mineral wool and EPS insulation boards. The mineral-based mortar adheres brilliantly to a large number of mildly absorbent substrates such as wood and board materials, solid wood, and bitumen. It is non-combustible, highly permeable to water vapour, offers good stability under load, and is easy to apply.

StoMurisol SW plus has been specially developed for the plinth area of buildings. It is a new mineral-based bonding and reinforcing mortar that can also be used as a float-finish render. Furthermore, it is capable of withstanding a water pressure of 1.5 bar. Thanks to the integrated moisture protection, there is no need for additional sealing of the render coat in the plinth area, which avoids having to switch products within the coating system. The advantage of single-component mortar compared to two-component solutions lies in the construction site logistics.

The **StoPox 590 EP** coating has been modified and successfully repositioned on the market for highly stressed floor slabs made from waterproof concrete. The special feature of this epoxy resin coating, which is primarily used in underground and multi-storey car parks, is that it combines water vapour permeability with crack-bridging properties. This makes the product unique on the market.

In the wake of the emissions scandal in the automotive industry and the resulting public discussions, the existing product **StoColor Photosan** attracted a great deal of attention in 2018. In the course of a fundamental research

and development project that was extremely thorough, this highly functional facade paint was shown to be capable of breaking down nitrogen oxides and ozone, and preventing the formation of secondary fine particulate matter. The R&D department that was responsible at our end helped oversee the experiment by participating in numerous conversations and discussions, and by contributing scientific expertise. Provided that the paint is given enough space to perform its function, StoColor Photosan has the potential to become an important component for improving air quality in congested urban areas.

In addition to the many new regulations and decrees issued at a national and European level, the other key challenges faced by R&D in 2018 included unusually severe shortages of raw materials right through to their complete unavailability, particularly as a result of the EU REACH Regulation. Consequently, directly interchangeable materials had to be found and additional fallback plans had to be drawn up to ensure long-term security of supply going forwards, as well as the customary high quality of Sto products. The complexity of production and diversity of the products produced at the different sites also play a significant role within this context.

With its intense colours, StoColor Dryonic S keeps facades dry and bright for a long time.



Fundamental research

One of the prerequisites for successful development and product adaptation work at Sto takes the form of the extensive fundamental research activities that we use – among other things – to unlock new and improved technologies. To ensure that as much expertise as possible feeds into our research, our R&D team regularly works with universities and external partners as well. Among other things, we have continued to participate in a project that is being funded by the German Federal Ministry of Education and Research and run jointly between us and the Institute of Building Materials Research and Chair of Building Materials (IBAC) at Aachen University.

Production and procurement

The basis for the reliable, high quality of our products is our outstanding production expertise. Sto is constantly working on the further development of applications and methods, as well as the optimisation of production processes, so that it can remain at the same high level and continually acquire new skills and areas of expertise.

The most important products/materials produced in-house at the Sto Group are coating materials such as renders and paints, as well as adhesive and reinforcing compounds. We also produce some of our expanded polystyrene (EPS)-based insulants exclusively for supply within the Group at the Innolation sites in Lauingen/Germany and Amilly/France. This allows us to strategically develop our technical expertise in this sensitive area, and reduce the extent to which we are dependent on suppliers. Moreover, our Swedish subsidiary produces special insulants based on EPS.

International production network

At the 2018 year end, the Sto Group's global production network comprised 31 locations, of which 11 were in Germany and 20 outside of Germany. In the year under review, all of Sto's factories operated in two- or three-shift operation at least some of the time. As in the previous year, the capacity utilisation was mostly good.

The Group's existing production capacity is being modernised and expanded on an ongoing basis as part of the 'Retrofit' programme, e.g. the filling system for water-based primer products in Stühlingen. In 2018, there was a particular focus on renewing the electronic system controls at the parent plant in Stühlingen, a process which had begun the previous year. The control technology in the storage area and for receiving raw materials has already been successfully replaced.



In order to be able to continuously improve the performance of the production facilities within the Sto Group, we constantly check the rate of defective batches. Our aim is to keep this proportion of the total production volume that cannot be delivered due to defects below 0.1 % across the Group. At the European Sto factories, this level of quality is already being achieved almost consistently. Potential weaknesses are identified and eliminated as early as possible, which is something that our employees receive training in worldwide.

Due to the market conditions and our customer structure, the business of the Sto Group is dominated by orders with short lead times. For this reason, a high level of goods availability – which is also facilitated by having flexible production conditions – and a fast delivery service are absolutely vital for the company. Hence the Sto Group does not consider key figures relating to order receipt and backlog to be significant.

Tested quality management

All key production facilities are registered and audited within the integrated management system of the Sto Group that incorporates the existing quality, environmental, safety, and

The Sto Group's production facilities are regularly inspected and modernised as necessary.

energy management systems of each individual facility. Additionally, the majority of the Group's plants are certified in accordance with external standards. At the 2018 year end, 25 out of a total of 31 locations had been assessed in accordance with the international quality management standard ISO 9001, and 15 according to ISO 14001 for their environmental management system. In the course of the year, 20 production sites in and outside of Germany underwent successful recertification in accordance with ISO 9001:2015, with surveillance audits taking place at five production companies and four sales companies. In addition, 13 production sites were recertified in accordance with ISO 14001:2015 and surveillance audits were carried out at two production companies and three sales companies. Internal audits were conducted at the headquarters and five plants belonging to Sto SE & Co. KGaA, as well as at five subsidiaries in and outside of Germany.

In the area of EPS insulation board production, Sto is enhancing its existing quality management strategy by implementing advanced measures beyond the standard that has been in place to date. These are designed to ensure that a high level of product quality is maintained by all the suppliers involved in the manufacturing process. Innolation GmbH in Lauingen/Germany acts as a Group-wide centre of expertise for insulants. Among other things, 2018 saw the development and introduction of new software to digitally link up the areas of production, quality control, and maintenance. As a result, we are now capable of quickly capturing and evaluating machine data, process and quality parameters, stoppages or faults, shift schedules, and quality records, as well as product tracebacks. Overall, the software helps prevent defects in production and increases transparency.

The factories of the US subsidiary Sto Corp. in Glendale (Arizona) and Rutland (Vermont) have been audited in accordance with the local 'Safety & Health Achievement Recognition

Program' (SHARP). Meanwhile, Sto Scandinavia AB in Sweden and Beissier S.A.U. in Spain have been audited in accordance with OHSAS 18001 (Occupational Health & Safety Assessment Series). Both programmes are designed to maintain high standards of health and safety. Verotec GmbH and Innolation GmbH have received OHRIS (Occupational Health and Risk Management System) certification in recognition of their occupational health and safety system, and are thus meeting global standards concerning health and safety at work, while Sto Sp. z o.o. in Poland is operating in line with the AQAP (Allied Quality Assurance Publications) standard.

Furthermore, Sto has introduced the ISO 50001 energy management system at several of its locations over recent years. As at the end of 2018, Sto SE & Co. KGaA's headquarters in Stühlingen, all the production sites and Sales Centres in Germany, and four subsidiaries had received certification.

Procurement

The key raw materials sourced by the Sto Group include base materials such as sand, cement, and lime, as well as speciality chemicals and crude oil based raw materials. Examples of other items that are procured include insulants, mesh, and containers.

In 2018, the situation on the procurement markets was characterised by very strong demand for those input materials that are important to Sto. Within some sub-areas, this led to a tense supply situation involving long delivery times and bottlenecks, as well as above-average price increases. There was a particularly heavy increase in the material costs of binding agents, pigments, and packaging materials such as containers and pallets. In addition, there were appreciable delays involving upstream suppliers, e.g. in the case of additives, binding agents, and dispersion powders. The procurement situation also became more and more acute with regard to insulants such as polystyrene and mineral

wool, which meant having to cope with costs that were significantly higher than planned.

To counter this development, we intensified the strategic stockpiling of key input materials and, to an extent, secured supply by putting contracts in place. In addition, we built up a pool of alternative suppliers to provide our procurement network with some extra breadth. All in all, we were – for the most part – able to ensure supply for customers over the course of the year, but managed to offset the adverse trend in purchase prices only partially. In 2018, the Group's cost of sales ratio rose by 1.5 percentage points in total, from 44.7 % to 46.2 %.

Apart from the high demand from the construction and also other sectors, bottlenecks became an increasing problem within the logistics sector as did delivery complications, leading to a continuous increase in transport costs. The factors that were primarily the reason for this were the serious shortage of lorry drivers across the whole of Europe, the sharp increase in diesel prices in the second half of the year, and the extension of the HGV toll on 1 July 2018 to include federal highways in Germany as well as motorways. The situation was exacerbated by the very low water levels in Germany's rivers over the summer, which led to reduced production at some supplier sites.

On the other hand, Sto was able to save on electricity and gas costs in the energy sector. The early price negotiations and conclusion of contracts also played a crucial part in securing these reductions.

Procurement management

The basis for uninterrupted security of supply at all production locations of the Sto Group is proactive procurement management. This is based on many years of close cooperation with suppliers. The parent company Sto SE & Co. KGaA acts as an internal service provider within the Group for the professional procurement of capital goods, services, and consumables. In 2018,

this function was further expanded. So-called indirect procurement supports the subsidiaries by providing tailored advice, experienced know-how, and state-of-the-art procurement tools.

As a means of identifying price fluctuations and supply bottlenecks early on, we systematically monitor the supply chain at every stage, from the purchase of raw materials to storage and all the way through to the customer. We use special software to assist us in this process. By consistently applying and constantly optimising this system, we are able to continuously improve the supply chain within the Sto Group. In addition, our comprehensive classification of the marketing structure for individual items makes for an efficient and faster planning and scheduling process.

With a view to optimising efficiency within the buying process even further, we began implementing a software solution for supply relationship management in mid-2018. Processes



The raw materials delivered for renders and paints are checked at the quality lab.

were also improved for a defined set of product groups by incorporating the forecast from Sales into planning at an early stage. As a result, we are able to achieve a high OTIF (on-time and in-full delivery) for Sto customers.

Twice a year, we perform a systematic supplier evaluation at our key European Sto companies. This involves assessing the companies based on the criteria of price, quality, commercial cooperation, sustainability, and supply conditions. The results are weighted in different ways and are condensed into a single key figure. The maximum score is 100; in the case of Sto SE & Co. KGaA, the target score was 90.0, as was the case in the previous year. Its result of 87.2 (previous year: 87.5) meant that it fell slightly below this value in the year under review. The main reasons for this were the aforementioned bottlenecks on the procurement markets and transport market, which led to delivery delays.

Inventory ratios (average inventory in relation to annual sales) are agreed with the Sto subsidiaries as part of Group-wide **stock management**. In 2018, these values ranged between 3.0 % and 38.5 %, depending on whether the company concerned was a production and/or sales company. The process of defining the targets also involved analysing the relevant market conditions, such as product launches and logistics-related changes. Higher stock values were approved in cases where this was necessitated by production-related or strategic stockpiling. Thanks to the Sto Group's consistent and proactive approach to inventory management and ongoing monitoring of materials with longer stock turnover periods, the targets were largely met during the year under review. To prevent bottlenecks involving raw materials and trading goods, stocks on hand were increased during the course of the year in some cases.

In 2018, the Sto-eProcure system was also launched at Sto Ges.m.b.H in Austria. Sto-eProcure is a transparent internal ordering system

that handles all indirect material requirements with a standardised approval process across the Group. It is also linked directly to the Group-wide SAP system.

D. Events after the reporting period

Between the end of the 2018 fiscal year and the point at which this report was signed off, there were no other events with a significant impact on the earnings, financial, and asset situation of the Sto Group.

E. Risks and opportunities report

Risks and opportunities

As a company with an international orientation and business activities, Sto SE & Co. KGaA is regularly confronted with opportunities and risks. This means that managing these opportunities and risks in a way that focuses on our objectives is an integral part of our management of the company, and is crucially important to ensuring that the Group follows a positive path over the long term. The **risk strategy** developed by STO Management SE, as the personally liable partner of Sto SE & Co. KGaA, asks for opportunities that arise to be exploited with rigour, while undertaking risks only where a commensurate contribution to earnings can be expected and a threat to the company's existence can be excluded. Generally speaking, we define risks and opportunities as potential deviations from the planned result.

The positive general economic conditions that we are currently experiencing in our key markets are an opportunity to generate additional growth using our own resources. The fact that we are well positioned in terms of technology, have once again managed to

improve the product range in comparison with the previous year, and our close proximity to customers and high customer retention level should create favourable conditions for developing more strongly than the market as a whole.

Risk management system

The active management of risks is pursued at Sto by means of a comprehensive **risk management system (RMS)**, which forms an integral part of our business, planning, and control processes. This system allows us to identify and analyse risks in good time, assess the expected effects on the finance, income, and asset situation, and have the opportunity to implement appropriate countermeasures where necessary.

The most important component of the RMS is a detailed **reporting system**, which records all operational activities in the Group both in terms of quantity and quality in accordance with a specified scheme. Through constant monitoring of clearly defined key figures, we can identify undesirable developments at an early stage and quickly initiate countermeasures. It is supplemented by a **risk manual** defining various risk categories, guidelines for assessing risks, and procedural instructions for every Group company. This manual is binding throughout the Group. These two instruments are complemented by an annual **risk inventory**, which is used to categorise and document all current risks on a timely basis. There are three risk categories based on a weighted value indicating the level of damage that could be sustained: 'low', 'medium', and 'high'. The weighted damage value is calculated on the basis of the likelihood of damage occurring and the potential consequences for earnings. In terms of the likelihood of damage occurring, there are also three categories: 'below 30 %', '30 % to 60 %', and 'above 60 %'. The managing director of the respective business unit is required to notify the central investment

controlling department immediately of any new risks which are identified in the course of the year.

Sto works with internationally renowned **insurance companies** to insure material property and assets against loss and consequential business interruption caused by unforeseeable events such as fire, explosion, or natural disasters. Third-party liability damage caused by Sto or Sto products is also covered by insurance. We bear minor damage ourselves, while maintaining a sufficiently high coverage against major claims. In spite of our meticulous approach, the insurance coverage may turn out to be insufficient in isolated cases. For this reason, we regularly review the insurance coverage within the Group and perform risk analyses in order to reduce the risk of underinsurance. In this area, we also seek the advice of an internationally operating and experienced industry insurance broker.

Internal control system

Risk and opportunity management in the Sto Group is extended to include an **internal control system (ICS)**. This system covers all principles, procedures, and measures which are intended to ensure the effectiveness, economic efficiency, and reliability of the Group accounting as well as compliance with the relevant legal regulations. Additionally, the ICS includes an internal monitoring system comprising in-process elements and elements independent of the process concerned. One example of an important in-process measure is the 'dual control principle', which is supplemented by automated IT process controls.

The digitised accounting process is controlled using the ERP software SAP, which has been implemented at most Sto companies. It records and processes all issues and data relevant to accounting. Sto SE & Co. KGaA has an electronic workflow in place for centralised invoice processing and archiving, and this has been

gradually rolled out to the majority of subsidiaries. Access to various types of data is clearly regulated and corresponding access restrictions are in place.

A manual containing corporate accounting guidelines, which is regularly updated, provides the basis for drawing up the annual financial statements in accordance with IFRS, which must be included in the consolidated annual financial statement of the Sto Group. This ensures the uniform implementation of valuation and reporting rules throughout the Group. All balance sheets as well as income and cash flow statements drawn up by the subsidiaries and other business fields are audited by the Group accounting department and the central investment controlling department to verify that they are correct, complete, and in compliance with the accounting guidelines.

With regard to the consolidated accounting process, the most important monitoring measure independent of the business processes concerned is auditing of the consolidated annual financial statement of the Sto Group and the incorporated separate financial statements of the Group companies by an external Group auditor. This ensures that inventories are taken correctly and that assets and liabilities are assessed, valued, and reported appropriately. The compulsory measures and accounting records additionally provide reliable and traceable sources of information. Correct accounting is also supported at Sto SE & Co. KGaA by the involvement of other auditing bodies such as the tax audit authorities.

We also ensure the correctness and reliability of our accounting processes by applying specific key figure analyses, and through the processing and control of complex business transactions by different persons. The separation of administrative, executing, accounting, and approval functions, and the performance of these functions by multiple persons ('dual control principle') also reduces the attendant risks.

The regular management meetings between the Group management and the managing directors of the subsidiaries are a further important element of the ICS. A meeting focusing on the annual financial statements takes place for each operationally active subsidiary between the local Management Board, representatives of Group Accounting or Investment Controlling, and, in most cases, the Chief Financial Officer of STO Management SE as a representative of the Group's parent company. The local auditor is also present at this meeting. Additionally, a national control committee – such as the Board of Directors – or the Group auditor may participate in the meeting if necessary.

The rules of procedure for managing directors in the Sto Group include mandatory rules for correct conduct of business processes, which must be adhered to throughout the Group.

The transparency required for the increasingly complex corporate processes is ensured by the Internal Audit department, which also makes allowance for the growing compliance requirements. As an independent department, Internal Audit reports directly to the personally liable partner and to the Chairman of the Supervisory Board. The extensive company compliance system for monitoring adherence to legal requirements and internal corporate guidelines is part of our risk management strategy. The internal publication of the main features of our Compliance Management System in accordance with the latest recommendations of the German Corporate Governance Code was completed at the beginning of the 2019 fiscal year.

In relation to this, a Chief Compliance Officer was appointed for the Sto Group in 2018 and a Code of Conduct was drawn up, the worldwide introduction of which is scheduled for 2019.

The end of 2017 saw the launch of a standardised whistle-blower system for compliance breaches. This is now publicly accessible via our website, www.sto.de, and not only gives whis-

tle-blowers the necessary protection against sanctions, but also provides a platform on which inappropriate practice can be reported, extensively investigated, and resolved – around the clock and with anonymity guaranteed if required. The system is open to employees, managers, customers, suppliers, and other stakeholders alike. It is administered by an independent operator and its data is stored on protected servers located in Germany. The contents of the reports are processed exclusively through Sto.

The effectiveness of the RMS and ICS is regularly examined in accordance with the relevant statutory requirements – externally by our auditor in relation to the accounting process and internally by the Investment Controlling, Group Accounting, and Internal Audit departments. The Supervisory Board and, in particular, the Audit Committee receive regular information from the Executive Board of STO Management SE as well as the auditor and Internal Revision.

Despite every care being taken to prevent them, it is not possible to completely rule out the occurrence of decisions based on personal judgements, flawed checks, criminal actions by individuals, or other circumstances that may impair the effectiveness and reliability of the deployed ICS. Additionally, even seamless application of the deployed systems cannot fully guarantee the correct, complete, and timely recording and reporting of facts in the Group accounting.

The main risks for the Sto Group are presented below in order of decreasing significance:

Dependence on weather conditions

A major proportion of Sto's products is used on the exterior. This means that their application is dependent on weather conditions, something that Sto is unable to influence. In particular, harsh and long winters at the beginning and/or end of a calendar year may result in turnover

losses which may not be fully recovered due to limited processing capacity. The same applies to sustained periods of rainfall and hot spells. Conversely, favourable weather conditions can have a positive effect on business development. In most cases, weather-related fluctuations in turnover also have a significant impact on earnings. Measured in relation to the profit obtained in a year with average weather conditions, they may, in extreme cases, cause earnings before interest and taxes (EBIT) to increase or decrease by as much as EUR 30 million.

Risks in procuring raw materials and external products

To manufacture its products, the Sto Group uses raw materials such as lime, marble and quartz sands, cement, pigments, silicates, silicoes, and water-based dispersion agents. Risks could arise from the concentration tendencies on procurement markets, as well as from political unrest, additional trade barriers, and natural disasters.

There is a price dependency in products that we produce ourselves and external products that are made of raw materials based on crude oil; these include paints, renders, and polystyrene insulation boards, for example, and even our plastic containers (such as Sto pails). The trend regarding these basic raw materials generally used to correlate closely with the price of crude oil. Since then it has become clear that an independent, highly volatile trend is emerging – often influenced by global supply and demand. The demand for numerous speciality chemicals, for which there is a dwindling number of available suppliers around the world, is also set to increase further in the long run – particularly in emerging and developing countries. This will affect titanium dioxide, for example. In the medium to long term, the price trend is expected to continue climbing sharply.

In the Sto Group, strong increases in procurement prices could trigger a significant rise

in material costs. As it is not usually possible to pass price increases on to customers in the short term, this results in a rise in the cost of sales percentage. Based on our experience, costs of sales can increase by up to 2 percentage points, which in turn can result in a decline in earnings of as much as EUR 27 million.

As well as this, a rise in demand for certain raw materials and goods could trigger supply shortages. We confront the resulting risks through advance procurement as well as early contracts with our partners and suppliers. Additionally, the Sto divisions involved in procurement, R&D, and production continually work to optimise the use of materials and make it more flexible in order to ensure a sustainable supply of the raw materials that are needed. To this end, alternative materials and suppliers are also taken into consideration.

In view of the number of items we handle and our procurement volume, external products are becoming increasingly important to Sto. For this reason, we have established an independent group focusing on quality assurance for these products, which is to be gradually expanded. In addition to actually monitoring the quality of external products, we are also ramping up our efforts to conclude quality agreements with specific terms and carry out supplier audits.

Sales risks

As things currently stand, we do not expect future sales of Sto products to present any significant risks over the long term, as the sales potential of facade systems should in principle remain high thanks to a healthy stock of older buildings. Nevertheless, the public debate being held in Germany on the general advantages of facade insulation systems and their ecological impact, has caused investors and, in particular, private building owners to adopt a very cautious attitude. These feelings of uncertainty have been fuelled further by conflicting and, in

some cases, highly exaggerated media reports. The fact that energy prices are currently still relatively low is not very conducive to generating demand. Hence, the entire industrial sector faces the risk of failing to fully exploit sales potential. As the market leader, Sto may feel an above-average impact, which in turn may be reflected in corresponding levels of turnover and income losses.

Qualitätsgedämmt e.V., an association founded by German family-owned businesses of which Sto is also a member, holds the belief that it is possible to bolster the confidence of users and investors in the long term by providing them with objective information and clear explanations of the product properties that facade systems offer. Additionally, this sales risk is mitigated by Sto's success in regional diversification and the long-term upward trend in energy prices, which has made facade insulation an appealing prospect from a financial perspective. The decision-makers' commitment to adhere to the targets of achieving energy savings and CO₂ reductions increases the opportunities for launching relevant incentive measures and for achieving better environmental conditions.

Sto responds to the conflicting and, in some cases, highly exaggerated media reports with objective, fact-based communication, additional quality measures as well as a quality management system that far exceeds the standard level on the market.

We counter the risk of external wall insulation systems being substituted with competing products by continually developing the quality, safety, environmental compatibility, and efficiency of our solutions. Inherent system weaknesses can be recognised through the analysis of product life cycles, allowing deficiencies that arise over time to be detected and eliminated. Continuing technical progress and the knowledge derived from this enable Sto to further develop and improve products and systems.

Overall economic and industry-specific risks

The Sto Group with its facade systems and coatings is dependent on the underlying trends in the construction industry to a substantial degree. Demand in Germany – which remains Sto's largest individual market – plays an important role in this. Here, the sale of building products responds directly to the general level of economic activity as well as to general economic and tax-related conditions. A continued downswing in the main German construction sector may lead to high levels of surplus capacity and intense competition accompanied by strongly declining prices. On the other hand, a sharp rise in demand would be accompanied by the risk that it may not be possible to exploit sales potential to its full extent, at least over the short term, due to factors such as limited capacity in traditional trade enterprises. We counter this economy-based risk mainly through internationalisation of our business activities, which ensures regional diversification and makes us more independent of fluctuations in specific countries. This also puts us in a position to reduce subsidiary risks for the Sto Group resulting from market interest rate changes: significant rises in interest can result in a decline in building investments.

On top of that, difficulties in the recruitment of craftsmen could potentially restrict the capacity of trade enterprises. We are doing everything we can to counter these risks through the varied activities of the Sto Foundation and the Sto Group that are aimed at arming Sto customers with the qualifications they need.

Warranty-related and legal risks

Ongoing research and development activities, and the introduction of innovations, are of strategic importance for the Sto Group. These open up opportunities to develop additional markets and buyer groups, and to reinforce the loyalty of existing customers. In addition, the analysis

of product life cycles contributes to a higher risk transparency.

At the same time, however, innovations can involve risks. While new Sto products or product versions are only ever launched on the market once they have undergone extensive testing, it is not possible to completely rule out the possibility of warranty claims being made against Group companies. We reserve the right to react appropriately to recognised risks through adequate innovations, modification of mature products, or the adjustment of relevant processes.

Where the media reports on systems that use EPS insulation boards are concerned, at present the Sto Group does not believe that there are any significant risks of liability arising from past or future activities. It is particularly worth noting that every case investigated by Sto has met the thermal conductivity (U-value) specifications stipulated in the German Energy Saving Ordinance (EnEV) or funding guidelines. Sto's comprehensive quality assurance measures ensure that our EPS facade insulation boards meet our stringent quality requirements, and will continue to do so in the future.

The US insurance industry currently does not offer any sufficiently comprehensive and economically viable insurance coverage for product risks of facade systems and coatings. The effects of potential damages or liability claims in the USA on the finance and income situation of the Sto Group cannot be assessed reliably on account of the country's legal system. In order to further limit the risks inherent in our activities abroad, we engage the services of external consultants during decision-making procedures, where necessary. This also applies to technical matters.

As the range of products we provide is rounded off by supplementary services, Sto is exposed to legal risk in the form of liability associated with consultancy services. For example, employees of Sto SE & Co. KGaA provide our customers with support in relation to tenders,

quotations, technical issues, and building design details. Sto's in-house Liability Directive instructs all employees on how to handle such issues both internally and in their dealings with customers. This clear set of guidelines has led to a marked reduction in risks.

Risks can arise due to changes in general legal conditions, such as a change to classification and labelling obligations. One of the ways in which we counter these risks is by qualifying alternative raw materials.

Financial risks

In times of recession, there is an increased risk of default on receivables. To limit the financial consequences potentially arising from this, a credit management system has been implemented in the Sto Group. This takes into account the specific conditions prevailing in individual countries. In Germany, the most important component of the system in place is a set of rules containing guidelines for granting and monitoring merchandise credits. Consistent application of these rules will allow us to keep the default quota at a low level even during difficult economic times.

As a result of the internationalisation of its business activities, Sto is exposed to currency risks. We control these risks by means of currency hedges. Relevant risks from foreign currency cash flows are analysed, recorded, and reduced by applying suitable hedging measures; these processes take place throughout the Group. Our main focus is on the currencies of countries where we do not have production equipment, i.e. where regular supply and cash flows are necessary to maintain business operations. In 2018, this applied to countries such as Switzerland, Canada, and the United Kingdom. In specific cases and where necessary, we perform additional hedging.

As a result of seasonal variability, the demand for liquidity to finance current business at Sto is subject to significant fluctuations.

There is a particular need for cash in the first few months of a calendar year, whereas cash inflows dominate during the second half of the year. Risks arising from these fluctuations in payment flows are limited at Sto by the available liquid funds. In addition, Sto has at its disposal an adequate and contractually guaranteed variable credit facility as part of a syndicated loan agreement, amounting to EUR 100 million.

In order to reduce our exposure to liquidity risks, we also maintain intensive communication with our banks and operate an active financial management system. This includes the use of derivatives in the form of interest swaps as a means of reducing the risk of changes in interest rates in the case of long-term, interest-bearing liabilities to banks.

Sto's treasury activities have been pooled and are handled in an independent department. This measure strengthens the recognition and control of financial resources for internal and external financing as well as financial risk management. Hedging strategies and clear rules for financial investments, foreign exchange transactions, and internal and external financing have been defined and introduced across the Group worldwide. In the year under review, the structures and processes underwent further improvement and the financing costs were optimised. Work began on implementing a central treasury management system across the Group, along with Group-wide implementation of a payment transaction system integrated into SAP. The aim here is to further improve transparency and security. The key features of a treasury guideline with a modular structure have been sketched out, with step-by-step expansion and implementation of the guideline set to take place.

IT risks

A global company like Sto can only be managed with the support of complex IT systems. SAP is the central system used within the Sto

Group. Serious malfunctions like system failures, attacks on networks, and loss or manipulation of data have the potential to endanger Sto's supply readiness and result in declines in turnover.

The use of Internet-based systems and cloud-based services is growing, and this is imposing a significant duty of care on us when it comes to integrating information flows and developing our own cloud-based solutions. We have made some preparations for the hybrid IT architecture that we are aiming to have in place so that the systems we use will be able to handle Sto information securely.

The significant increase in threats such as those posed by phishing, ransomware or Trojans makes it necessary to intensify our training measures for employees. Therefore, warnings and recommended courses of action are published on a regular basis within Sto's internal communication channels.

Continuity:

The core systems necessary to the company's operating business, such as SAP and Lotus Notes, are deployed in redundant and fully virtualised form. This ensures maximum continuity of the systems and the appurtenant services. In 2016, a new, state-of-the-art data centre was put into operation. This ensures ample separation between the redundant data centres. The data on the core systems are backed up daily and stored separately.

Integrity:

To prevent unauthorised access to the information systems of Sto SE & Co. KGaA, we use technological security systems that are available on the market wherever possible. Alongside this multiple-step architecture, we also counter the risk by adopting a restrictive approach to issuing access authorisation and prohibiting the storage of company-related information in unauthorised, unprotected areas, such as Internet cloud

systems. This is regulated by a comprehensive IT Policy, with the least privilege principle applying in each and every case. What is more, Sto makes use of services by the Cyber Security Competence Center, provided by the federal association VOICE, in order to stay constantly abreast of the latest information concerning prevailing threats.

Availability:

The redundant configuration of all core operational systems and network connections ensures maximum availability for all key business processes. An automated monitoring system serves to continuously monitor system availability. We counteract risks that might result from difficulty in replacing hardware components or the inability to update software using a gradual strategy of modernising infrastructure in the computing centre and as part of our 'Retrofit' programme. In order to meet the requirements of Industry 4.0 activities in terms of security, the production areas are kept separate from core systems by using special security systems that permit the flow of required data only.

Human resources risks

The expertise and dedication of Sto employees are amongst the key building blocks of corporate success. If, in the light of competition for skilled specialists and managers, we do not succeed in recruiting appropriate personnel, this may have a negative impact on our future corporate development. This risk may become even more serious in the medium to long term due to demographic trends, particularly in western industrialised countries. Not only could the pool of talented young professionals become smaller, but many people may also leave the company for reasons of age which would entail loss of knowledge.

Sto SE & Co. KGaA implements numerous measures to eliminate these risks and position itself as an attractive employer. For example, we

provide extensive career development opportunities as well as excellent further and advanced training, and we take steps to make achieving a good work-life balance easier. This enables us to win over new professionals and executives, as well as foster the sense of loyalty felt by those already working for the Sto Group.

Environmental risks

Production at Sto takes place in modern, largely automated plants. This means that manufacturing processes pose only minor environmental risks. We have also implemented an environmental management system in the Group which is geared to international standards. More information about our environmental protection measures can be found in the section entitled 'Production and procurement' and in the Sustainability Report in this Annual Report.

Risks concerning processes and added value

Events outside of our control, such as natural disasters or other incidents such as fire, can heavily compromise production or operating processes in particular. This could in turn lead to bottlenecks or even stoppages resulting in a deviation from planned production volumes. We counteract such risks by introducing fire precautions, for example, and – when financially viable – by taking out insurance coverage.

Tax-related risks

As a company operating worldwide, Sto is subject to different tax legislations and regulations in various countries. Any changes to these tax rules may lead to higher tax expenses and payments. In addition, changes to laws and regulations can have a significant impact on tax demands and liabilities, and on deferred tax assets and liabilities of the company. Moreover, uncertainty in terms of tax in some regions can restrict the company's ability to exercise its own rights.

Sto also operates in countries with complex tax regulations which could be interpreted in various different ways. Any future interpretation or development of the tax system could impact tax liabilities, profitability, and business activities.

Sto is subject to regular audits by financial authorities in relation to taxes and levies. Tax and duty-related risks are identified and evaluated on an ongoing basis with the support of local, external tax specialists.

Opportunities and risks for business development in 2019

Predictions on future business development are generally subject to major uncertainty. At Sto, one of the major factors to account for is the set of highly volatile general conditions to which the international construction industry is exposed. Furthermore, our planning is based both on our own forecasts concerning trends in currencies that are relevant to Sto, which may also be subject to significant fluctuations, and on the assumption that a stable political environment will prevail. Should these premises prove incorrect, however, then expectations for 2019 may deviate from the actual situation.

Additionally, the risks presented may bring about some short-term influencing factors that may have either a positive or a negative effect on Sto's development. Currently, this includes the ongoing controversial debate surrounding the ecological impacts, fire protection issues, and efficiency associated with facade systems, and surrounding building culture in general. This debate is continuing with no end in sight in the foreseeable future. With this in mind, it is not possible to make a reliable prediction of how EWIS sales will develop. If there are further declines, Sto will be particularly heavily affected given its position as a market-leading company.

The issue of sovereign debt within the eurozone continues to have risks associated with it. Fundamental challenges such as huge debt levels and a loss of trust in some countries have

yet to reach a satisfactory conclusion, or any conclusion at all, meaning that the possibility of a resurgence in the financial and economic crisis cannot be ruled out altogether.

Other uncertain factors are the effects of the austerity measures that local authorities are taking in various European nations (in some cases, on a significant scale) as part of fiscal consolidation efforts. In the affected countries, this could result in a decline in construction investments in the public sector.

If the global economy fares better in 2019 than research institutes have predicted, the demand for raw materials may rise at a disproportionate rate and lead to sharp non-scheduled price increases. These higher costs could be offset by turnover effects resulting from higher demand for construction services and by passing on the costs in the form of higher sales prices. Additionally, opportunities could arise if raw materials prices develop more favourably than assumed in our forecasts.

Energy prices, including in particular the price of crude oil, may lead to risks or opportunities depending on trends going forward, since this will have an impact on the time it takes for energy investments to pay off.

The dependency of the construction industry on the weather remains a significant element of uncertainty. Despite technological progress, extreme weather conditions can still prove a hindrance for construction activities. Conversely, favourable conditions in the winter months, in which work on the construction site is often not possible, can have a positive impact on turnover and earnings.

Government funding has shown to have a positive impact on the sale of facade systems. Therefore, Sto can expect opportunities to arise when new programmes are launched or existing ones are extended. This does, however, require these incentive measures to be designed in a transparent way that is tailored to the relevant target groups. Otherwise, the measures may not

have the corresponding effect and facade product manufacturers may not be compensated for the advance expenses they have incurred. Delays in decisions on the policies underpinning these measures also exacerbate the risk to which providers are exposed, as potential building owners may refrain from making investments, resulting in temporary demand shortfalls.

Provided that the economy performs better than expected in regions where we only make plans with a great degree of caution, 2019 will see opportunities for business development.

Targeted internationalisation of our activities will also open up opportunities for growth, arising from exploiting new markets as well as from more intensive development in countries in which we are already represented.

In the long term, we estimate that opportunities for Sto will outweigh the risks. The need to install energy efficiency measures within buildings in order to reduce CO₂ emissions is set to rise. Furthermore, decision-makers in the area of climate protection are now speaking with one voice. As we also expect to see prices for key fossil fuels to escalate again in the medium term, we believe that facade systems will become increasingly appealing from a financial perspective as well. For Sto, as the leading manufacturer of external wall insulation systems, this means additional sales potential.

Overall risk exposure

The risks are listed below in descending order according to their potential impact on earnings and have been categorised on the basis of their weighted damage value:

Risk type	Risk category
Dependence on weather conditions	high
Risks in procuring raw materials and external products	high

Risk type	Risk category
Sales risks	average
Overall economic and industry-specific risks	average
Warranty-related and legal risks	average
Financial risks	average
IT risks	average
Human resources risks	low
Environmental risks	low
Risks concerning processes and added value	low
Tax-related risks	low

The assessment of the overall risk for the Sto Group is carried out using our risk management system. Following the assessment of current and potential future individual risks, and taking into account the countermeasures already initiated, the Executive Board of the personally liable partner STO Management SE and the Supervisory Board have come to the conclusion that no assessable risks are discernible at present that could have enduring and significant adverse consequences for the asset, income, and finance situation of the Sto Group.

F. Outlook report

Global economy

The many economic and political uncertainties have dampened the outlook for the global economy in 2019. At the beginning of the year, the International Monetary Fund revised its forecast for global economic growth from 3.7 % down to 3.5 % accordingly. The biggest risks include the trade disputes between the US and China, and the US and Europe, US tariffs, increasing protectionism, and the decrease in economic momentum in China. Brexit and the general conditions in Italy and France could also have a dampening effect on the economy.

Growth of 2.0 % is forecast for the industrial nations as a whole, and the USA will be the biggest contributor to this if it grows by the expected figure of 2.5 %. As things currently stand, the eurozone and Japan are – by contrast – set to see below-average expansion of 1.6 % and 1.1 % respectively. The developing and emerging countries are expected to grow by a total of 4.5 %. This will primarily be driven by India and also by China, which is still likely to experience above-average growth in spite of the anticipated slowdown. The IMF anticipates a significant revival of the economy in Brazil. Meanwhile, the Russian economy is – once again – expected to expand only slightly, and the Turkish economy to stagnate completely.

As things currently stand, Germany is expected to suffer an economic downswing as a result of the weaker global economy and Brexit, among other factors. The German Federal Government has significantly adjusted its forecast downward for the current year and is now only expecting to see growth of 1.0 %. As recently as the autumn, an increase of 1.8 % was still on the horizon.

Trends for the international construction industry

In the opinion of the EUROCONSTRUCT network, the **European construction industry** will continue to expand until 2021, although there will be a gradual decrease in the growth rate. Growth is likely to decline significantly in the areas of new residential construction and renovation, in particular. Meanwhile, the civil engineering sector is expected to see a higher percentage rate of growth over the next few years. In the view of the EUROCONSTRUCT experts, the total volume of construction will increase by 2.0 % in 2019. They are expecting to see increases of 1.1 % for residential construction, 1.5 % for non-residential construction, and 4,5 % for civil engineering.

The HDB and ZDB associations believe that construction activity in **Germany** will continue to experience a high level of growth in 2019. Once again, they are expecting to see a nominal sales growth rate of 6 % in the main construction sector. In light of this, an increase of 5.5 % is expected in residential construction, and turnover in both commercial construction and public-sector construction is likely to rise by 6 %.

As things currently stand, the **US** construction industry is expected to grow slightly less strongly in 2019 than in the previous year. According to GTAI, building investments are set to increase by around 5 %. Construction consultants Dodge Data & Analytics expect growth to slow down in virtually every category of real estate, including residential buildings, retail facilities, and warehouses. At best, a slight increase in growth can be expected in office space construction. However, if additional trade tariffs are introduced, this could dampen the forecast.

It is likely that the construction industry in **China** will be able to continue its positive growth in 2019 in spite of the weakening economy. This is mainly attributable to the full order books. According to GTAI, 18 % more residential building projects were started between January and July 2018 than during the corresponding period of the previous year when measured by the amount of living space. Prices are continuing to increase drastically and although this is resulting in a further drop in momentum, the lack of investment options means that the Chinese real estate market should still develop positively.

Projected performance of the Sto Group

Assuming normal weather conditions, Sto expects business development to remain positive in the 2019 fiscal year. **Group turnover** is expected to increase by 4.1 % to around EUR 1,387 million, with growth rates falling in the mid-single digit range in all segments.

The current reporting period got off to a good start thanks to the much better weather conditions than the previous year. Overall, consolidated turnover thus exceeded typical seasonal expectations during the first three months.

As things stand, consolidated earnings before interest and taxes (**EBIT**) are likely to amount to between EUR 81 million and EUR 90 million in 2019, and earnings before taxes (**EBT**) to between EUR 78 million and EUR 88 million. Where the resulting **return on sales** is concerned, we are likely to see a value between 5.6 % and 6.3 %. After allowing for the application of IFRS 16, we expect the return on capital employed (**ROCE**) to be between 13.0 % and 14.6 %.

This forecast is based on the expectation that the global economy will grow, and that the volume of construction will increase globally as suggested, thereby providing a solid foundation for positive development of the Sto Group throughout the world. We are also assuming that we will largely be able to offset further increases in the costs of procuring raw materials and external products in 2019 by higher sales prices for our customers. We are also assuming a largely stable euro rate. From our perspective, there are various uncertainties as a result of the many economic risk factors, particularly in the USA, China, and specific European countries.

The United Kingdom's exit from the EU may have a negative impact on sales figures in the country. We are paying close attention to the exit negotiations that are currently under way. However, we believe that Brexit will not have a significant impact on Sto for reasons including the relatively low business volume that the United Kingdom accounts for.

In the area of facade systems, we expect the business volume to continue growing in 2019. The objective advantages offered by energy-related facade insulation hold significant potential

for EWIS sales across the globe. With this in mind, our range of products meets the very highest quality standards in terms of insulating performance, ecology, cost-effectiveness, fire protection, durability, and design freedom. However, the ongoing debate on the use of external wall insulation systems in Germany may have a negative impact on the industry sector and on Sto as the market leader.

Another aspect that remains unclear is what the political landscape is going to look like in terms of implementing climate protection measures and promoting energy efficiency. Although the need for action was once again affirmed at the International Climate Conference held in the Polish city of Katowice at the end of 2018, the agreed compromise on limiting the increase in global warming does not contain any concrete steps. Nor has Germany yet managed to define how the climate targets laid down at the United Nations Climate Change Conference in Katowice are to be achieved.

We remain in a very competitive position in our other product areas too, and believe that we will see a growth in business volume here in 2019. In our view, the greatest potential for growth lies in interior coatings within the interior products range.

With economic effect from 1 January 2019, Sto SE & Co. KGaA acquired 100 % of the limited partnership shares of Liaver GmbH & Co. KG as well as all company shares of Liaver Beteiligungen GmbH. The company is located in Ilmenau, a city in the German state of Thuringia, and the process of fully consolidating it will commence from the current year. It is one of the few German manufacturers of expanded glass granulates made from recycled waste glass. In addition, Liaver has earned itself a solid international position as an innovative supplier thanks to its highly sound-absorbing, non-combustible, and fibre-free acoustic products. Thus, it is expanding Sto's technological expertise in this business area.

Once again, we are expecting **procurement** bottlenecks to occur in 2019, although the tense situation linked to the high level of demand should improve slightly compared to the previous year. We are expecting further price increases, particularly in relation to insulants, organic binding agents and additives, as well as freight costs.

We have planned a budget of around EUR 43 million for **investments** in property, plant, and equipment, and Intangible assets in 2019 (without including the right-of-use assets according to IFRS 16). The main focal points include the planned construction of a new logistics building at Südwest Lacke + Farben GmbH & Co. KG in Böhl-Iggelheim/Germany. The aim here is to improve the efficiency of logistics at the site as well as that of the finished goods and raw materials warehouses. Moreover, we will once again be investing in the long-term measures that have been developed as part of our 'Retrofit' programme for modernising/replacing the production equipment within the Group. In addition, we will be continuing with the Group production control automation programme that has been running for several years.

In the **HR area**, we are planning to slightly increase the number of employees in line with the company's growth targets. New appointments are planned in countries with medium-term growth prospects. Meanwhile, targeted restructuring measures are once again likely at companies battling difficult general economic conditions. The HR strategy will remain in place without any changes. In 2019, the focus will be on the scheduled Group-wide employee survey, and on the managerial development that will allow us to rigorously exploit and develop the potential that exists within the international organisation.

Turning to the area of **financing**, we do not currently have any extraordinary measures planned for 2019.

Review of strategic direction

The Sto Group has enjoyed long-term success throughout its corporate history. With a view to sustaining this in the years to come, we have decided to start reviewing our strategic direction and aligning it with the challenges and opportunities for Sto, some of which are new. In 2019 and the years that follow, we will be fine-tuning our approach on the market side accordingly and, in particular, intend to improve profitability. Our primary aim of achieving Group-wide income-oriented growth remains unchanged.

Key measures in 2019 will include continuing projects launched during the New Balance programme, which have already produced positive effects on the market side in 2018. After a thorough analysis, we have defined promising areas of growth within which we are targeting investments, are increasingly gearing our worldwide sales activities towards target-group-based segmentation, and have thus begun to optimise our process organisation. In addition, we intend to improve our transaction and project activities.

Alongside the growth initiatives, one of our top priorities is to increase the gross profit margin within the Group in the short term. To this end, we intend to tap optimisation potential in every area of the company – from adjusting the sales prices based on efficiency-enhancing measures in procurement and development right through to optimising the product mix. By concentrating on higher-margin offers and markets, we aim to free up the resources required to bring about an improvement in the quality of our earnings.

We continue to aim for an increase in turnover to EUR 2 billion as well as improved profitability by 2022. In addition to relying on organic growth, we intend to make selective acquisitions where the right opportunities arise. Our strong market position and our success factors provide us with an excellent starting point

for achieving these aims, and by introducing the review of our strategic direction we have put ourselves firmly on the right track at an early stage.

General statement on future development

Sto is one of the leading providers of high-quality facade systems and coatings with an outstanding brand in the industry, an extensive, top-quality product range that takes account of various regional and quality-based requirements, an excellent position on the international stage, and a strong capacity for innovation. We set the pace of technology in the industrial sector and want to reinforce this position over the long term. The factors that reinforce the success we have had in our corporate development include our extensive sales base and our well-qualified, dedicated workforce. For 2019, we are anticipating a 4.1 % growth in turnover and an EBIT of between EUR 81 million and EUR 91 million. We also believe that we will be able to strengthen our robust asset and financial situation even more.

Stühlingen/Germany, April 2019

Sto SE & Co. KGaA
represented by STO Management SE
Executive Board

The Sto share

Sto limited preference share data

Ticker symbol	STO3
ISIN	DE0007274136
WKN	727413
Share category	Non-voting preference share
Market segment	Regulated market
Level of transparency	General Standard
German Securities Exchange sector	Consumer
German Securities Exchange subsector	Home Construction & Furnishings
Number of limited preference shares	2,538,000
Number of non-listed limited ordinary shares	4,320,000

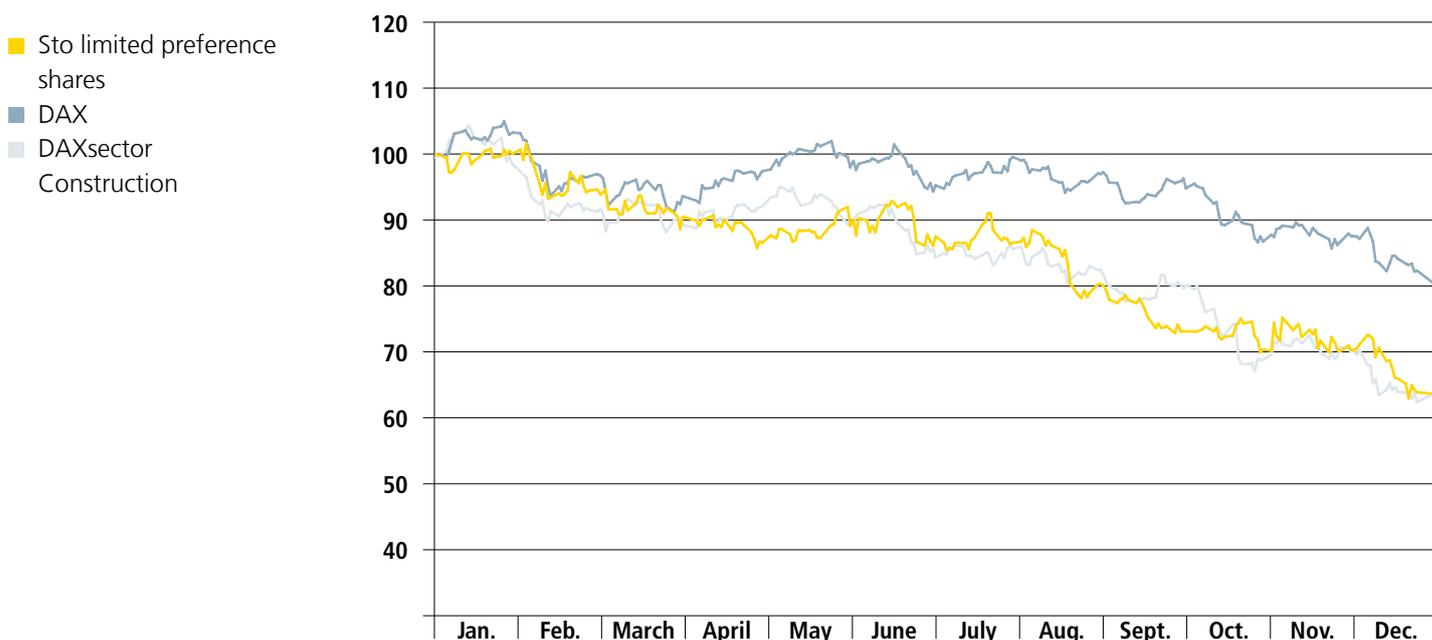
2018 on the stock markets

Stock markets showed a disappointing development in 2018. All major indexes worldwide suffered losses for a variety of reasons. These reasons included the continuous decline in early indicators in the euro zone, the ECB's decision to end its bond purchase programme, political uncertainty with regard to Brexit and Italy, interest rate hikes by the US Federal Reserve, weakening growth in China, and the trade war between the USA and China. The Euro Stoxx 50, which is heavily dependent on world trade, lost around 15 % of its value in the year-end comparison, the American Dow Jones Industrial Index over 6 %, and the Chinese leading index Shanghai Composite just under 25 %.

The DAX was at the bottom of the Western European share indexes, falling by 18.3 % in its first year of losses since 2011. In 2018, the German stock market barometer, which

Share price trend for 2018

(indexed on 30 December 2017 = 100)



is dependent on foreign trade, suffered disproportionately from the trade conflict and the concerns that arose in the course of the year about a global economic slowdown. The outperformance of German second-line stocks that had lasted several years also came to an end for the time being with the global decline in share prices in autumn of 2018. Due in particular to a very weak fourth quarter, the SDAX recorded a loss of around 20 % at the end of the year. Construction stocks in Germany recorded an even more pronounced decline: the Construction sector index of the Frankfurt Stock Exchange dropped by around 36 %.

Sto share declines significantly

The difficult environment in 2018 also impacted the rate of the Sto share. Year-on-year, the stock went down in value by 34.9 %. After a stable start to the year, the highest price in 2018 of EUR 128.00 was already achieved at the end of January. This was followed by a descent until the lowest price of EUR 79.20 was reached on 18 December. At the end of 2018, the share was listed at EUR 82.00.

The market capitalisation of around 2.538 million Sto limited preference shares hence significantly decreased from approx. EUR 319.5 million on 31 December 2017 to EUR 208.1 million at the end of the year under review.

Income situation burdened by high procurement costs

In 2018, Sto SE & Co. KGaA's consolidated turnover rose by 4.3 % to EUR 1,332.4 million. Consolidated earnings were affected by significant cost increases in procurement which could not be offset by raising the sales prices and saving on other expense items. In total, consolidated EBIT decreased by 2.5 % to EUR 81.9 million as compared to the previous year, and the consolidated net profit for the year declined by 3.6 % to EUR 53.8 million.

Sto limited preference share key figures

Values per share in euros

	2018	2017
Earnings per preference share	8.39	8.68
Cash flow from current operating activities	12.56	13.46
Equity	74.31	70.04
Dividend payout per limited preference share		
Dividend	0.31	0.31
Bonus	+ 3.78	+ 3.78
Share price at year end*	82.00	125.90
Year high*	128.00	132.00
Year low*	79.20	90.00
PER (31 Dec)	9.77	14.51
PER (high)	15.26	15.21
PER (low)	9.44	10.37
Capitalisation of preference shares on 31 Dec (in EUR millions)	208.1	319.5

* XETRA closing price

Diluted and basic earnings were EUR 8.39 per limited preference share (previous year: EUR 8.68) and EUR 8.33 per limited ordinary share (previous year: EUR 8.62).

In 2018, the parent company Sto SE & Co. KGaA reported earnings before income taxes (HGB) of EUR 59.3 million and a net profit for the year of EUR 40.8 million. Through its Executive Board, the personally liable partner STO Management SE will propose a total dividend payout, which is unchanged compared to the previous year, of EUR 26,049,060.00 to the Annual General Meeting on 19 June 2019. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and a bonus of EUR 3.78 per share. Limited ordinary shareholders will be paid an ordinary dividend of EUR 0.25 as well as a bonus of EUR 3.78 per share.

Based on the 2018 closing price of EUR 82.00, the proposal would result in a dividend yield of 5.0 % per preference share. Based on the closing price for 2017 of EUR 125.90, this means a yield of 3.3 %.

Trading volume in 2018

The number of Sto SE & Co. KGaA limited preference shares that were traded in the XETRA electronic system of the Frankfurt Stock Exchange in the 2018 fiscal year went down to 541,693, compared with 707,045 shares in the previous year.

Shareholder structure

As at 31 December 2018, it is estimated that more than 50 % of the 2.538 million Sto limited preference shares were in the hands of institutional investors. The remaining shares were free float. The number of non-listed limited ordinary shares remained unaltered at 4.32 million. 90 % of these were held by the Stotmeister family via Stotmeister Beteiligungs GmbH. As at the reference date, the remaining 10 % were held by Sto SE & Co. KGaA.

Sustainability and Corporate Social Responsibility

This report presents the combined non-financial declaration of the Sto Group and Sto SE & Co. KGaA in accordance with Sections 289b and 315b of the HGB (German Commercial Code). It complements the Group management report and the management report of Sto SE & Co. KGaA for 2018, which is part of this Annual Report and is available on the website www.sto.de.

The non-financial declaration provides information on the major factors in the five areas of environmental matters, employee matters, social matters, respect for human rights as well as the combating of corruption and bribery. The declaration is based on the ten principles of the UN Global Compact and describes the corresponding measures, results, and potential risks.

Part A Business model and sustainability management at Sto

The Sto Group

Sto SE & Co. KGaA specialises in products and systems for building coatings and is one of the most important global manufacturers in this industrial sector. In the 2018 fiscal year, the Group, which is listed on the regulated market of the German stock exchange, had 5,333 employees in 49 operating companies as well as its places of operation worldwide and achieved a consolidated turnover of EUR 1,332.4 million.

The product range of the Sto Group is divided into four product groups: the core business of **facade systems** combines external wall insulation systems (EWIS), a segment in which our company occupies a leading position, and rainscreen cladding facade systems (RSC). The product group of **facade coatings** includes external render and paint systems. **Products for interiors** encompass plaster and paint systems

optimised for home and office interiors, decorative coatings, interior claddings, and acoustic systems for regulating sound. Furthermore, Sto produces and sells high-quality floor coatings and products for concrete repair which are attributed to **Other product groups**.

In terms of regions, business activities of the Sto Group are divided into the segments of **Western Europe** and **Other**, with the latter being broken down into the regions of **Northern/Eastern Europe** and **America/Asia** within the internal reporting framework. Our corporate management is primarily focused on these regions.

The Sto business model is oriented towards long-term success. The corporate vision is to be the worldwide technology leader in the sustainable design of living space tailored to human needs. The key foundation for long-term success is sustainable and solid economics, constant progress, and a financially sound footing.

Detailed information on the structure, strategy, and the competitive situation of the Sto Group and the segments is available in the Group management report.

Assuming responsibility

Sustainability and Corporate Social Responsibility (CSR) have been important topics for Sto ever since the company was founded, and they are anchored in our Guiding Principles and are part of our corporate mission 'Building with conscience.' in a condensed form.

A major part of Sto's business model is the contribution that our products make to sustainability in the construction sector, especially to climate protection. We have been developing and selling facade insulation systems for more than 50 years now, and thanks to their efficient building insulation capacity, we have been able to help achieve significant savings in energy through both the refurbishment of existing buildings and the construction of new

Thermal insulation helps to protect the environment

The energy savings from the use of Sto facade insulation systems correspond to around **103 billion litres of heating oil**.



Between 1965 and 2018, facade insulation systems from Sto played a direct role in saving the barely conceivable volume of 103 billion litres of heating oil. With this, Sto has made a notable contribution to global climate protection: the facade insulation systems from the southern Black Forest have managed to avoid around 330 million tonnes of CO₂ emissions. In 2018 alone, Sto products reduced emissions of this combustion gas by around 20 million tonnes.

buildings. The Sto systems that have been installed worldwide since 1965 have resulted in around 103 billion litres of heating oil being avoided up to and including 2018, with the year under review accounting for around 6 billion litres of this figure alone. The resulting reduction in CO₂ emissions totalled more than 330 million tonnes, including approx. 20 million tonnes in 2018. In this way, Sto makes a significant continuous contribution to climate and environmental protection. This also improves the living comfort and quality of the relevant buildings.

Furthermore, our high-quality facade and coating systems protect the building fabric and thus ensure the conservation of value, longevity and resource efficiency of buildings. In the interior, our positive contribution lies above all in health protection and well-being through a wide range of low-emission products and products that are free from harmful substances. Apart from that, we are also addressing new product requirements that arise due to sustainable building concepts and, for example, are intensively working on the subject of a recycling economy as a strategic focal point of our product-related sustainability activities.

Sustainability strategy

In order to strengthen the topic of sustainability in the strategic orientation, to professionalise activities and bundle measures, we established the Sustainability department at Group level in 2012. This department reports directly to the Chief Technology Officer. In addition to our self-imposed claim, which is anchored in our Guiding Principles, we are thus meeting the increased demands of our stakeholders, especially our customers and legislators. The measures include consultations, concepts and instruments to take account of sustainability aspects at product level and in the organisation. These are implemented in all areas of the company: from product development, procurement, production, sales and marketing, to communication. The aim is to identify and address demands and needs in order to create a stable basis for continuous, income-oriented growth and also to make a positive, social contribution which is important for environmental protection.

To ensure that we are ready to face future challenges, we are following the development of megatrends, changes in the market, as well as regulations and laws that are relevant to Sto.

In 2018, we focused our efforts primarily on areas including:

- Germany's Climate Action Plan 2050, the purpose of which is to steer the country towards a largely greenhouse-gas-neutral future
- Topics on compliance with climate action targets which were discussed at the 2018 Katowice Climate Change Conference in Poland
- Global weather events in 2018
- Energy efficiency as a cornerstone of the move towards renewable sources of energy and climate protection plans
- The recycling economy and resource efficiency as elements of resource, climate, and environmental protection
- Operational and product-related environmental protection as a means of conserving ecosystems
- Compliance with strict requirements regarding the use of ingredients which are suspected of being damaging to human health and the environment
- The health and well-being of employees, applicators, and users
- Qualification and training in order to combat a shortage in young talent, and skills
- Commitment to social issues, signalling solidarity and individual support

In terms of the introduction and implementation of voluntary CSR measures we act in accordance with the motto 'think global – act local'. Hence our principles, especially the compliance with the ten principles of the UN Global Compact, apply to all regions and companies worldwide. The specific measures to comply with and promote these principles as well as specific activities to promote sustainable construction may vary locally. They are geared to the respective local needs and circumstances.

Since 2010 we have been conducting annual surveys among all Sto companies on selected

'CSR topics'. This survey covers the relevant training and responsibilities for the individual issues within a company, compliance with social standards, such as the prohibition of child and forced labour, equal treatment of men and women, measures for occupational safety, environmental and resource protection, corruption and violations of the law, donation activities, as well as social commitment. If standards are not complied with and deviations are reported, the measures to be taken are to be described. The information is recorded centrally at Sto and then evaluated. In conjunction with the new CSR disclosure rules and the different levels of maturity regarding sustainability in the various regions and companies, our questionnaire is regularly revised and an extended reporting system for sustainability and CSR in the Sto Group is being implemented. To this end, we identified relevant topic areas and key figures in the reporting period and then evaluated options for data to be recorded centrally using IT-based systems. A decision regarding implementation is expected in 2019.

Structures and regulations for sustainability

Sto has been reporting voluntarily on its CSR activities for many years, based on the ten principles of the **UN Global Compact**, which we joined in 2009. The UN Global Compact is a global strategic initiative for responsible corporate governance and global justice under the auspices of the United Nations. Signatories of the Global Compact commit to aligning their business activities and strategies with ten universally acknowledged principles taken from the areas of human rights, labour standards, environmental protection, and the fight against corruption. They are also committed to supporting the objectives that go hand in hand with this.

Since the 2017 fiscal year, capital market-oriented companies with more than 500 employees and total assets of more than

EUR 20 million or a turnover of more than EUR 40 million in Germany are required to disclose non-financial information. Due to this so-called CSR disclosure rule, we modified our disclosure structure in 2017 and provide more direct and detailed information on the specific aspects we are to cover as part of non-financial reporting (see Part B). We use the UN Global Compact as the basis, which is named in the

European CSR Directive and the explanatory memorandum to the German CSR Directive Implementation Act as one of the international frameworks on the basis of which a CSR report can be prepared.

Furthermore, we have started to align our sustainability activities with the **United Nations' 17 Sustainable Development Goals** (SDGs) adopted in 2015.



We believe we can make the largest contributions to the following of the 17 Sustainable Development Goals:

- Goal 3: Ensure healthy lives and promote well-being for all at all ages.
- Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

- Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
- Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable.
- Goal 12: Ensure sustainable consumption and production patterns.
- Goal 13: Take urgent action to combat climate change and its impacts.



As part of their sustainability initiative 'Sto-Climate', our Austrian company Sto Ges.m.b.H. also published a comprehensive sustainability report about their CSR activities in 2018. This was generated in accordance with the Global Reporting Initiative guidelines (GRI-4 core and extended requirements) and particularly refers to fiscal years 2016 and 2017 in the Austrian market.

Since 2014, Sto has participated in the sustainability initiative **Chemie³** in Germany, which was initiated jointly by the German Chemical Industry Association (VCI), the Mining, Chemical and Energy Industrial Union (IG BCE), and the German Federation of Chemical Employers' Associations (BAVC). It encompasses important guidelines for sustainable development in Germany's chemical industry and provides various tools for implementing these in practice, including the 'Chemie³ Sustainability Check', which Sto is applying in various European Sto companies.

Sto also participated in the activities carried out by the initiative in 2018, and made use of various Chemie³ events to engage in discussions on examples of best practice, and actively helped organise a webinar on sustainability reporting.



The companies of the Sto Group also participate in various sustainability initiatives in their respective countries. For example, we have been involved in the Sustainability Management Initiative (Wirtschaftsinitiative Nachhaltigkeit, WIN) of the State of Baden-Württemberg for many years now, and signed the **WIN charter** in 2014. In addition to the UN Global Compact, Sto is thus committed to twelve guiding principles and goals of sustainable economic activities of companies based in Baden-Württemberg.

In Austria, Sto Ges.m.b.H. is a member of '**respACT** – austrian business council for sustainable development', the leading business platform for Corporate Social Responsibility (CSR) and sustainable development in Austria.



At Sto SE & Co. KGaA, the specifications of external frameworks are complemented by **company-internal guidelines**. In particular, these include the 'Principles of Cooperation and Management within the Sto Group', which we use to translate the general ideas outlined in our Guiding Principles into concrete actions. Furthermore, the following guidelines and principles form an integral part of our thirteen strategic Group goals: 'Corporate Social Responsibility and Sustainability', 'Technology leader through a sustainable product range tailored to human needs', 'Living the corporate culture through management and employees' and 'Promoting a constructive collaboration with employee representatives'. These goals form the basis for our Group-wide strategic planning tool and are assigned appropriate measures.

Key sustainability factors

In addition to the Chemie³ sustainability check we use our **Sustainability Compass** in order to perform a concrete evaluation of single sustainability activities at company and product level. Not only does this tool ensure that all aspects of sustainability are taken into consideration, it also provides a source of support during decision-making processes in accordance with



our corporate mission of 'Building with conscience.'. As different criteria often have to be weighed up, the Sustainability Compass helps us create a four-dimensional mindset encompassing ecology, economy, social aspects, and well-being in order to arrive at the best possible solution. This approach gives a pivotal role to not only the values that define the main areas of focus and the direction in which decisions are made, but also the information that enables analysis and evaluation to remain as objective as possible.

Dialogue with stakeholders

Maintaining dialogue with our stakeholders is an exceptionally important part of our sustainability efforts. We do this in a variety of formats in order to accommodate the many different subjects that are raised, often in specialist or product-specific areas. These include our own colloquiums involving architects, planners, tradesmen, and energy consultants, as well as events held by and with market partners, and a range of trade fairs – another area in which sustainability is becoming an increasingly pressing issue. In 2018, key areas of focus were, for example, dismantling and recycling building materials, the safe use of specific ingredients or avoiding their use, healthy living spaces, and sustainable construction with suitable building products.

Among other things, we consider the awards that Sto wins every year to be acknowledgement of this commitment. In 2018, the company was voted Gold Winner of the Architects' Darling Award in the category of external thermal insulation systems for the third time in a row in Germany. Sto SE & Co. KGaA won the 'Stein im Brett' award for the second time. Since 2017, the Münster-based building information company ibau has been awarding this prize on behalf of skilled tradesmen in Germany. The award is based on a survey of more than 2,500 people who come into contact with

the products and services of the manufacturers on a daily basis. The aim of the market research survey is to find out who has managed to have impress their customers – which equals the German expression of 'Stein im Brett'. There are more than 30 product categories, ranging from acoustics to EWIS. Companies were assessed with regard to quality, price, user-friendliness, and recommendations.

Based on our stakeholder analysis carried out in 2017, we identified the following as relevant stakeholder groups: shareholders, authorities/state, customers/consumers, service providers/suppliers, society/the public, representatives, employees, press/media, and the competition. The 'Stakeholder analysis – sustainability check' process involves determining and documenting stakeholders' requirements and deriving obligations. At the same time, we are meeting the new requirements relating to the recertification of our quality management in accordance with ISO 9001:2015, our environment management system in accordance with ISO 14001:2015, and our energy management system in accordance with ISO 50001:2018. In accordance with the revised standards, organisations need to develop an understanding for their own context, must evaluate opportunities and risks, while paying special attention to including everyone involved in the planning of the management systems. The frequency with which the requirements of interested parties are stated is incorporated into the evaluation of the environmental aspects.

We participate in both national and international **trade associations** to discuss important issues that affect different companies, such as new legislation and sustainability criteria for building products, the harmonisation of product directives, or the grading of hazardous materials. For example, Sto has been a member of the German Sustainable Building Council (DGNB e.V.) since 2008 and has served on its advisory board for building products since 2016.

At association level, Sto takes part in the 'Sustainable Building' working group of Deutsche Bauchemie e.V. (German Association for Manufacturers of Construction-chemical Products), the 'Sustainability' working group of the Verband der deutschen Lack- und Druckfarbenindustrie e.V. (German Paint and Printing Ink Industry Association, VdL), the Verband für Dämmsysteme, Putz und Mörtel e.V. (Association for Insulation Systems, Renders, and Mortars, VDPM), as well as the respective European umbrella associations in each area (such as FEICA, CEPE, EMO, and EAE). Furthermore, Sto has been an active member of the Bundesverband energieeffiziente Gebäudehülle (Federal Association for Energy-efficient Building Envelopes, BuVEG) since 2017. This association promotes the potentials that building envelopes have for the urban culture, good living and work spaces, and the economical use of energy. In Austria, Sto is a partner of the Austrian Sustainable Building Council (ASBC).

Sto also maintains a direct dialogue with non-governmental organisations (NGOs), experts, media representatives, and research institutions. We exchange views on the latest sustainability issues in the construction industry and the specific desires and demands being expressed by society, politics, and our market partners. The Österreichisches Institut für Baubiologie und Bauökologie (Austrian Institute for Building Biology and Building Ecology, IBO) in Vienna and the IG Passivhaus Tirol (Tyrolean Passive House Union), which connects experts from the building industry and would like to establish the passive house concept as a new standard, are doing important scientific and practical work in the fields of building biology and building ecology. Additional key sources of momentum and opinions are provided at and by events held as part of the Chemie³ sustainability initiative as well as those held by the initiating associations VCI, IG BCE, and BAVC, the national networks of the Global Compact,

and the regional meetings of the Wirtschaftsinitiative Nachhaltigkeit (Economic initiative for sustainability).

Product Information

We consider it vital to engage with these environmentally relevant and health-related topics in an open and honest manner, as it is not just down to us to determine how the sustainability of our products is interpreted and evaluated – the opinion and decisions of the public, experts, market partners, and customers also play a role. Comprehensive **information and transparency** on our products, especially with regard to aspects related to the environment and health, aim to provide assistance in this regard.

We provide numerous services that are designed to support customers and market partners in their quest for sustainable solutions. The expert service provided by Sto employees represents the most important element in this. For this reason, we also communicate sustainability to our staff in detail and give them intensive training in handling it. This personal approach to delivering information is accompanied by eco-labels, product declarations, and product data sheets.

Labels & certificates

Environmental labels and certificates such as Der Blaue Engel, TÜV, and natureplus[®] are primarily aimed at end consumers, private consumers, and public procurers. For building certification systems such as the one provided by the DGNB, environmental certificates are often used as proof of a particularly high ecological standard. Products are evaluated based on various criteria defined by the relevant issuing authority.

Sto exclusively uses recognised test seals and seals of quality, and has had a large number of products certified in the areas of thermal insulation, facade coating, and interiors; recertification is carried out where a certifi-

ation has expired. The natureplus® eco-label for EWIS confirms not only that the products efficiently save energy, but also that stricter energy efficiency requirements are fulfilled in the product's production, environmental properties, and substances in the system components. The Blue Angel (Der Blaue Engel) for EWIS certifies the use of materials which result in less of an impact on the environment compared with other products within their product group, and which contain no harmful substances requiring disposal, demonstrate excellent durability, and are installed in accordance with statutory regulations.

A large part of our interior product range carries the TÜV seal of quality awarded by TÜV SÜD – 'low-emission, physiologically harmless, and production monitored' – or has been tested for harmful substances in accordance with Oeko-Tex® standard 100. Several of our products are also natureplus®-certified, meaning that they adhere to the very strictest criteria in respect to their composition, substance prohibitions, substance restrictions (emissions), raw material extraction, pre-product manufacturing, production, and processing. For the Swiss market, we additionally label our interior products with the Swiss eco-label from the Stiftung Farbe (Paints Foundation). Whereas in France, Sto interior products are all labelled with the French VOC label 'Émissions dans l'air intérieur'.



The numerous eco-labels available in the form of private and public product labels are posing an increasing challenge. In most cases, they are only recognised at national level and can therefore only offer added value in a single market. As a result, products that have already

been labelled would then have to be given eco-labels from a range of different regions or their certificates would require additional declarations. This is one of the major reasons why we have stepped up the provision of Sustainability Data Sheets.

Sustainability Data Sheets

The voluntary self-declaration in the form of a Sustainability Data Sheets, which we specifically developed ourselves, plug gaps that may be left by existing product information or eco-labels, and meet the increasing demand for concrete, product-specific data on ecological and health-related criteria. Spanning around four pages, they provide all the key information on the DGNB and LEED building certification systems, as well as substances, emissions, and other environmental aspects. Like our Technical Data Sheets and Safety Data Sheets, our Sustainability Data Sheets are available to download free of charge or can be posted directly to anyone who requests them. Sustainability Data Sheets in 18 different languages were available for over 500 Sto products as at the end of 2018.

Environmental Product Declarations (EPDs)

Environmental Product Declarations (EPD) in accordance with EN 15804 represent a third building block in our efforts to provide information about the sustainability of Sto products. Central to these declarations is a Life Cycle Assessment (LCA) as well as additional information, e.g. about aspects such as the production process, service life, and provisions for recycling of a product over its entire life cycle. EPDs are purely informative and do not assess a product, but require verification from an independent third party. This internationally valid document explains numerous building product properties from an environmental perspective and provides useful data for determining a building's sustainability, a factor that primarily depends on

the building material used. There is a particular demand for EPDs for building certifications on the Scandinavian market as well as for building projects certified in accordance with LEED and DGNB.

We are also increasingly using what are known as sample EPDs for our products. These have been developed in collaboration with various associations on the basis of framework formulations, with each representing a product group. This removes the need for the time-consuming process of calculating and producing individual, product-specific EPDs for every single manufacturer.

As part of its consumer protection efforts, the European Union wishes to promote the provision of individual, product-specific, ecological parameters and launch a standardised eco-label on the European market that is based on a life cycle assessment. To this end, the European Commission initiated the Product Environmental Footprint (PEF) project and various pilot projects from 2013 to 2017, including some on paints and insulation materials that Sto was informed about and some of which Sto was involved in. The EU started a consultation process in 2018 to obtain feedback on the use of existing environmental labels and methods of ecological evaluation of products to allow them to make a decision on the further development of PEF for the evaluation and communication of environmental information after the pilot phase. At the same time, the European Commission set up a technical working group to revise the criteria for life cycle assessments in accordance with the European standard EN 15804 and to verify their compliance with the PEF methodology used.

This development is relevant with regard to the comparison of the environmental performance of individual construction products, in particular the so-called 'grey energy' and the CO₂ balance, as envisaged, for example, by the European Commission or the DGNB. In future, planners, architects and consumers are

to select building products not only according to technical, economic and aesthetic parameters, but also on the basis of concrete environmental information that reflects the complete life cycle of a building product. Sto caters to this development by providing EPDs and by keeping a close eye on and participating in the PEF programme. At the same time, we believe this poses methodical risks and additional costs for our company. In principle, we prefer the comparison of building products at the building level in relation with a specific building project, since building products are intermediate products whose performance and environmental impacts can only be assessed concretely and holistically on the building. Furthermore, a high data quality and uniformity of databases must be guaranteed in order to exclude uncertainties in the calculation and to not distort the direct comparison of construction products. The provision of life cycle assessments on the basis of individual products – sample EPDs would no longer be usable according to the philosophy of direct comparison of individual construction products – involves a great deal of effort, which we would have to take into account and plan for accordingly in a timely manner in terms of personnel and within our organisation.

Part B

Report on the material non-financial aspects based on the ten principles of the UN Global Compact

The 10 principles of the UN Global Compact

Human rights

- 01 Businesses should support and respect the protection of internationally proclaimed human rights.
- 02 Businesses should make sure that they are not complicit in human rights abuses.

Labour

- 03 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- 04 Businesses should uphold the elimination of all forms of forced and compulsory labour.
- 05 Businesses should uphold the effective abolition of child labour.
- 06 Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Environment

- 07 Businesses should support a precautionary approach to environmental challenges.
- 08 Businesses should undertake initiatives to promote greater environmental responsibility.
- 09 Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- 10 Businesses should work against corruption in all its forms, including extortion and bribery.

Information on the principles 1 to 6: Human rights and labour standards

At the end of 2016, the Federal Cabinet adopted the National Action Plan for Business and Human Rights 2016-2020 (NAP), thus implementing the corresponding guiding principles of the United Nations. The aim is to enforce compliance with human rights in global supply chains. In addition to the state's duty to protect, the responsibility of companies is also addressed. The Federal Government expects all companies to integrate the following five core elements of due diligence in the field of human rights in the supply chain into their business processes in a manner appropriate to their size, industrial sector, and position:

- 1) A human rights policy statement
- 2) Procedures for the identification of actual or potential adverse impact on human rights
- 3) Measures to ward off potentially adverse impacts and review of the effectiveness of these measures
- 4) Reporting
- 5) A grievance mechanism

As a concrete goal, the NAP stipulates that by 2020 at least half of all companies in Germany with more than 500 employees will have verifiably integrated the core elements of due diligence in the field of human rights (defined in the NAP in Chapter III) into their business processes. To this end, the German government has developed a monitoring procedure that monitors the progress of companies according to scientific standards. If less than 50 % of companies have implemented the NAP by 2020, the NAP will call for further steps, including legislative measures.

It is important to us that all actors along the value chain are guided by the principle of sustainability, including in particular the observance of international human rights, and labour standards.

Compliance with legal and ethical standards is integral to our understanding of good

corporate governance. The principles laid down in our mission statement and in the UN Global Compact, our 'Principles of Cooperation and Management within the Sto Group', the strategic Group goals as well as the general obligation to comply with the law apply to our own sites and companies.

In order to identify and avoid human rights violations, appropriate data and information are required. Complaints mechanisms that are accessible to those potentially affected are an essential part of providing the necessary data. With the introduction of a whistleblower system for compliance infringements, we have been offering such a standardised complaints mechanism since 2017. This is described in more detail under Principle 10 'Anti-Corruption'. We obtain information on deviations and corresponding countermeasures regarding the ten principles of the UN Global Compact via our annual 'CSR inquiry'.

Our Group-wide value-competence model plays a special role in ensuring ethical, moral and fair conduct. Important values such as 'responsible, trusting, honest' are anchored in this model. In accordance with our four brand values 'Close, Experienced, Performing, and Advanced', we have also described specific behaviours that we expect from our employees and managers. This competence model forms the basis for our employee-oriented processes within the Sto Group worldwide. For example, we use this model when selecting new employees and when evaluating and developing our workforce.

In 2018, we appointed a Chief Compliance Officer for the Sto Group, and have drawn up a Compliance Code, which will be introduced internationally in 2019.

Discrimination based on origin, gender, religion or belief, disability, age or sexual identity will not be tolerated. Detailed information on the topic of diversity can be found in the Corporate Governance Report in this Annual Report.

We also require our suppliers to accept the Global Compact principles and thus assume certain minimum obligations. We procure the majority of our raw materials from countries that have implemented high social standards which they also monitor. Through our 'Supplier Code of Conduct' we generally demand voluntary self-commitment to the above standards and principles, and use a questionnaire to obtain information on the compliance with them. Due to the complexity of today's supply chains, we are evaluating the participation in a suitable industry-specific initiative, such as the chemical industry's 'Together for Sustainability' initiative, to further promote 'Sustainability in the supply chain'.

With regard to our products, we see an important contribution to the observance and consideration of human rights in providing professional and transparent information. We provide information on the correct use of our products as well as their ingredients and harmful substances in our Technical Data Sheets, Safety Data Sheets, and Sustainability Data Sheets which we provide internationally in the language(s) of the respective country.

In a broader sense, socially relevant issues such as **health and well-being** can also be seen from the perspective of human rights and labour standards. Where buildings are concerned, this particularly touches on areas such as thermal and acoustic comfort, indoor air hygiene, and health protection. Sto building products, such as sound-absorbing acoustic panels and paints with a photocatalytic effect, have the potential to make a direct, positive impact on these subjects of concern. At the same time, the ongoing analysis and external monitoring to which we subject our products ensure that applicators and users receive safe goods of excellent quality. Any potentially harmful substances are indicated transparently in Safety and Sustainability Data Sheets as well as Environmental Product Declarations. Many of our products are certified

in accordance with natureplus®, TÜV SÜD, and other eco-labels. This confirms that the impact of raw materials or emissions on health and the environment is either ruled out altogether or reduced to a minimum.

Information on the Principles 7 to 9: Environment

Environmental protection is an essential aspect of our sustainability activities. Our products contribute to minimising the environmental impact of buildings, e.g. through energy-saving insulation measures, the protection of the building envelope, and measures to maintain the building fabric. We are also actively working to minimise the environmental impact of our products, our production and our corporate activities, for example by using renewable energy, using resources sparingly and avoiding waste. We strive for the responsible use and procurement of natural resources (water, energy, materials, and land) in the manufacture and sale of our products and services. Each individual employee is to contribute to the protection of the environment within his or her sphere of responsibility and influence. We also go beyond legal standards and commit ourselves to voluntary environmental and energy management standards such as ISO 14001 and 50001.

Climate protection

We see climate protection as a focal point of our activities. Of particular relevance for the German market is the Climate Protection Plan 2050 adopted by the German government in November 2016. The goal of this plan is to achieve an almost climate-neutral building stock by 2050. This calls for demanding new building standards and long-term renovation strategies for existing buildings as well as a gradual shift away from fossil heating systems. Sto believes that the plan reinforces the direction in which the company is moving, and that its high-quality facade insulation systems do their part to

ensure that the energy demand for buildings is decreased significantly. Since 1965, more than 300 million tonnes of CO₂ emissions have been avoided by the use of Sto products and systems.

In 2016, we introduced an **energy management system** in line with the global ISO 50001 standard in order to provide a methodical tool for recording, implementing, and tracking all the climate protection activities taking place in the Sto Group. In doing so, we have laid the foundations for a continuous improvement process relating to energy efficiency. At the same time we are meeting the legal requirements for performing energy audits in accordance with EN 16247-1. As at the end of 2018, the headquarters of Sto SE & Co. KGaA in Stühlingen/Germany, five production locations, 84 SalesCentres as well as four subsidiaries including external warehouses and branch factories had a certification. The systems that have been implemented ensure that the use and purchase of renewable sources of energy are constantly monitored, and that energy consumption and the CO₂ emissions of our fleet of vehicles are permanently reduced. Energy efficiency measures implemented in buildings and investments are also monitored, and we encourage employees to play an active role in all our initiatives for saving energy. In the context of replacement and new investments in operating resources, machinery and equipment, an examination of energy efficiency in accordance with the state of the art is also taken into account in addition to the technical and economic aspects. Our medium-term goal is to identify verifiable changes via our energy management system.

We have defined the optimisation of energy-related services as an important goal in the Sto Group. To achieve these values, individual projects were defined and action plans were drawn up. Yearly consumption values that are recorded and analysed monthly, form the basis for the determined key figures. Measured by the units audited, we have been able to achieve

total energy savings of around one percent per year since 2014. Fuel consumption accounts for around one third of the total energy consumption of the business units in the realm of the certification. This is why we attach particular importance to the appropriate selection of company cars, balance travel and route planning as well as training for sales representatives on efficient driving. An important element of our energy management system is the network 'Energieeffizient bei Sto' (Energy Efficiency at Sto). This network was founded in 2016 and, via the Verband der Chemischen Industrie e.V. (German Chemical Industry Association), is registered as the official energy efficiency network of the German federal government and representatives of the German economy. It offers a systematic and open exchange of experience and ideas between company units and locations in order to increase energy efficiency. The network members meet twice a year. Measures that have been implemented are presented and discussed as to whether they can be transferred to other locations as well. During the meetings in 2018, it became clear that the technical measures have already been fully exploited in many areas, and the focus must shift to process optimisation in order to realise more energy savings. The Austrian Sto Ges.m.b.H. has taken an alternative path in the implementation of climate protection measures: It records its CO₂ emissions which cannot be avoided through procurement, production, administration and logistics, throughout the entire company, and compensates for them by purchasing CO₂ certificates. The company is thus climate neutral from 2018 to 2021 and supports a hydroelectric project in Uganda as well as a solar and wind energy project in India.

Climate protection on product level

Another measure to protect our climate on product level are our CO₂-neutral products. Based on an Environmental Product Declaration,

we calculate the CO₂ emissions generated during raw material supply and production in the case of these products, and balance the them with emission certificates that benefit a climate protection project. In 2018, the StoCryl BF 700 and StoCryl V 700 products from the StoCretec GmbH portfolio were made climate-neutral via ClimatePartner. Among other things, the relevant certificates are used to support a hydropower project in Madagascar, which contributes to avoiding around 450 tonnes of CO₂. In Austria we also made our products StoColor Sil In and StoColor Climasan for interiors as well as StoColor Lotusan and StoSilco® blue for the facade climate-neutral via certificates of the ecoregion of Kaindorf. Through the targeted build-up of humus in the Kaindorf ecoregion, depleted soils are made fertile again, the water absorption capacity is increased, and wash-offs are reduced. As a result, up to 36 tonnes of CO₂ per hectare of arable land are bound in the form of humus every year and stored in the soil in the long term. Our StoTherm Wood insulation system is not only climate-neutral, but also climate-improving: Photosynthesis and storage of carbon during the growth phase of a tree means that insulation boards made of wood as a raw material compensate significantly more CO₂ than is emitted during its manufacture.



Mobility, logistics, and procurement

Mobility represents a key area of climate protection in terms of reducing kilometres, fuel and CO₂. With the help of modern monitoring systems we optimise truck and transport routes, ensure a solid degree of utilisation, use DHL GoGreen, and promote economical and environmentally conscious driving. By producing building products regionally we avoid many transport kilometres. In Villach/Austria, for example, local production compared with imports from Germany means that 315,000 truck kilometres are avoided at an annual production volume of 8,000 tonnes of material, which corresponds to savings of over 94,000 litres of diesel and a reduction in CO₂ emissions of around 550 tonnes per year. In 2018, Sto Ges.m.b.H. was appointed a 'climate-active mobile partner' for the project 'Tour optimisation and sustainable mobility' and officially belongs to the Austrian network of climate-active energy and mobility professionals.

We are also continuously reducing our emissions through the composition of our passenger car fleet. The average value of CO₂ emissions for newly ordered passenger cars in the Sto Group fell by around 6 % from 127 g/km in 2014 to 119 g/km in 2018, while fuel consumption for the passenger car fleet was reduced by 7.2 % from an average of 6.9 l/100 km to 6.4 l/100 km over the same period. In addition, we are investing in e-vehicles to test new, environmentally friendly forms of individual mobility – not least to secure locations in rural areas where there are hardly any alternatives to individual means of transport. For business trips by train, Sto employees use the BahnCard Business which guarantees mobility in long-distance trains within Germany using 100 % green electricity. In order to avoid travel-related emissions and costs, we have also installed video conference rooms worldwide – in 2018, 33 of these systems were available at 28 locations and are used regularly. In addition,

the use of software solutions for online meetings that can be conducted from the workplace has risen sharply and is at a high level with an average of 250 active users.

With respect to procurement, regional products – wherever this is possible and economically feasible – are given preference in order to keep the transport routes short and the resource consumption low. In Germany, around 72 % of the purchasing volume of the main raw materials, such as mineral extenders, and packaging are procured within a maximum radius of 350 km, and insulation boards usually within a maximum radius of 250-300 km.

Our climate protection activities are also attributable to procurement through the consistent sourcing of certified green electricity from 100 % hydropower. This made it possible to avoid 10,522 tonnes of CO₂ in 2018 when compared to the German electricity mix.

As a manufacturing company that uses raw materials from mining and the chemical industry and that markets its products worldwide, it is unavoidable to have an influence on the environment. However, through conscious handling, we consider the resulting risks to be relatively small and well manageable. Major environmental damage, for example due to unintentional leakage of chemicals, is avoided through high safety standards. Internal environmental officers at the production sites ensure that hazards are identified at an early stage and measures are initiated as quickly as possible.

We see a general, non-insurable business risk in that natural events can influence the supply of raw materials and production. Identifiable risks in our companies due to the effects of weather are recorded via our risk management system. In principle, our sales are subject to weather-related fluctuations in many markets. This risk is explained in the management report.

Environmental management systems

An important element of corporate environmental protection are our established environmental management systems. As at the end of 2018, almost half (15 out of 31) of our production sites worldwide had been externally certified in accordance with international standard ISO 14001. The implemented systems ensure a methodical and verifiable group-wide approach and allow the continuous identification of improvement measures, which is an essential requirement for optimum control of business operations.

Environmental aspects at ISO 14001-certified sites are identified and assessed once a year and cover the entire product life cycle, i.e. from research and development through procurement and production to sales and disposal. Concrete environmental goals are derived from this, e.g. the reduction of waste through optimised processes. The result is validated as part of an internal audit. The process owner is responsible for implementation.

Within the scope of the certificates 9001 and 14001 (DQS-AZ: 003651), no deviations from legal requirements were identified by internal audits in 2018. No deviations are currently reported by the operators. Compliance with the contents of the quality and environmental management systems at the relevant locations, that include occupational health and safety, infrastructure and buildings, security, environmental protection and obligations, has been substantiated through safety-related supervision.

Environmental and resource protection on product level

Aspects of environmental and resource protection also play an important role in our products. The majority of Sto products are coatings which are used to protect buildings. This is, in itself, one of the most important contributions we make towards sustainability as far as durability, weather protection, building preservation, and,

therefore, resource protection are concerned. Without a protection layer, buildings would age much more quickly and then require refurbishment years earlier than anticipated. Additionally, our especially hard-wearing coatings help protect the rain screen of insulated buildings from external influences – an increasingly important factor to consider given the rising number of storms and occurrences of heavy rainfall with accompanying hailstorms worldwide.

We see another challenge in the fact that the positive contribution of Sto products to climate and building protection is not recognised and valued to the desirable extent and is therefore not fully exploited. This applies in particular to the German market. Controversial discussions about the use of external thermal insulation systems have arisen as a result of contradictory and sometimes much exaggerated media coverage with partially inaccurate information. These cause uncertainty among private building owners and have led to losses of business. We counter this sometimes unobjective reporting with technical and factual information and education, for example within the framework of the 'Dämmen lohnt sich' (Insulation is worth it) campaign of Qualitätsgedämmt e.V. (Association for Quality Insulation), in which we are actively involved. We seek a direct dialogue with our stakeholders such as customers, planners, architects, investors, representatives of environmental associations, and politicians, for example in specialist committees for the building industry.

Furthermore, we continuously optimise our products with regard to a better environmental compatibility and health protection. These include the reduction and avoidance of the use of solvents and plasticisers that began in the 1980s, the consistent encapsulation of biocides as film protection agents since 2010, and the early switch-over from the now banned flame retardant HBCD to polymer FR in EPS insulation boards in 2015.

To avoid biocides as film protection agent, Sto offers various solutions, in particular our facade paints StoColor Dryonic and StoColor Lotusan, which use a biomimetic active principle to ensure dry facades that are protected against algae and fungi. The avoidance of biocides is also the topic of 'preservative-free products'. In 2018, this played a major role in the area of in-can preservation of indoor products. With the use of in-can preservatives, the industry has succeeded in ensuring that the majority of paints, varnishes, and other organic coatings are now water-based and solvent-free. The preservation prevents the products from being attacked by bacteria and fungi. In-can preservatives are covered by the Biocidal Products Ordinance and are subject to the two-stage authorisation procedure described therein. At the same time, the demand has risen for preservative-free products without compromising the functionality and shelf life of the products. In order to meet these demands, we have adapted the product property 'preservative-free' for dispersion silicate products. Through our activities in associations, we are at the same time committed to reaching a standardised definition of the term 'free of preservatives', and appropriate handling of preservatives in technically demanding product groups.

Furthermore, a political discussion on the use of titanium dioxide was held in 2018. A procedure for classifying titanium dioxide as a hazardous substance is underway via the European Commission, which was put to a vote within the Commission in 2018. Classifying and labelling all mixtures containing titanium dioxide, including paints and varnishes, as 'presumably carcinogenic by inhalation' would have far-reaching consequences for the marketing, environmental labelling, and disposal of these products and, in our view, appears neither reasonable nor justified since titanium dioxide is not released in powder or dust form by Sto products. By the end of 2018, classification and labelling are to be restricted to powdery

mixtures containing titanium dioxide, but this would nevertheless have practically unimplementable consequences in the waste sector. Together with the relevant associations, we are working to ensure that the use of titanium dioxide is not seen as a material issue, but as a dust issue. Thus, the protection of health against titanium dioxide dust would be regulated and guaranteed within the framework of occupational health and safety, while the safe use of the substance of titanium dioxide in products would remain label-free.

For exteriors, Sto has also been offering StoColor Photosan, an innovative facade coating that actively counteracts environmental pollution and significantly reduces the formation of fine dust. In numerous cities, the statutory limits for fine respirable dust are being exceeded more and more often. This impairs people's quality of life and health. Our surface-active facade paint automatically and effectively breaks down nitrogen oxides and ozone pollution, and can thus make an important contribution to improving the air quality in cities and municipalities.

Our activities to make our products easier and better to dismantle and recycle have again formed a focal point in 2018. We regard this as a major future trend in the construction in-



Ewald Rauter, Head of Product Management at Sto Ges.m.b.H. (left), and Managing Director Walter Wiedenbauer are delighted about the TRIGOS award.

dustry. In particular, these activities include the further development of our innovative facade insulation system StoSustain R, which enables significantly optimised separation, reuse and recycling of the main components by means of a hook-and-loop fastening technology. In Austria, this development received three awards in 2018.

Further approaches for increased resource protection and recycling are the use of recyclates, such as waste glass in StoVentec Carrier Boards and PET in Sto acoustic panels, as well as the selection of raw materials and components that can be recycled as easily as possible and fed back into existing circuits. These include, for example, stainless steel and aluminium in RSC sub-constructions. In addition, packaging materials and uncontaminated, HBCD-free EPS insulation boards are recycled via certified return systems. At the Austrian location in Villach, unused paints, plasters, renders, and adhesives from Austria and abroad are returned to the cycle for recycling production and processed into our own highly recyclable products – at a consistently high quality and to the benefit of the environment. Calculations have shown that a reuse in Villach is more profitable than disposal at the place of origin despite longer transport routes.

We attach special importance to developments in the area of dismantling and recycling methods for external wall insulation systems with polystyrene. In 2018, the implementation of the solvent-based Solvolyse process (CreaSolv® process) for the recycling of EPS insulation materials and other polystyrene products was continued. As part of the 'PolyStyreneLoop Cooperative', a first plant with a capacity for 3,000 tonnes of EPS waste per year is being built in the Netherlands. This means that, in addition to thermal recycling in waste incineration plants, there will also be a material recycling option for EPS waste with HBCD available from 2020.

Furthermore, two research projects were launched in 2018 that focus intensively on the recycling of building products and are actively accompanied and supported by Sto. In cooperation with DECHEMA Gesellschaft für Chemische Technik und Biotechnologie e.V. (DECHEMA Association for Chemical Technology and Biotechnology), the pilot project 'KUBA – Nachhaltige Kunststoffwertschöpfungskette: Pilotfall Kunststoffe in Bauwirtschaft und Gebäuden' (KUBA – Sustainable plastics value chain: Pilot case – Plastics in the building industry and buildings) was initiated. The aim of the project is to develop a concept for the sustainable use of plastics from the building sector and for the recycling of a considerable part of the carbon in building plastics. The pilot project started in December 2018 and is funded by the Federal Ministry of Education and Research (BMBF).

The research project 'RESSOURCE.WDVS – Ressourceneffiziente Nutzung von qualitätsgesichertem Sekundär-EPS sowie der mineralischen Fraktionen aus WDVS' (RESSOURCE.WDVS – Resource-efficient use of quality-assured secondary EPS and mineral fractions from EWIS) is being carried out in cooperation with the Institute for Water, Resources and Environment at Münster University of Applied Sciences. The aim of this project is to develop a collection and recycling concept for EWIS waste which, in addition to developing a suitable processing technology for separating EWIS components, also includes optimised logistics and reliable separation of EPS qualities (HBCD-free / HBCD-contaminated).

Information on Principle 10: Anti-Corruption

All forms of bribery and corruption are unacceptable for us and will not be tolerated. Further details relating to corporate governance at Sto can be found in the Corporate Governance Report in the current Annual Report. We

also require our suppliers to observe the Global Compact principles.

The transparency required for the increasingly complex corporate processes is ensured by the Internal Audit department, which also makes allowance for the growing compliance requirements.

In 2017, Sto introduced a reporting channel in case of compliance infringements. This reporting channel is publicly accessible via our website. Reliable reporting of compliance infringements and the protection of whistleblowers against sanctions are indispensable for effective compliance, as they contribute to the reporting, comprehensive investigation and clarification of possible misconduct. The online compliance reporting system is a secure way of reporting possible infringements. This way, infringements can be recorded at any time any day. The system is open to employees, managers, customers, suppliers, and other stakeholders alike. It is administered by an independent operator and its data is stored on protected servers located in Germany. The contents of the reports are processed exclusively through Sto. More information is available on the landing page of the reporting system on our website www.sto.de.

Part C Assumption of responsibility through voluntary commitment

Social commitment, and donations

Sto attaches great importance to voluntary initiatives and measures that serve the good of society. They form part of our basic understanding of Corporate Social Responsibility and have a long tradition in the company. In 2018, again many activities took place. We will report on a few of them.

The Bright Hill Pre-School in Windhoek/Namibia is one of the international projects that Sto has supported for many years. With our financial support, training as well as construction measures have been successfully implemented in the past. Around 120 children are cared for in the pre-school in the mornings and learn English in particular in order to be able to attend a state school later. The institute also assists old people and those who need help who live in the slums of Windhoek. The grants in 2018 and 2019 are planned primarily for extension buildings in order to improve the working conditions for teachers and to increase the burglar resistance of the facility.

A charitable project in northeastern Morocco was completed in 2018. We had been committed to this project since 2012 and had provided intensive support with planning, materials and know-how. In this region, children are born with a cleft lip, jaw or palate to an above-average degree. Until then, there had been no specialists and no suitable clinics, and not many people can afford the necessary operations in the capital city. With the support of the Lon-

Sto supported a project of the non-profit organisations Operation Smile and Article 25: A special clinic for the treatment of children with malformations was built in the Moroccan city of Oujda. It was insulated with a Sto facade system and features Sto products in the interiors.



don-based non-profit organisations Operation Smile and Article 25, which help disadvantaged people and people in need, a new dental clinic was built in the Moroccan city of Oujda to treat children born with malformations. For the project, Sto provided an external wall insulation system designed to ensure a balanced indoor climate and low energy consumption, easy-to-clean high-quality floor coatings, sound-absorbing acoustic ceilings as well as low-emission wall coatings. The building and the clinic were completed and put into operation at the end of 2018. Every year, the facility will provide professional medical support to over 600 families in the poverty-stricken region.

Since 2017, we have been in a special socio-ecological commitment with the non-profit integration company AfB gGmbH, which specialises in reprocessing discarded IT hardware and returning it into the use cycle. In 2018, over 100 of Sto's decommissioned IT devices, mainly PCs, notebooks, and flat screens, made a contribution to environmental protection and inclusion. The cooperation between Sto and AfB prevented 6,961 kg of iron equivalents, 6,071 kg of CO₂ equivalents, and 18,003 kWh of energy. The latter corresponds to the average

annual electricity consumption of more than eight two-person households. More than 90 % of the hardware handed over was re-marketed, defective devices were dismantled and recycled. By returning the equipment to the economic cycle, electronic scrap is avoided, and natural resources are conserved. In addition, a job for a person with a disability was secured through the equipment donation, as AfB (Work for People with a Disability) is an inclusion company. As at the end of 2018, the IT company employed more than 370 people at 19 locations across Europe, around 45 % of whom had a disability. The partnership with Sto brings the inclusion company one step closer to its vision of creating 500 long-term jobs for people with disabilities.

On behalf of the entire company, Marvin Gatti and Jochen Rohrer from Sto's IT department accept the thanks and the certificate from Tobias Negwer and Maximilian Blum from AfB.



As in the previous year, Sto's annual social project carried out by trainees at the Stühlingen location benefited the association Jung & Alt Mauchen/Germany. This association had planned to build a forest and nature playground in 2018 and was looking for helping hands. For four days, the Sto trainees transformed an overgrown property into a colourful forest playground. Since 2012, the non-profit association has been committed to helping people in the

region to make life easier for the older generation in their familiar rural environment. The association is also active in infant care.

Other Sto companies also place great emphasis on social commitment and embrace it in many different ways. In the USA, for example, Sto Corp. donated a total of USD 60,000 to charitable institutions. In addition, numerous smaller fundraising campaigns took place in 2018. For example, the Austrian Sto Ges.m.b.H. held a fundraising campaign for people in need.

Of particular importance to Sto is the promotion of young talent. The interactive travelling exhibition 'Green up your future', which is dedicated to 'green jobs' for young people, is funded by the Federal Ministry for the Environment, Nature Conservation, Construction and Nuclear Safety, and the European Social Fund. It is making stops in several German cities between 2017 and 2019. In this context, four young Sto colleagues describe how their work is connected to the topics of biomimetics and sustainability. Many short and clever videos show the user what this looks like in practice. For example, these videos demonstrate the Lotus effect, the StoColor Dryonic product and the monitoring of the energy consumption of our new office building using state-of-the-art technology. With this they want to motivate others to take up a profession in the 'green area' and to learn from nature.



The Sto Foundation – future through education

Under the motto 'Wissen hilft' (Knowledge helps), the Sto Foundation has been supporting a range of different national and international charitable projects since 2005. They support young talent in the industry sectors that are particularly important to Sto: The young generation of painters, decorators, and plasterers, as well as those studying architecture and civil engineering. The aim of the foundation is to live up to Sto SE & Co. KGaA's motto of 'Building with conscience.', and it invests in the craftsmanship and academic training of tomorrow's experts. The objective of all these measures is to raise the awareness of construction companies and workers for environmentally compatible and human design of living spaces. Young individuals who require personal or financial support and who distinguish themselves through their outstanding performance, ambition, and remarkable commitment receive financial support.

Knowledge helps: at the second 'Deutsche Fachschultage' (German Technical School Days) in Wuppertal/Germany, apprentices and vocational teachers gained helpful insights into various routes to becoming qualified as a painter and decorator.



The funding amount was upped again with effect from 1 January 2018, as the need and demand for support have increased sharply in recent years. The families of the ordinary shareholders, who contribute to the Foundation's funding pot every year, have each increased the sum they dedicate to the Sto Foundation in equal shares to a total amount of EUR 300,000 per year. The responsible parties already had a total annual budget of EUR 900,000 at their disposal for 2018 to finance national – and increasingly international – funding measures. This move serves as yet another proof of how close the Stotmeister families feel to the company and the Foundation and how committed they are to both. The number of projects funded increased from 43 in 2017 to 53 in the year under review.

The November Reihe (November Talks) was held for the thirteenth time with great success in the architecture funding area at six European universities. Once again, top-class project reports ensured the auditoriums were full, with animated discussions between students and world renowned speakers such as Tatiana Bilbao and Stefan Behling. The numerous presentations on contemporary architecture contribute towards preparing future architects for possible work areas and for professional life and construction practices.

The thirteenth edition of the 'November Reihe' (November Talks) with renowned speakers once again ensured the auditoriums were packed, providing an open exchange between the lecturing architects and the students.



The international summer schools have been supporting students with projects where they do the building themselves all around the world for a long time now. These projects help students learn to develop awareness of the different cultural, social, and energy-related requirements across the globe. The focus is also on aspects of sustainable planning and construction. In Lima/Peru, for example, a workshop for architecture students provided the basis for the design and realisation of a public dining hall with a day-care centre. The community centre being created is making an important contribution to enhancing the district. Additional summer schools in Germany also set up meeting and contact centres for various parts of the community.



International summer schools help student of architecture understand the different cultural, social, and energy-related requirements in relation to design and construction all around the world. In Lima/Peru, developing the design of a community centre made it possible to set the foundation for sustainable development of the 'Alto Peru' quarter.

In the funding area for craftsmanship, the best of the best entered the latest round of the competition 'You've got what it takes!' which has been running since 2012 and where more

than 500 painter and decorator apprentices have been awarded boxes with high-quality tools, and iPads. Not only German and Austrian apprentices won awards – for the first time this year, excellent painter and decorator apprentices from South Tyrol in Italy were also rewarded for their hard work.

For the purposes of the education pyramid of the Sto Foundation, another successful project has been continued: the second 'Deutsche Fachschultage' (German Technical School Days) at the Bergisch University of Wuppertal provided helpful insights into various routes to becoming qualified as a painter and decorator. Under the motto 'Handwerk weiterdenken' (Taking craftsmanship further), around 150 apprentices and vocational teachers came to Wuppertal/Germany. In workshops with topics such as project and process management, quality management, or further education options, they acquired information about potential career paths. The seven state vocational schools for 'Colour and design' who had extended invitations to the event were also provided with important information on the current challenges the trade is facing.

More information on the numerous funding activities being carried out are available at the website www.sto-stiftung.de in the form of text, images, and videos.



In 2018, boxes equipped with high-quality tools were awarded for the first time in the best of the best competition 'You've got what it takes!' in South Tyrol/Italy.

Sto SE & Co. KGaA, Stühlingen/Germany
**Consolidated annual financial statements
of the Sto Group (IFRS)**

- Statement of profit and loss
- Statement of comprehensive income
- Statement of financial situation
- Statement of changes in equity
- Cash flow statement
- Notes

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated statement of profit and loss for 2018

	Notes	2018 EUR	2017 EUR K
1. Revenue	(1)	1,332,369,617.58	1,277,397
2. Changes in product inventories		-199,069.47	-278
3. Other internally generated assets capitalised	(2)	145,610.47	68
Total revenues		1,332,316,158.58	1,277,187
4. Other operating income	(3)	22,925,746.00	27,285
5. Cost of material	(4)	-615,930,964.64	-570,602
6. Personnel expenditure	(5)	-352,261,642.49	-341,800
7. Other operating expenses	(6)	-273,853,074.09	-274,753
EBITDA (earnings before interest, taxes, depreciation and amortisation)		113,196,223.36	117,317
8. Depreciation and amortisation of intangible assets as well as property, plant and equipment	(7)	-31,298,685.80	-33,345
EBIT (earnings before interest and taxes)		81,897,537.56	83,972
9. Earnings from assets accounted for using the equity method	(8)	118,210.63	0
10. Interest and similar income	(9)	726,005.81	726
11. Interest and similar expenditure	(9)	-2,575,396.96	-2,536
EBT (earnings before taxes)		80,166,357.04	82,162
12. Taxes on income and earnings	(10)	-26,356,031.61	-26,338
EAT (earnings after taxes)		53,810,325.43	55,824
of which:			
Share of minority interests		144,312.20	293
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA		53,666,013.23	55,531
Earnings per share basic/diluted in EUR			
Limited ordinary share	(11)	8.33	8.62
Limited preference share	(11)	8.39	8.68

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated statement of comprehensive income 2018

	2018 EUR	2017 EUR K
EAT (earnings after taxes)	53,810,325.43	55,824
Currency translation:		
Currency translation differences	-799,174.80	-6,842
Earnings to be reclassified in the statement of profit and loss in future periods	-799,174.80	-6,842
Revaluation of post-employment benefit obligations		
Gains/losses from the revaluation of defined benefit plans	2,270,697.21	-4,255
Deferred taxes	-491,775.31	1,138
Earnings not to be reclassified in the statement of profit and loss in future periods*	1,778,921.90	-3,117
Other earnings after taxes	979,747.10	-9,959
Total comprehensive earnings after taxes	54,790,072.53	45,865
of which:		
Share of minority interests	186,809.99	309
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA	54,603,262.54	45,555

*For further explanations concerning equity, see Note (20). For further explanations on the revaluation of post-employment benefit obligations, see Note (22).

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated statement of financial position as at 31 December 2018

Assets	Notes	31 Dec 2018 EUR	31 Dec 2017 EUR K
A. Non-current assets			
I. Intangible assets	(12)	47,768,128.67	49,087
II. Property, plant, and equipment	(13)	254,848,007.30	254,297
III. Financial assets accounted for using the equity method	(14)	11,138,210.63	11,020
Fixed assets		313,754,346.60	314,404
IV. Non-current trade receivables	(16)	1,068,668.70	1,208
V. Non-current financial assets	(17)	500,544.60	1,175
VI. Other non-current assets	(18)	334,930.40	416
VII. Deferred tax assets	(10)	20,540,920.54	19,580
Other non-current assets		22,445,064.24	22,379
Total non-current assets		336,199,410.84	336,783
B. Current assets			
I. Inventories	(15)	97,863,118.48	96,740
II. Current trade receivables	(16)	134,701,624.72	124,978
III. Current income tax receivables		2,577,333.16	2,552
IV. Current financial assets	(17)	83,257,458.31	76,454
V. Other current assets	(18)	24,530,949.65	27,668
VI. Cash and cash equivalents	(19)	105,294,493.07	84,422
Total current assets		448,224,977.39	412,814
Total assets		784,424,388.23	749,597

Liabilities	Notes	31 Dec 2018 EUR	31 Dec 2017 EUR K
A. Equity			
I. Subscribed capital	(20)	17,556,480.00	17,556
II. Capital reserves	(20)	57,803,590.41	57,804
III. Revenue reserves and other reserves	(20)	394,546,765.99	367,007
Share attributable to the shareholders of Sto SE & Co. KGaA		469,906,836.40	442,367
IV. Share of minority interests	(21)	7,638,336.97	7,777
Total equity		477,545,173.37	450,144
B. Non-current provisions and liabilities			
I. Provisions for post-employment benefits and similar liabilities	(22)	99,266,936.60	99,094
II. Other non-current provisions	(23)	14,555,083.17	14,625
III. Non-current borrowings	(24)	3,344,538.22	2,032
IV. Non-current trade payables	(25)	151,000.00	355
V. Non-current financial liabilities	(26)	283,000.00	316
VI. Other non-current liabilities	(27)	9,580.71	9
VII. Deferred tax liabilities	(10)	2,099,097.63	2,289
Total non-current provisions and liabilities		119,709,236.33	118,720
C. Current provisions and liabilities			
I. Other current provisions	(23)	45,468,816.77	48,887
II. Current borrowings	(24)	11,459,450.36	9,757
III. Trade payables	(25)	47,154,982.33	46,035
IV. Current income tax liabilities		6,135,170.75	2,240
V. Current financial liabilities	(26)	32,581,467.26	28,472
VI. Other current liabilities	(27)	44,370,091.06	45,342
Total current provisions and liabilities		187,169,978.53	180,733
Total debt capital		306,879,214.86	299,453
Total assets		784,424,388.23	749,597

Sto SE & Co. KGaA, Stühlingen/Germany

Statement of changes in equity as at 31 December 2018

in EUR K	Equity attributable to the shares				
	Subscribed capital	Capital reserves	Revenue reserves	Currency translation reserve	Reserve for pensions
Notes	(20)	(20)	(20)	(20)	(20/22)
As at 1 January 2017	17,556	57,804	380,402	11,521	-26,380
EAT (earnings after taxes)	0	0	55,531	0	0
Other earnings (after taxes)	0	0	0	-6,842	-3,133
Total comprehensive earnings	0	0	55,531	-6,842	-3,133
Dividend payout	0	0	-21,037	0	0
Deposit by associates	0	0	0	0	0
Minority shares from corporate acquisition	0	0	0	0	0
As at 31 December 2017	17,556	57,804	414,896	4,679	-29,513
Effects from the first-time application of IFRS 9 as of 1 January 2018	0	0	-1,015	0	0
Equity as at 1 January 2018 after first-time application effect	17,556	57,804	413,882	4,679	-29,513
As at 1 January 2018	17,556	57,804	413,882	4,679	-29,513
EAT (earnings after taxes)	0	0	53,666	0	0
Other earnings (after taxes)	0	0	0	-799	1,736
Total comprehensive earnings	0	0	53,666	-799	1,736
Dividend payout	0	0	-26,049	0	0
Deposit by associates	0	0	0	0	0
Minority shares from corporate acquisition	0	0	0	0	0
As at 31 December 2018	17,556	57,804	441,499	3,880	-27,777

For further details on equity, see Note (20) et seq.

of the parent company		Share of minority interests	Total equity
Treasury stock	Total		
(20)		(21)	
-23,055	417,848	7,373	425,220
0	55,531	293	55,824
0	-9,975	16	-9,959
0	45,556	309	45,865
0	-21,037	0	-21,037
0	0	96	96
0	0	0	0
-23,055	442,367	7,778	450,144
0	-1,015	11	-1,004
-23,055	441,353	7,789	449,140
-23,055	441,353	7,789	449,140
0	53,666	144	53,810
0	937	43	980
0	54,603	187	54,790
0	-26,049	-337	-26,386
0	0	0	0
0	0	0	0
-23,055	469,907	7,639	477,545

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated cash flow statement for 2018

in EUR K	Notes	2018	2017
1. Cash flow from operating activities			
Earnings before income taxes		80,166	82,162
Depreciation of fixed assets	(7)	31,299	33,346
Earnings from disposal of fixed assets		458	-1,087
Earnings from valuation using the equity method	(8)	-118	0
Net interest income	(9)	1,849	1,809
Income taxes paid		-24,642	-21,644
Change in provisions		-1,046	7,457
Change in net current assets		-7,282	-15,565
Cash flow from operating activities		80,684	86,478
2. Cash flow from investment activities			
Investments in property, plant and equipment, and intangible assets	(12/13)	-31,966	-32,443
Payments for the acquisition of investments consolidated using the equity method		0	-11,020
Payments received from other disposal of intangible assets and plant, property and equipment		540	2,196
Interest payment received		522	579
Disbursements for financial investments		-37,926	-54,000
Deposits from financial investments		32,964	49,723
Cash flow from investment activities		-35,866	-44,965
3. Cash flow from financing activities			
Deposits from minority shareholders		0	96
Taking out of non-current borrowings	(24/31)	2,500	1,000
Payments for non-current borrowings	(24/31)	-61	-1,268
Payments for current borrowings	(24/31)	-3,043	-5,739
Payments received for current borrowings	(24/31)	3,512	2,880
Dividend payout	(11)	-26,386	-21,037
Payments of interest		-714	-784
Cash flow from financing activities		-24,192	-24,852
Changes in cash and cash equivalents due to changes in exchange rates and in impairments due to expected losses on cash and cash equivalents in accordance with IFRS 9		246	-2,310
Cash and cash equivalents at beginning of period	(19)	84,422	70,071
Change in cash and cash equivalents		20,872	14,351
Cash and cash equivalents at the end of period*	(19)	105,294	84,422

The cash flow statement is explained in Note (29).

*Cash and cash equivalents at the end of period equal the item Cash and cash equivalents shown in the balance sheet.

Sto SE & Co. KGaA, Stühlingen/Germany

Notes to the consolidated financial statements

as at 31 December 2018

General information

1. Information on the company

Sto SE & Co. KGaA and its connected, dependent Group companies manufacture and market products, components, and functional systems – energetic and other – which are used in and on buildings and consist of material components and/or coatings. Services aimed at maintaining the value of buildings also form an integral part of the company's scope of product.

The only shareholder of the personally liable partner STO Management SE, Stühlingen/Germany, is Stotmeister Beteiligungs GmbH, Stühlingen/Germany, in which the Stotmeister families have bundled their assigned Sto SE & Co. KGaA limited ordinary shares.

Stotmeister Beteiligungs GmbH is the majority shareholder and ultimate parent company of Sto SE & Co. KGaA. The address of the registered offices of Sto SE & Co. KGaA is Ehrenbachstraße 1, 79780 Stühlingen/Germany. It has been entered in the trade register of the district court of Freiburg under number HRB 711236. Sto SE & Co. KGaA is a listed company. Its limited preference shares are listed in the 'Regulated Market' segment for official trading on the stock exchange operated by Deutsche Börse AG, Frankfurt am Main/Germany as well as Börse Stuttgart AG, Stuttgart/Germany. The other Group companies are engaged in the same business sector as Sto SE & Co. KGaA.

The consolidated annual financial statement and management report of Sto SE & Co. KGaA was drawn up on 12 April 2019 by the personally liable partner STO Management SE and will be forwarded to the Supervisory Board of Sto

SE & Co. KGaA on 17 April 2019 for approval at the Supervisory Board meeting on 25 April 2019.

2. Basis of preparation

Sto SE & Co. KGaA has prepared its consolidated annual financial statement of the Sto Group for the year 2018 in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and the interpretations issued by the IFRS Interpretations Committee (IFRIC). The supplemental commercial regulations according to Section 315e of the HGB were also applied.

All standards and interpretations subject to compulsory application in fiscal 2018 were observed.

Effects of new accounting standards

The accounting principles applied remained largely unchanged from the previous year. The following standards and interpretations, which were applied for the first time in 2018, are an exception.

Standards/ Interpretations	Title	Can be applied from	Effects on Sto
Changes to IAS 40	Transfers of Investment Property	1 January 2018	Not applicable
Changes to IFRS 2	Classification and valuation of share-based payment transactions	1 January 2018	Not applicable
Changes to IFRS 4	Application of IFRS 9 with IFRS 4	1 January 2018	Not applicable
IFRS 9	Financial instruments	1 January 2018	Of importance
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Insignificant
Changes to IFRS 15	Clarifications to IFRS 15	1 January 2018	Insignificant

Standards/ Interpretations	Title	Can be applied from	Effects on Sto
Improvements to IFRS (2014-2016)	Amendments to various IFRS (IFRS 1, IFRS 12, and IAS 1)	1 January 2018	Insignificant
IFRIC 22	Advance payments in connection with foreign currency transactions	1 January 2018	Insignificant

The IFRS 9 introduces a uniform approach to the classification and valuation of financial assets and financial liabilities. As a basis, the standard refers to the cash flow characteristics and the business model according to which these are managed. In addition, the standard provides for a new impairment model based on expected loan defaults compared to loan defaults that have already occurred. IFRS 9 also contains new rules on the application of hedge accounting, which the Group does not apply in 2018 as there are no derivative financial instruments that meet the criteria for an effective hedging relationship.

IFRS 9 is applied for the first time in accordance with the modified retrospective method without adjusting the figures from the previous year. These amendments result in changes to the Group's earnings, financial and asset situation at the first-time application effective 1 January 2018. The first-time application effects of IFRS 9 on equity are shown on the following pages.

First-time application effects of IFRS 9 on equity

Effects on equity	in EUR K
Equity as at 31 December 2017 (before the introduction of IFRS 9)	450,144
Changes in cash and cash equivalents	-194
Changes in financial investments	-165
Changes in other financial assets	-14
Changes in value adjustments to trade receivables	-1,032
Deferred taxes on first-time application effects	401
Equity as at 1 January 2018 (after the introduction of IFRS 9)	449,140

IFRS 15 establishes a comprehensive framework for determining whether and to what extent and at what point in time sales revenue is recognised. It replaces existing guidelines on the recognition of sales revenue, including IAS 18 Revenue, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programmes.

The standard uses a 'five-step model' for turnover recognition according to which the company must first identify whether it has a contract with a customer as defined in the standard. The company's performance obligations explicitly or implicitly defined in the contract must be identified separately and the transaction price to be received by the customer must be allocated to those performance obligations. When control is transferred, sales revenue is recognised either on the basis of a specific point in time or of a time period.

The stipulations of IFRS 15 are applied as of 1 January 2018 using the modified retrospective approach. This did not have any material effect on the opening balance sheet as of 1 January 2018. In accordance with the transitional

provisions of the standard, the comparative year-on-year figures have not been adjusted. In April 2016, the IASB issued clarifying amendments to IFRS 15, which are also mandatory for fiscal years beginning on or after 1 January 2018. In addition, the Group makes use of the simplification regulation of IFRS 15.C7 and IFRS 15.C5(b) and does not reevaluate contracts that were fulfilled or amended before the date of first-time application of 1 January 2018.

IFRS 15 generally results in new quantitative and qualitative disclosures in the notes. However, the application did not identify any material changes with regard to the point in time or the sales revenue amounts, and therefore did not have a material impact on the statement of profit and loss. In the balance sheet, IFRS 15 generally requires separate recognition of contract assets and contract liabilities, which was waived due to immateriality. As of 1 January 2018, no contract assets had to be recognised for service obligations rendered for which no unconditional payment claim exists, or for costs incurred in initiating or fulfilling the contract.

In addition, there were no material changes to the Group's earnings, financial and assets situation at the time of first-time application on 1 January 2018.

A more detailed explanation of the effects on the consolidated annual financial statement due the amendments to the standards can be found under 6. Presentation of the major accounting and valuation policies.

3. International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued but not yet mandatory

Accounting standards not applied early

The IASB and IFRIC have issued additional standards and interpretations. These regulations

were not applied in the reporting period because either recognition by the EU is still pending or the application was not yet mandatory.

The Group intends to apply all standards at the time of their first mandatory application.

Standards/ Interpretations	Title	Can be applied from	Effects on Sto
Changes to IAS 19	Plan change, curtailment or settlement	1 January 2019	Insignificant
Changes to IAS 28	Long-term interests in associates and joint ventures	1 January 2019	Insignificant
Changes to IFRS 9	Early repayment options with negative early repayment penalty	1 January 2019	Insignificant
IFRS 16	Leases	1 January 2019	Significant
Improvements to IFRS 2015 - 2017	Amendments to various IFRS (IFRS 1, IFRS 11, IAS 12, and IAS 23)	1 January 2019	Insignificant
IFRIC 23	Tax risk items from income taxes	1 January 2019	Insignificant

In January 2016, the IASB published the IFRS 16 Leases, which replaces the previous IAS 17 Leases as well as related Interpretations. The IFRS 16 eliminates the previous classification of leases by lessees as operating and finance leases. Instead, IFRS 16 introduces a uniform lessee accounting model under which, at the inception of the lease, lessees are required to recognise a liability equal to the present value of the lease payments to be made, the lease liability and an asset for the right granted to use the leased asset during the lease term, the right to use the leased asset.

As a result, operating leases previously recognised as expenses will in future have to be recognised in the balance sheet. This is largely comparable with the current recognition of finance leases. However, the new standard contains two exceptions for lessees from the

obligation to recognise the leasing contracts in the balance sheet. Leases where the underlying asset has a low value, and short-term leases with a term of up to twelve months, can continue to be recognised as expense.

IFRS 16 is to be applied for fiscal years beginning on or after 1 January 2019. The Group will apply the standard retrospectively in a modified manner for the fiscal year beginning on 1 January 2019, i.e. the previous year's figures will not be adjusted. The Group will apply this standard to contracts previously classified as leases in accordance with IAS 17 and IFRIC 4. The new standard will not apply to contracts that had not previously been regarded as leases according to IAS 17 and IFRIC 4. In addition, it is planned to make extensive use of the simplification regulations existing under IFRS 16 in the transition from IAS 17 to IFRS 16.

The changeover effect mainly affects leased real estate and vehicles, for which no exemption can be claimed for low-value and short-term leases.

With the application of IFRS 16, straight-line expenses for operating leases are replaced by depreciation expenses for the rights of use and interest expenses for the leasing liabilities. An increase in fixed assets and borrowings of around EUR 70 million as well as an increase in depreciation and interest expense on the one hand, and a decrease in other operating expenses on the other are expected. This will result in an increase in EBITDA of around EUR 20 million and in an increase in EBIT of less than EUR one million as well as in a lower ROCE figure and a decrease in the equity ratio of approx. five percentage points. In the cash flow statement, the changed recognition of leasing expenses will lead to a reduction in cash flow from financing activities and an improvement in cash flow from operating activities.

IFRIC 23 Uncertainties over Income Tax Treatments was issued by the IASB in May 2017. The interpretation clarifies the requirements for the recognition and valuation of uncertain income tax items. In assessing the uncertainty, a company has to evaluate whether it is likely that the tax jurisdiction will accept the income tax treatment. The new regulations must be applied for fiscal years beginning from 1 January 2019. The Group is currently assessing which possible effects the application might have on the future assets, financial and earnings situation of the Group.

The amendments to IAS 19 relate to the accounting of plan adjustments, curtailments or settlements made during a reporting period. These amendments stipulate that current service costs and net interests be recalculated for the remaining period if there is a modification, curtailment or settlement of a pension plan during the year. This recalculation must be based on the actuarial assumptions valid at the time of the event. The amendments to IAS 19 must be applied to plan adjustments, curtailments or settlements that occur at or after the beginning of the first fiscal year beginning on or after 1 January 2019. Early adoption is permitted. They only apply to plan adjustments, curtailments or settlements that will be made by the Group in the future. The Group does not expect the application to have substantial effects on the assets, financial and earnings situation.

In October 2018, the IASB issued the amendment standard 'Definition of Significant Amendments to IAS 1 and IAS 8' in order to sharpen the definition of materiality in the IFRS and to harmonise the various definitions in the framework and in the standards. Accordingly, information is material when it can reasonably be expected that its omission, misstatement or concealment will affect the decisions of primary users of general purpose financial statements.

The amendment is mandatory for fiscal years beginning from 1 January 2020. The Group plans to analyse the effects of an application on net assets, financial and earnings situation.

The following new regulations have not yet been approved by the EU:

- *Amendment of the references to the framework concept*
- *Amendments to IAS 1 and IAS 8 - Definition of materiality*
- *Changes to IFRS 3 Business Combinations: Definition of a business*
- *IFRS 17 – Insurance contracts*

The Group has not yet started with the implementation. These changes are not expected to have substantial effects on the assets, financial and earnings situation.

4. Companies consolidated

The consolidated annual financial statement includes Sto SE & Co. KGaA, the national and foreign subsidiaries, joint ventures, and associated companies.

When evaluating the companies consolidated, the joint control, or the type of joint control, no significant evaluations or assumptions were necessary, because the allocation was clear.

In the case of subsidiaries, Sto SE & Co. KGaA is able to exercise a controlling influence as defined in IFRS 10. Control as defined in IFRS 10 exists when an investor has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investee's returns. In the present consolidated annual financial statement, this is the case for shareholdings of more than 50 % without exception. In the case of fully consolidated companies where less than 50 % of capital

shares are held, control was assured via further contractual agreements. This only applied to Sto Gulf Building Material LLC., Dubai/UAE.

In the case of joint ventures, Sto can exercise joint control over another company together with at least one other party via contractual agreements. Joint control is the case when decisions on the relevant activities of the company must be taken unanimously. Depending on the rights and obligations of the parties, joint agreements are either joint operations or joint ventures. In joint operations, the controlling parties have direct rights to the assets and obligations to the liabilities. In the case of joint ventures, the parties with joint control have a share in the net assets of the company by virtue of their status as partners.

In the case of associated companies, Sto SE & Co. KGaA has a material influence on the business and finance policy. This is usually the case when between 20 % to 50 % of the voting rights in a company are held.

The companies in which the capital share was less than 50 % and which were not controlled, are consolidated using the equity method. This applies to Inotec GmbH, JONAS GmbH, and JONAS Farbenwerke GmbH & Co. KG. JONAS GmbH and JONAS Farbenwerke GmbH & Co. KG are held as an indirect investment via Sto BT GmbH, Stühlingen/Germany.

The Slovak STOMIX Slovensko s.r.o was renamed Sto Slovensko s.r.o, the Norwegian Hesselberg Bygg AS was renamed StoCretec Flooring AS, and the German Sto BTJ GmbH was renamed Sto Building Solutions GmbH.

The companies consolidated are disclosed in Note (38) List of subsidiaries and investments. The following fully-consolidated German companies organised as limited-liability entities or as partnerships according to Section 264a of

the HGB have fulfilled the conditions of Section 264 (3) and/or Section 264b of the German Commercial Code (HGB) in terms of preparation facilitation options and disclosure and make use of the exemption rules:

- StoCretec GmbH, Kriftel/Germany
- Innolation GmbH, Lauingen/Germany
- Sto BT GmbH, Stühlingen/Germany
- Verotec GmbH, Lauingen/Germany
- VeroStone GmbH, Eichstätt/Germany
- Gefro Verwaltungs-GmbH & Co. KG, Stühlingen/Germany
- Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany
- Ströher Produktions GmbH & Co. KG, Dillenburg/Germany

5. Consolidation principles

The assets and liabilities of the domestic and non-domestic companies included in the consolidated financial statements are recognised and measured in accordance with the uniform accounting methods.

Receivables and liabilities as well as expenses and income between consolidated companies are netted. Inventories and transactions are adjusted for interim results. The income tax consequences of consolidation are taken into account through the recognition of deferred taxes.

The shares in a joint venture or an associated company accounted for using the equity method are valued according to the same accounting and valuation policies which are also applied to the determination of the share of equity of fully-consolidated companies.

6. Presentation of the major accounting and valuation policies

The current/non-current distinction is observed in the recognition of assets and liabilities. The statement of profit and loss was prepared using

the total cost method. The fiscal year is identical to the calendar year. The consolidated financial statements were prepared in euros. Unless otherwise indicated, all values were rounded up or down in line with commercial rounding to the nearest thousand euros (EUR K).

The consolidated financial statements were generally prepared according to the cost-of-acquisition principle, except for derivatives and assets measured at fair value.

The major accounting and valuation policies applied in preparing the consolidated financial statements are as follows:

Currency translation

Monetary items (in particular, cash and cash equivalents, receivables and liabilities) are first translated at the rate prevailing on the transaction date and then measured at fair value through profit and loss as at the reference date. Non-monetary items recognised at historical cost of acquisition or production are translated using the rate at the time of the transaction.

The financial statements of the consolidated companies prepared in a foreign currency are translated in accordance with the functional currency principle using the modified closing rate method in accordance with IAS 21.

The functional currency is defined as the national currency in question as the companies perform their business independently in financial, economic and organisational terms.

Assets and liabilities were translated at the closing rate, and expenses and income at annual average rates. Equity is translated at historic rates. Any resultant currency translation differences are recognised separately under equity and with no effect on profit and loss until such time as the subsidiary in question is deconsolidated.

The exchange rates used for currency translation are set out in the following table:

EUR 1 =		Closing rate on		Average annual rate	
		31 Dec 2018	31 Dec 2017	2018	2017
AED	United Arab Emirates	4.2039	4.4119	4.3270	4.1845
BRL	Brazil	4.4440	3.9729	4.3085	3.6054
CAD	Canada	1.5605	1.5039	1.5294	1.4647
CHF	Switzerland	1.1269	1.1702	1.1550	1.1117
CLP	Chile	794.3524	738.6330	758.3645	737.7068
CNY	People's Republic of China	7.8751	7.8044	7.8081	7.6290
COP	Columbia	3,717.0885	3,584.3845	3,502.5432	3,379.2622
CZK	Czech Republic	25.7250	25.5400	25.6470	26.3260
DKK	Denmark	7.4673	7.4449	7.4532	7.4386
GBP	Great Britain	0.8945	0.8872	0.8847	0.8767
HUF	Hungary	320.9800	310.1400	318.8900	309.1900
MXN	Mexico	22.4921	23.6612	22.7054	21.3286
MYR	Malaysia	4.7317	4.8536	4.7634	4.8527
NOK	Norway	9.9483	9.8403	9.5975	9.3270
PAB	Panama	1.1446	1.2010	1.1780	1.1393
PLN	Poland	4.3000	4.1709	4.2615	4.2570
RUB	Russia	79.4605	68.8668	74.0416	65.9383
SEK	Sweden	10.2548	9.8438	10.2583	9.6351
SGD	Singapore	1.5591	1.6024	1.5926	1.5588
TRY	Turkey	6.0588	4.5464	5.7077	4.1206
USD	USA	1.1450	1.1993	1.1810	1.1297

Business combinations

Business combinations are accounted for using the acquisition method. The cost of acquisition of a company comprises the sum total of the consideration transferred, measured at fair value at the time of acquisition, and of the shares without a controlling influence (minority interests) on the company acquired. The purchaser values the shares of minority interests of the acquired company, either at fair value or at the corresponding share of the identifiable net assets of the company acquired.

Costs incurred within the scope of a business combination are recognised as expenses and reported as administrative costs. An agreed contingent consideration is recognised at fair value at the time of acquisition. Any subsequent changes to the fair value representing an asset or a liability are either recognised in the statement of profit and loss or in other earnings. A contingent consideration classified as equity is not remeasured, and its settlement at a later date is accounted for in equity.

When the Sto Group acquires a company, the classification and designation of financial assets and liabilities in accordance with the contractual terms and conditions, and the economic circumstances and conditions are assessed.

Goodwill is measured at cost of acquisition on first-time recognition, calculated at the surplus of the consideration transferred and the shares without a controlling influence on the assets acquired and liabilities assumed. Such goodwill is submitted to testing once a year or as needed to determine any impairment in its value (impairment-only approach). If any impairment in the value of the goodwill is established, the corresponding impairment is recognised accordingly. If the consideration transferred is below the fair value of the net assets of the subsidiary acquired, then the difference is recognised with an impact on profit and loss in equity.

In the case of successive corporate acquisitions, the previously acquired equity share is remeasured at fair value at the time of acquisition and the result is recognised through profit and loss.

Leases

The assessment as to whether a contract includes a lease is made at the time of contracting on the basis of the economic content of the contract and calls for an evaluation as to whether settlement of the contractual agreement is dependent on the use of a certain asset and whether the contract grants a right to use the asset, even if this is not explicitly specified.

Leased property, plant, and equipment satisfy the conditions for classification as finance leases in accordance with IAS 17 provided that all the opportunities and risks incidental to ownership of these assets have been transferred to the lessee. In this case, property, plant, and equipment in question are recognised at the lower value, which is either the present value from the mini-

um lease payments or the activated fair value of the assets which is depreciated on a straight-line basis according to the economic useful life. The obligations arising from future lease payments are carried as discounted liabilities.

In the case of operating leases, the lease payments are recognised as expenses directly in the statement of profit and loss.

Intangible assets

Goodwill is not amortised on a scheduled basis, but only on a non-scheduled basis as a result of a lack of recoverability based on an impairment test. For this, the carrying amount of the cash-generating unit (CGU), including the allocated goodwill, is compared with the recoverable amount of the CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the higher value of fair value less cost of sale and the value in use. At the balance sheet date, the recoverable amount was determined on the basis of the value in use.

If goodwill is found to be impaired, its value is adjusted accordingly. If the impairment is greater than the value of the goodwill, the excess amount is distributed across the remaining assets of the CGU.

For the CGUs Sto, Beissier S.A.S, and Ströher, significant due to their existing goodwill, forecasts were made on the basis of external factors with regard to the economic situation in order to determine turnover and gross income. The main forecasts based on internal factors were in each case related to empirical values regarding the 5-year plan, in particular with regard to steady turnover growth in the single-digit percentage range due to growing sales potential, a constant gross profit, a constant discount in-

terest rate per company and a 1 % growth rate for the period beyond the planning horizon.

A 5-year plan as of 31 December 2018 for the fiscal years 2019 to 2023 of the respective CGUs is the starting point for determining the value based on the best possible information available internally and externally. This is based on the expectation of a positive development of demand for thermal insulation as well as on the planning of maintenance investments.

A growth rate of 1.0 % was assumed for all CGUs, as in the previous year, since this sufficiently reflects the uncertainty which increases during this time period.

For discounting the cash flows, the weighted average cost of capital after taxes (WACC after taxes) is used as the discount factor, which differs by country-specific variations. Based on the respective WACC after taxes, the implicit WACC before taxes is determined by iteration. The WACC takes into account both equity costs, which include a risk-free basic interest rate, the respective country risk, and the entrepreneurial risk (market risk premium multiplied by a specific beta factor), as well as borrowing costs. The discount rates before taxes were between 7.8 % and 12.1 % (previous year: 5.8 % to 11.3 %).

The following pre-tax interest rates were used for CGUs which are key CGUs in the sense of goodwill: Sto: 9.3 % (previous year: 7.3 %), Beissier S.A.S.: 10.9 % (previous year: 8.3 %), Ströher: 9.3 % (previous year: 7.3 %).

Management believes that no expected change in key assumptions will cause the carrying amount of the CGU to exceed its recoverable amount.

The essential goodwill items are listed in Note (12).

Research and development costs

Research and development costs were recognised with an impact on profit and loss since capitalisation of the development costs in the form of Intangible assets is not possible under IAS 38 as the requirements are not met. The main tasks of the research and development department are the identification of alternative materials, products, and processes.

Property, plant, and equipment

Property, plant, and equipment are recognised at acquisition or production cost less cumulative depreciation and cumulative impairment losses.

The cost of acquiring property, plant, and equipment comprises the purchase price including import duties and non-refundable purchase taxes as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating.

The production costs for property, plant and equipment comprises the expenditure incurred in utilising goods and services for such a production or manufacture. In addition to the directly attributable costs, this also includes a reasonable share of the necessary overheads.

Depreciation is calculated on a straight-line basis using the following useful lives:

	Useful lives
Buildings	20 to 30 years
Fixtures to land	8 to 12 years
Technical equipment and machinery	8 to 10 years
Other plant, operating and business equipment	3 to 10 years

The useful lives and residual carrying amounts are audited regularly.

Maintenance and small repairs are recognised through profit and loss.

Plants under construction are assigned to property, plant, and equipment and are recognised at their procurement and production costs. Depreciation only takes place from the time of readiness for operation.

Borrowing costs

Borrowing costs which are to be directly assigned to the acquisition, construction or manufacture of an asset for which a substantial period of time is required in order to render the asset ready for its intended use or sale are capitalised as part of the cost of acquisition or production of the relevant asset. All other borrowing costs are recognised as an expense in the period in which they were incurred. Borrowing costs are interest and other costs incurred by a company in connection with taking on debt capital.

The Group did not hold any assets to which borrowing costs were directly allocated. The unallocated portion of borrowing costs was insignificant.

Impairment on property, plant, and equipment, and intangible assets

Property, plant, and equipment, and intangible assets are tested for impairment if there is any evidence that their carrying amount may no longer be recoverable. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recorded with an impact on profit and loss for property, plant and equipment, and intangible assets initially recognised at acquisition or production cost. The recoverable amount is the higher value of the net realisable amount and the value in use.

The net realisable amount is the amount which can be recovered from the sale of the asset in

a customary transaction less the incurred costs, whereas the value in use is the present value of the estimated future cash flows expected from the use of an asset plus the remaining value at the end of its useful life. The recoverable amount is either estimated for an individual asset, if it generates cash and cash equivalents independently from other assets, or for the cash-generating unit in total.

If the impairment no longer exists or has decreased, a reversal of the impairment loss is recognised as income in the statement of profit and loss. No reversal is made to an impairment of goodwill.

Financial assets accounted for using the equity method

The financial assets accounted for using the equity method relate to a joint venture for which a contractual agreement exists regarding the joint control of the company, and to two associated companies.

The shares are first accounted for at their cost of acquisition. Then the carrying amount of the shares is increased or decreased annually to recognise the share of after-tax profits or losses, distributed dividends, impairment, and other changes to equity. In determining an impairment loss for the Group's share in the investment accounted for using the equity method, the difference between the recoverable amount and the carrying amount of the share is recognised in profit and loss as an impairment loss.

Trade receivables and other financial assets

Trade receivables and other originated financial assets were recognised at amortised acquisition costs net of any individual value adjustments and flat-rate value adjustments in accordance with IFRS 9, which take sufficient account of the expected default risk.

The impairment model under IFRS 9 requires the recognition of expected losses and replaces the impairment model under IAS 39, which is based on losses incurred. When valuating impairments in accordance with IFRS 9, the simplified approach was chosen, which leads to the expected impairment of trade receivables over the entire term being taken into account. The model can be applied to financial assets that are valued at amortised costs or at fair value with changes in value recognised in other earnings.

Suitable models for determining default rates were developed to implement the new impairment rules. The starting point for this was an analysis of historical default rates within the Sto Group. These default rates are reviewed annually and adjusted if necessary. The value adjustments in the consolidated financial statements were all recognised in profit and loss, and the amount of impairment losses in accordance with IFRS 9 was mainly the result of overdue items and, in the case of individual value adjustments, based on the existence of objective indications. Defaults on receivables led to a direct derecognition of the receivables in question.

The expected 12-month losses were determined on the basis of credit default swaps in order to calculate the impairment of financial investments. Impairment losses on other financial assets were divided into relationships with suppliers and associated companies. The credit rating by Creditreform was used for the calculation.

Furthermore, credit assessment of customers was carried out by obtaining information from credit agencies and using credit management software, which was also used to determine a credit limit. If the individual credit limit was exceeded, an approval was only given after an examination of the specific case.

All receivables and financial assets were tested for existing impairment and default risks. The default risk for trade receivables increases significantly if they are more than one year overdue.

Inventories

Inventories were recorded at the lower of acquisition or production cost and the net realisable amount. The net realisable amount is the recoverable selling price in the ordinary course of business less the costs of completion and the costs necessary to make the sale.

Costs incurred in bringing the inventories to their location and present condition were recognised as follows:

- Raw materials, processing aids, operating materials, and trading goods
 - Weighted average price
- Finished assets and assets under construction
 - Direct labour and material costs as well as a reasonable share of the production overheads based on the normal capacity of the production equipment net of borrowing costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and credit balance with banks including liquid deposits available at short notice, which can be converted into cash and cash equivalents at any time, with original settlement periods of a maximum of three months and which are not subject to any significant fluctuations in value.

The expected 12-month losses based on credit default swaps were used to determine the impairment of securities, and cash and cash equivalents.

Financial instruments

According to both IAS 39 and IFRS 9, a financial instrument is a contract that gives rise to a

financial asset for one company and a financial liability or equity instrument for another.

Financial instruments result from contractual agreements that do not necessarily have to be drawn up in writing.

IAS 39 defines the following different categories for financial assets:

- Financial instruments measured at fair value through profit and loss
(Fair Value through Profit or Loss = FVtPoL)
- Held-to-maturity financial assets
(Held-to-Maturity Investments = HtM)
- Loans and receivables
(Loans and receivables = LaR)
- Available-for-sale financial assets
(Available-for-Sale = AfS)

IFRS 9 defines the following different categories for financial assets:

- Financial instruments measured at fair value through profit and loss
(Fair Value through Profit or Loss = FVTPL)
- Financial instruments measured at fair value with no impact on profit and loss
(Fair Value through Other Comprehensive Income = FVOCI)
- Financial assets measured at amortised costs of acquisition
(Financial Instruments at amortised costs = FAAC)

Financial liabilities are classified as follows in accordance with IAS 39 and IFRS 9:

- Financial liabilities at fair value through profit and loss (according to IAS 39 Financial Liabilities Held for Trading = FLHfT, according to IFRS 9 Financial Liabilities measured at fair value through profit and loss = FLTPL)
Financial liabilities measured at amortised cost (FLAC)

Financial instruments measured at fair value through profit and loss

Financial instruments at fair value through profit or loss include financial assets held for trading, derivatives as well as financial assets and equity instruments for which the fair value option was exercised upon initial recognition.

Financial assets are classified as held for sale if they had been acquired for the purpose of being sold in the near future. Subsequently, these financial instruments are examined to determine whether the intention to sell still exists. Gains or losses from this category are recognised through profit and loss.

Reclassification to financial instruments measured at amortised costs depends on the nature of the asset and does not affect financial instruments designated at fair value through profit or loss under the fair value option.

Held-to-maturity financial assets

Held-to-maturity instruments in accordance with IAS 39 are non-derivative financial assets with fixed or determinable payments and fixed maturities if the Group has the intention and ability to hold them to maturity and if there is an active market for such assets. After initial recognition, held-to-maturity financial assets are measured at amortised costs of acquisition using the effective interest method. Gains and losses are recognised in profit or loss for the period in which the assets are derecognised or impaired, and through the amortisation process.

Loans and receivables

According to IAS 39, loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised costs of acquisition using the effective interest method net of any impairment losses. Gains

and losses are recognised in profit or loss for the period when the loans and receivables are derecognised or impaired.

In the case of current receivables and liabilities, amortised costs of acquisition equal the nominal or settlement amount in principle.

Available-for-sale financial assets

According to IAS 39, available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and not allocated to any of the three above-mentioned categories. After initial recognition, they are measured at their fair value. Unrealised gains and losses are recognised directly within equity. If such a financial asset is derecognised or impaired, the cumulative gains or losses hitherto recognised within equity are recognised through profit and loss.

Financial instruments measured at fair value with no impact on profit and loss

Financial instruments measured at fair value with no impact on profit and loss in accordance with IFRS 9 comprise equity instruments and debt capital instruments where the business model condition is met, i.e. where the company intends to hold or sell these instruments to generate the contractually agreed cash flows. In addition, the cash flow condition must be met for debt capital instruments, i.e. the cash flows of the financial instrument consist exclusively of interest and principal payments.

Financial instruments in this category are measured at fair value and changes in value or gains or losses are recognised without impact on profit and loss in reserves. When a debt capital instrument is derecognised, the accumulated gains or losses are reclassified to the statement of profit and loss ('recycling'). When an equity instrument is derecognised, any incurred gains or losses remain in reserves.

Financial assets measured at amortised costs of acquisition

Financial assets measured at amortised costs of acquisition are debt capital instruments for which the business model condition is met to the extent that cash flows are generated from the holding, or holding and sale of assets, and for which the cash flows consist exclusively of interest and principal payments.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are recognised at amortised acquisition costs if the Group has the intention and ability to hold them to maturity and if there is an active market for such assets. After initial recognition, held-to-maturity financial assets are measured at amortised costs of acquisition using the effective interest method. Gains and losses are recognised in profit or loss for the period in which the assets are derecognised or impaired, and through the amortisation process.

Financial assets are assigned to one of the above valuation categories upon initial recognition. Where permissible and necessary, they are reclassified at the end of the accounting period.

The Group expects a significant increase in the default risk for a financial asset if contractual payments are more than 365 days overdue. In addition, the Group may in certain cases expect that a financial asset will default if internal or external information indicates that it is unlikely that the Group will receive all outstanding contractual amounts in full before all credit collateral held by it is taken into account. A financial asset is depreciated if there is no reasonable expectation that the contractual cash flows will be realised.

All purchases and sales of financial assets in accordance with normal market conditions are recorded on the trading day, i.e. the day on which the Group assumes the obligation to buy or sell

the asset. These transactions are in accordance with normal market conditions if delivery of the assets takes place within a defined period.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss comprise financial liabilities held for trading as well as other financial liabilities which are initially recognised as financial liabilities at fair value through profit and loss.

The Group has not yet made use of the designation of financial liabilities at fair value through profit and loss.

Financial liabilities at amortised cost

Financial liabilities measured at amortised costs are initially recognised at fair value and subsequently measured using the effective interest method less value adjustments, repayments and taking into account discounts, premiums, and transaction costs.

Gains or losses are recognised through profit and loss upon derecognition or disposal.

A financial liability is derecognised if the obligation underlying the liability no longer exists.

If an existing financial liability is exchanged by some other financial liability of the same lender subject to substantially different contractual terms and conditions, or if the terms and conditions of an existing liability are significantly changed, then such an exchange or modification will be treated as derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognised through profit and loss.

Derivative financial instruments

In the Group, derivative financial instruments are used for hedging of currency risks. The

derivative financial instruments are recognised at their fair value as of the date on which the contract is entered, and are measured in subsequent periods at their fair value with an impact on profit and loss. An asset or liability is recognised depending on whether the fair value is positive or negative.

Derivative financial instruments are currency forwards. These are used to hedge the risk arising from fluctuations in the cash flow of a recognised asset, a recognised liability, a highly probable future transaction, or a currency risk of an unrecognised firm commitment.

The fair value of the currency forwards is calculated on the basis of the current forward exchange rate for contracts with a similar maturity structure.

In the fiscal year of 2018, there were no hedges satisfying the strict hedge accounting criteria.

Treasury stock

Sto SE & Co. KGaA's treasury stock is deducted from equity. The purchase, sale, issue and redemption of treasury stock is not recognised in profit and loss.

Post-employment benefit provisions

Actuarial measurement of the post-employment benefit provisions is based on the projected-unit-credit method for defined benefit plans for pension schemes as defined in IAS 19. Under this method, the pension obligations and acquired entitlements existing at the balance sheet date are determined on the basis of average life expectancy, future salary and pension increases, the expected retirement age, and the expected fluctuation.

Average life expectancy is estimated on the basis of acknowledged biometric models. Actuarial gains and losses are recognised after

the consideration of deferred taxes in other earnings with no impact on profit and loss.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less existing plan assets which are used to directly settle obligations. The plan assets are qualified insurance policies that are protected against access by creditors and cannot be paid out to the Group. Valuation is based on the fair value. As for the pension plan of the Euro companies, this corresponds to the present value of the covered liability.

Other provisions

In accordance with IAS 37, provisions are formed for present liabilities towards third parties from a past event which is likely to result in a future outflow of economic resources, the amount of which can be estimated as accurately as possible.

Provisions are reviewed and adjusted at each balance sheet date.

Provisions in which the interest effect exercises a significant effect in connection with the settlement of the obligation are recognised at the present value of the expected expenses. The discount is based on risk-free interest rates. The settlement amount also includes any expected increase in costs.

If the conditions for setting up a provision are not met but the likelihood of an outflow of resources embodying an economic benefit is not unlikely, the corresponding liabilities are reported under contingent liabilities.

Trade payables and other financial liabilities

Trade payables and other financial liabilities are measured at amortised cost of acquisition. Any differences between historical acquisition costs and the settlement amount are reported in accordance with the effective interest method.

Deferred taxes

As a matter of principle, deferred taxes are recognised for all temporary differences between the tax balance sheet and the consolidated balance sheet.

They are not set up if a temporary difference arises from goodwill or the initial recognition of other assets and liabilities from a transaction (other than a business combination) which affects neither tax earnings nor commercial earnings.

Deferred tax assets which are not expected to be recognised in a defined period of time are value-adjusted. At each balance sheet date, an assessment is made as to whether the asset can be capitalised. In addition, deferred tax assets on tax loss carryforwards are to be recognised if use can be expected.

Deferred tax liabilities are formed for temporary differences arising from shares in subsidiaries, associated companies, and joint ventures unless the parent company is able to control the reversal of the temporary difference and the temporary difference is unlikely to reverse within a defined time period.

Deferred tax assets and liabilities are netted if the deferred taxes relate to one and the same tax payer and the same taxation authority and if there is a legally enforceable right to set off the tax reimbursement claims against tax liabilities.

Deferred taxes are measured in accordance with the applicable national income tax rates expected as of the date of realisation, on the basis of applicable or enacted tax law or the changes to the tax law that can be reliably estimated.

Deferred taxes are recorded as tax asset or expense in the statement of profit and loss unless they relate to other earnings items recognised in

equity that have no impact on profit and loss. In this case the deferred taxes are also recognised in equity with no impact on profit and loss.

Recognition of income and expenses

Revenues from contracts with customers are recognised when control of the goods or services is transferred to the customer.

In the manufacture of products and systems for thermal insulation and building coatings, revenues from contracts with customers mainly result from deliveries of goods, which are generally recognised at the time of delivery. The payment period is usually 30 to 90 days after delivery. In addition, services are provided on a small scale for which the sales revenues are recorded in the period in which the services are rendered. The payment period is usually 30 to 60 days after the service has been rendered.

Some contracts are designed in such a way that both an original delivery of goods and an associated craftsman's service are provided. This is a service obligation to be accounted for as a whole, as the delivery and processing of the materials are related in accordance with the underlying agreement. Revenue is recognised after the complete service has been rendered.

The Group is responsible for providing the statutory warranty for remedying defects that existed at the time of sale. Provisions are set up for the expected utilisation. Furthermore, in very rare cases, the Group grants a warranty that extends beyond the statutory period. This is a separate performance obligation of the Group for which the sales revenues are not recognised as contract liabilities due to insignificance and are recognised with an impact on profit and loss over the contract term.

The amount of revenue recognised corresponds to the consideration expected to be received

by the Group in exchange for the goods or services. If a contractual consideration includes a variable component, the Group determines the amount of the consideration to be received in exchange for the transfer of the goods to the customer. The variable consideration is estimated at the inception of the contract and may be included in the transaction price only if it is highly probable that there will be no significant change in the cumulative amount of revenue and if the uncertainty associated with the variable consideration does not exist.

In determining the transaction price, expected rebates and discounts are separated from the agreed price, both in the case of the separate sale of goods or services and in the case of the combined sale of goods and services, according to the principle of individual valuation, without revenue being recognised for them.

Advance payments received from customers are short-term, i.e. at the inception of the contract it is expected that the period between the transfer of the promised good or service and payment will not exceed one year. Therefore, the Group makes use of the simplification regulation of IFRS 15 and does not adjust the amount of the promised consideration by the effects of a significant financing component.

In addition, the Group makes use of the simplification regulation of IFRS 15.121 and does not disclose any remaining service obligations whose underlying contracts have an expected original term of one year or less. Revenue other than from contracts with customers is recognised if it is probable that economic benefits will flow and if the revenue amount can be determined reliably, irrespective of the time of payment. Revenue is measured at the fair value of the consideration received or to be received, taking into account contractually agreed payment terms, excluding taxes or other levies.

Interest income and interest expenses are recognised for all financial instruments measured at amortised cost using the effective interest rate. This is the discount rate used to discount estimated future cash receipts and payments over the expected term of the financial instrument or, if applicable, a shorter period, to the net carrying amount of the financial asset or financial liability. Interest income is reported in the statement of profit and loss as part of financial income.

Operating expenses are reported upon utilisation of the service or on the date on which they are caused.

For some projects, income and expenses from construction contracts are recognised according to the degree of completion (percentage-of-completion method). The percentage of completion is determined on a pro rata basis according to the costs incurred up to the balance sheet date in relation to the total estimated costs for the project.

Funding from the public sector

Funding from the public sector is recognised in accordance with IAS 20 if there is certainty that the conditions for the funding will be met in the form of conditions and that the funding will be granted.

Expense-related funding is collected through profit and loss in the period in which the expenses to be defrayed are incurred. The conditions to be fulfilled will be reviewed when the grant is called in in order to prevent repayments later on.

Financial guarantees

Financial guarantees extended by the Group are contracts which obligate the making of payments, and indemnify the guarantee holder for a loss arising from a debtor who did not

meet his payment obligations according to the conditions of a debt instrument. Financial guarantees are treated as insurance contracts pursuant to IFRS 4 as contingent liabilities until a claim will become probable. An obligation is then recognised in the balance sheet.

Events after the balance sheet date

Value-enhancing events occurring after the balance sheet date which provide significant information on the Group's situation at the balance sheet date are included in the statement of financial position. Events occurring after the balance sheet date that impact value are disclosed in the notes.

Discretionary decisions by Management

The preparation of the consolidated financial statements requires discretionary decisions by Management, which affect the recognition and valuation of the reported assets, and liabilities, income, and expenses in the period under review.

This affected the segment reporting in accordance with IFRS 8 where the business areas America and Asia were pooled as one segment under Other. This arrangement of segments results from internal management control and internal reporting which follows this control as well as from comparable economic characteristics relating to the products and sales methods that have led to comparable gross profit margins.

Current financial assets included financial instruments that met the business model and cash flow conditions, so that they were classified as financial instruments at amortised costs.

Estimates and assumptions by Management

The preparation of the consolidated financial statements requires Management to make estimates and assumptions on the basis of available

information, which affect the recognition and valuation of reported assets, debt, income and expenses as well as contingent liabilities in the period under review.

In particular, the expected future business development, the circumstances prevailing at the time of preparation of the consolidated financial statements and the development of the global and industry-related environment deemed probable were taken as a basis.

In applying the Group's accounting policies, Management has made the following estimates or assumptions that have a material impact on the valuation in the consolidated financial statements:

- **Impairment of non-financial assets**

If the carrying amount exceeds the fair value, the fair value is compared with the value in use as a further impairment test. The calculation of fair value less cost of sale is based on data from binding sales transactions between independent business partners concerning similar assets or observable market prices less directly attributable costs of selling the asset in question. The discounted cash flow method is used to calculate the value in use. The cash flows are derived from the finance plan for the next five years, but without expansion investments. The value in use is also dependent on the underlying discount as well as on the growth rate.

- **Taxes**

Uncertainties exist concerning the interpretation of complex tax-related regulations, amendments to taxation law as well as the extent and time of origin of earnings taxable at a future date.

On 31 December 2018, the deferred tax liabilities stood at EUR 2,099 K (previous year:

EUR 2,289 K) and the deferred tax assets at EUR 20,541 K (previous year: EUR 19,580 K). The income tax liabilities total EUR 6,135 K (previous year: EUR 2,240 K), the income tax receivables EUR 2,577 K (EUR 2,552 K).

- **Non-current and current provisions**

The assumptions for the calculation of warranty provisions are based on empirical values for complaints and the latest information available. Furthermore, uncertainties arise with regard to pending court cases regarding compensatory damages in terms of compensation payments and the duration of the proceedings. In general, we expect the provision to be utilised only after damage recovery.

- **Pension benefits**

The expense from defined benefit plans after termination of employment and the present value of pension obligations are determined by actuarial calculations based on various assumptions. These parameters include future discount rates, the mortality rate, the expected age of retirement, and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation reacts sensitively to deviations from these assumptions. All assumptions are reviewed at balance sheet date.

In determining the discount rate, Management relies for guidance on the interest rates of corporate bonds in the respective currency with at least an AA rating; these interest rates are adjusted to the expected term of the defined benefit obligation by extrapolation.

The mortality rate is based on publicly accessible mortality tables for the country in question. Future increases in wages and salaries

as well as pensions are based on expected future inflation rates for each country. The expected age of retirement is determined on the basis of company-specific data of the past few years as well as future expectations.

The present value of the performance-oriented liabilities in the amount of EUR 134,377 K (previous year: EUR 133,745 K) will be netted against the fair value of the plan asset in the amount of EUR 35,110 K (previous year: EUR 34,651 K). Post-employment benefit provisions amount to EUR 99,267 K (previous year: EUR 99,094 K).

- **Fair value of financial instruments**

To the extent that the fair value of financial assets and financial liabilities recognised in the statement of financial position cannot be measured by means of data sourced on an active market, it will be determined using measurement methods, including the discounted cash flow method. The input parameters included in the model are based on observable market data as far as possible.

A net receivable of EUR 186 K (previous year: liability of EUR 237 K) resulted from the financial instruments measured at fair value on 31 December 2018.

- **Receivables**

Individual value adjustments, and value adjustments are made in accordance with IFRS 9 for receivables in order to take account of expected losses due to customers' inability to pay. The appropriateness of value adjustments of receivables are assessed on a case-to-case basis and are also based on maturity and experience with regard to defaults in the past, as well as changes in payment behaviour.

On 31 December 2018, the carrying amount of the trade receivables totalled EUR 135,770 K (previous year: EUR 126,186 K).

- **Provisions**

Management is required to make assessments, especially as regards recognition and valuation of warranty provisions. Provisions for warranties are set up if the occurrence of a warranty commitment is considered to be probable. For instance, the assessment of the degree of probability and the extent is based on past experience, external experts, and current information available.

As at 31 December 2018, the carrying amounts of the current and non-current warranty provisions amount to EUR 38,758 K and EUR 9,056 K respectively (previous year: EUR 38,965 K and EUR 9,148 K respectively).

On the date of preparation of the consolidated financial statements there were no significant risks to the underlying assumptions and estimates which would have required significant adjustments of the carrying amounts of the assets and liabilities recognised in the consolidated balance sheet in the following accounting period.

Consolidated segment reporting as at 31 December 2018

Information on geographic segments by sales markets in EUR K	Western Europe		Other			
			Northern/Eastern Europe		America/Asia	
	2018	2017	2018	2017	2018	2017
External revenues	1,024,410	970,751	156,671	151,532	151,289	155,115
Inter-segment revenues	40,880	38,203	1,738	1,415	41	25
Segment turnover	1,065,290	1,008,954	158,409	152,947	151,330	155,139
EBITDA	102,139	103,545	4,554	1,926	6,677	11,459
Depreciation/amortisation*	25,132	26,485	2,687	3,317	3,479	3,543
EBIT (earnings before interest and taxes)	77,007	77,059	1,867	-1,392	3,198	7,916
Interest income	902	840	232	229	381	376
Interest expense	2,978	2,914	322	303	64	37
EBT (earnings before taxes)	74,930	74,985	1,777	-1,466	3,515	8,255
Segment assets	597,444	562,254	84,222	86,444	79,640	78,766
Investments	26,800	27,426	1,973	1,827	3,299	3,487
Employees as at the balance sheet date	4,094	4,050	636	652	603	606

Notes on product groups in EUR K	Facade systems		Facade coatings		Interiors	
	2018	2017	2018	2017	2018	2017
External revenues	634,866	601,501	302,307	307,629	190,728	186,034

Segment reporting is explained in Note (30).

* The depreciation/amortisation of the current year includes EUR 14 K (previous year: EUR 1,622 K) of impairment expenses. Of that amount, EUR 7 K (previous year: EUR 1,075 K) are attributable to Western Europe, EUR 7 K (previous year: EUR 465 K) to North/Eastern Europe, and EUR 0 K (previous year: EUR 82 K) to America/Asia.

Reconciliation/ consolidation booking entries		Group	
2018	2017	2018	2017
0	0	1,332,370	1,277,398
-42,659	-39,643	0	0
-42,659	-39,643	1,332,370	1,277,398
-174	388	113,196	117,317
0	0	31,299	33,346
-174	388	81,898	83,972
-788	-719	726	726
-788	-719	2,575	2,535
-56	388	80,166	82,162
23,118	22,133	784,424	749,597
0	0	32,072	32,740
0	0	5,333	5,308

Other product groups		Group	
2018	2017	2018	2017
204,469	182,234	1,332,370	1,277,398

Notes on the statement of profit and loss

(1) Revenues

For the purposes of segment reporting, revenues are broken down by geographic sales market and business segment.

(2) Other internally generated assets capitalised

As in the previous year, other capitalised, internally generated assets mainly comprise the internally generated asset for constructed Technical equipment and machinery as well as Buildings.

(3) Other operating income

in EUR K	2018	2017
Income from the reversal of provisions and accrued liabilities	6,912	8,617
Income from the reversal of value adjustments to receivables and other assets	5,229	4,200
Income from changes in exchange rates	3,913	3,886
Proceeds from derecognised receivables	416	482
Income from the disposal of assets	423	1,217
Income from recharged expenses to third parties	115	79
Funding from the public sector	76	139
Other operating income	5,842	8,665
Total other operating income	22,926	27,285

Income from asset disposals does not include any special effects in the current fiscal year (previous year: EUR 846 K at VeroStone GmbH).

Funding from the public sector essentially consists of research grants. To some extent, this funding is subject to certain conditions. We assume that we can meet the conditions imposed.

In the previous year, other operating income saw an addition of an extraordinary income of EUR 3,842 K (USD 4,250 K) from the settlement of a court litigation proceeding in the USA.

(4) Cost of material

in EUR K	2018	2017
Raw materials, processing aids, and operating materials	280,745	264,194
Goods purchased	322,323	297,159
Total expenses for raw materials, processing aids, operating materials, and goods purchased	603,068	561,353
Temporary staff	3,375	3,347
Commission production	9,488	5,902
Total expenses for services purchased	12,863	9,249
Total expenses for materials	615,931	570,602

Expenses for commission production were mainly attributable to StoCretec Flooring AS (formerly Hesselberg Bygg AS) to the amount of EUR 5,337 K (previous year: EUR 2,426 K) and to Sto Epitöanyag Kft. to the amount of EUR 1,761 K (previous year: EUR 1,375 K).

(5) Personnel expenditure

in EUR K	2018	2017
Wages and salaries	286,685	278,237
Social security contributions	38,852	39,325
Expenses for social security contributions, and for support	26,725	24,238
Total personnel expenses	352,262	341,800

Expenditure on post-employment benefits primarily comprises additions to the post-employment benefit provisions as stated in Note (22).

In the year under review, approx. EUR 13.5 million (previous year: approx. EUR 14.1 million) were recognised with an impact on profit and loss.

Annual average headcount

Number	2018	2017
Employees	5,164	5,123
Trainees	197	204
Total number of employees	5,361	5,326

(6) Other operating expenses

in EUR K	2018	2017
Selling and marketing costs	129,923	132,919
Administration costs	49,552	48,772
Rental and lease payments	29,591	29,273
Operating costs	29,574	29,378
Value adjustments to receivables and other assets	9,599	9,353
Other staff costs	7,151	6,498
Expenses due to changes in exchange rates	4,630	4,923
Losses from the disposal of non-current assets	881	130
Other expenses	12,952	13,507
Other operating expenses	273,853	274,753

The item Selling and marketing costs mainly includes outbound freight, warranty services as well as advertising and travel expenses.

Value adjustments of receivables and other assets include defaults on receivables of EUR 1,082 K (previous year: EUR 2,260 K) which have not been adjusted as well as additions to value adjustments.

Expenses from currency translation changes primarily comprise exchange rate losses arising between the date of the transaction and date of payment as well as currency translation losses using closing rates.

(7) Depreciation/amortisation

The amortisation of intangible assets and the depreciation of property, plant, and equipment are analysed in the appropriate parts of these Notes.

(8) Earnings from financial assets accounted for using the equity method

Earnings from financial investments accounted for using the equity method amounts to EUR 118 K (previous year: EUR 0 K) in the year under review.

(9) Net interest income

in EUR K	2018	2017
Other interest and similar income	726	726
Interest and similar expenses	-760	-667
Interest expense for post-employment benefit obligations	-1,590	-1,634
Compounding interest of other non-current provisions and liabilities	-214	-221
Interest expense for finance leases	-11	-13
Total net interest income	-1,849	-1,809

(10) Taxes on income and earnings**Breakdown of tax expense**

in EUR K	2018	2017
Actual domestic tax expense	19,310	16,765
Actual non-domestic tax expense	8,280	10,866
Actual tax expense	27,590	27,631
of which off-period tax expense	984	-31
Expense/income from reversal of tax liabilities (off-period)	-5	-44
Actual taxes on income and earnings	27,585	27,587
Deferred tax income/expense, domestic	-1,133	-717
Deferred tax income/expense, non-domestic	-96	-532
Deferred tax income/expense	-1,229	-1,249
Income tax expense reported	26,356	26,338

In the 2018 assessment period, the statutory corporate tax in Germany was levied at a rate of 15.0 %, which is the same as in the previous year. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 28.6 % (previous year: 28.6 %).

The local income tax rates for foreign companies ranged between 0 % and 34.0 % (previous year: 0 % to 35.7 %). Deferred taxes were measured using the tax rates valid or enacted as of the balance sheet date.

In 2018, the realisation of tax loss carryforwards from previous years that had not been subject to deferred taxes, led to a reduction in current taxes on income and earnings of EUR 183 K (previous year: EUR 50 K).

Tax loss carryforwards were valued at EUR 25,210 K (previous year: EUR 22,484 K). Tax loss carryforwards of EUR 18,317 K (previous year: EUR 15,969 K) are available for an indefinite period, while EUR 4,321 K (previous year: EUR 4,063 K) may only be utilised within

five years, and EUR 2,572 K (previous year: EUR 2,452 K) only within ten years.

Of the tax loss carryforwards, a sum of EUR 14,751 K (previous year: EUR 14,339 K) is assumed to not be available for the time being. Of these, EUR 7,858 K (previous year: EUR 7,959 K) are available for an indefinite period, while EUR 4,321 K (previous year: EUR 3,928 K) may only be utilised within five years and EUR 2,572 K (previous year: EUR 2,452 K) only within ten years.

Of the tax loss carryforwards rated available, EUR 7,470 K (previous year: EUR 5,173 K) were attributable to companies whose earnings for the year of 2018 was negative. As the affected companies are mainly those companies with a profit history and as the earnings plans of the affected companies for the following years are positive, the tax loss carryforwards in the corresponding amount were classified as available.

A total of EUR 795 K (previous year: EUR 1,061 K) of deferred tax income accounted for temporary differences and tax rate changes. Deferred tax income from temporary differences amounts to EUR 830 K (previous year: EUR 3,086 K).

Deferred tax expenses from changes to the tax rates amount to EUR 35 K (previous year: EUR 2,025 K). In the previous year, the effects from the change to the tax rate mainly affected the Group companies in the USA (tax rate reduction from 37.6 % to 23.1 %) and in France (tax rate reduction from 33.3 % to 28.0 %) and were attributable to announced tax rate reductions.

Deferred tax assets with no impact on profit and loss amounted to EUR 9,117 K at the balance sheet date (previous year: EUR 9,041 K).

Recording actuarial profits and losses with no impact on profit and loss in accordance with IAS 19 resulted in a decrease in equity due to the decrease in deferred tax assets in the amount of EUR 492 K in the current fiscal year (previous year: increase in equity due to the addition of deferred tax assets in the amount of EUR 1,139 K).

No deferred taxes were recognised for temporary differences of EUR 5,709 K on the profits retained by subsidiaries (previous year: EUR 5,392 K) as, historically, these profits have always been used to extend business activities at the individual locations and will continue to be used for this purpose in the future.

The following deferred tax assets and liabilities are recognised to allow for recognition and valuation differences in the individual items of the balance sheet and the tax loss carryforwards:

Balance sheet item

in EUR K	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Intangible assets	206	224	1,568	1,704
Property, plant, and equipment	1,631	645	4,919	5,107
Non-current financial assets	515	589	209	93
Inventories	1,818	1,796	204	174
Current trade receivables	1,532	1,526	1,011	336
Current financial assets	81	2	1	233
Other current assets	4	0	352	128
Cash and cash equivalents	167	69	491	9
Post-employment benefit provisions	16,175	16,399	71	434
Other non-current provisions	346	509	15	17
Non-current borrowings	31	20	0	0
Non-current liabilities	54	72	0	0
Current provisions	1,450	1,792	633	1,481
Current borrowings	53	164	0	0
Trade payables	69	86	28	0
Other current liabilities	1,419	1,112	0	0
Loss carryforwards	2,393	1,891	0	0
Tax reimbursements not yet utilised	0	111	0	0
Gross amount	27,944	27,007	9,502	9,716
Balancing	7,403	7,427	7,403	7,427
Balance sheet recognition	20,541	19,580	2,099	2,289

Deferred tax assets and deferred tax liabilities are netted if the Group has a legally enforceable right to set off the actual tax reimbursement claims against the actual tax liabilities, and the deferred tax assets and the deferred tax liabilities related to income taxes levied by one and the same taxation authority from the same tax payer.

Change in deferred taxes

in EUR K	Consideration in		Total
	Statement of profit and loss	Equity	
Deferred taxes as at 1 January 2017	7,382	7,825	15,207
Intangible assets	101	0	101
Property, plant, and equipment	1,690	0	1,690
Non-current financial assets	-222	0	-222
Inventories	-98	0	-98
Current trade receivables	3	0	3
Current financial assets	13	0	13
Other current assets	88	0	88
Cash and cash equivalents	-70	0	-70
Post-employment benefit provisions	224	1,139	1,363
Other non-current provisions	18	0	18
Non-current borrowings	1	0	1
Non-current liabilities	0	0	0
Current provisions	-443	0	-443
Current borrowings	57	0	57
Trade payables	34	0	34
Other current liabilities	-335	0	-335
Loss carryforwards	338	0	338
Tax reimbursements not yet utilised	-149	0	-149
Currency translation effects	-382	77	-305
Deferred taxes as at 31 December 2017	8,250	9,041	17,291

Change in deferred taxes

in EUR K	Consideration in		Total
	Statement of profit and loss	Equity	
Deferred taxes as at 1 January 2018	8,250	9,041	17,291
Intangible assets	116	0	116
Property, plant, and equipment	1,241	0	1,241
Non-current financial assets	-305	115	-190
Inventories	2	0	2
Current trade receivables	-875	211	-664
Current financial assets	270	41	311
Other current assets	-215	0	-215
Cash and cash equivalents	-444	34	-410
Post-employment benefit provisions	525	-492	33
Other non-current provisions	-160	0	-160
Non-current borrowings	11	0	11
Non-current liabilities	-17	0	-17
Current provisions	493	0	493
Current borrowings	-111	0	-111
Trade payables	-40	0	-40
Other current liabilities	308	0	308
Loss carryforwards	543	0	543
Tax reimbursements not yet utilised	-113	0	-113
Currency translation effects	-154	167	13
Deferred taxes as at 31 December 2018	9,325	9,117	18,442

Reconciliation of expected and reported income tax expense

in EUR K	2018	2017
Earnings before income taxes	80,166	82,162
Expected income tax expense (tax rate: 28.6 %; previous year: 28.6 %)	22,927	23,498
<i>Reconciliation:</i>		
Tax-free income and permanent differences	3,005	-178
Change in tax rate	35	2,025
Deviations of local tax rates from Group tax rate	-807	443
Deferred tax income on tax loss carryforwards capitalised for the first time	-251	-149
Tax reduction for tax loss carryforwards not yet capitalised	-183	-50
Effects of non-recognition of tax loss carryforwards	664	818
Off-period taxes	978	-74
Other effects	-12	5
Income tax expense reported	26,356	26,338
Effective tax rate (%)	32.9	32.1

(11) Earnings per share

Basic earnings per share are calculated by dividing the proportion of earnings attributable to Sto SE & Co. KGaA's shareholders by the weighted average number of limited ordinary and limited preference shares outstanding in the year under review.

In addition to the issued shares, diluted earnings per share also include potential shares (e.g. from options). Both at 31 December 2018 and 31 December 2017, there were no potential shares. Hence, undiluted earnings per share correspond to diluted earnings per share.

Amount	Ordinary shares		Preference shares	
	2018	2017	2018	2017
Weighted average number of shares outstanding – basic/diluted	3,888,000	3,888,000	2,538,000	2,538,000

in EUR	2018	2017
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA	53,666,013	55,530,938
basic/diluted earnings – of which:		
Limited ordinary shares	32,378,057	33,506,415
Limited preference shares	21,287,956	22,024,523

in EUR	2018	2017
Earnings per share – basic/diluted		
Limited ordinary share	8.33	8.62
Limited preference share	8.39	8.68

In the fiscal year of 2018, the following dividend was paid out from the earnings of 2017: EUR 4.03 (previous year: EUR 3.25) per ordinary share, consisting of a basic dividend of EUR 0.25 (previous year: EUR 0.25) and a bonus of EUR 3.78 (previous year: EUR 3.00), as well as EUR 4.09 (previous year: EUR 3.31) per preference share, consisting of a basic dividend of EUR 0.31 (previous year: EUR 0.31) and a bonus of EUR 3.78 (previous year: EUR 3.00).

In the fiscal year of 2018, the payout to the ordinary shareholders hence amounted to EUR 15,669 K (previous year: EUR 12,636 K) and the payout to the preference shareholders amounted to EUR 10,380 K (previous year: EUR 8,401 K). The total payout amount was EUR 26,049 K (previous year: EUR 21,037 K).

Further notes on the statement of profit and loss in accordance with IFRS 7

The Sto Group categorises financial instruments as follows:

- Financial instruments at fair value through profit and loss
- Financial assets measured at amortised costs of acquisition
- Financial instruments with a value recognition according to IAS 17
- Financial instruments that are subject to hedge accounting
- Financial instruments outside the scope of application of IFRS 7 (equity investments)

Net earnings from financial assets categorised in accordance with IFRS 9

in EUR K	2018	2017
Assets		
Financial assets at fair value through profit and loss (FVTPL)	132	-590
Financial assets at amortised cost (FAAC)	-4,154	-5,377
Liabilities		
Financial liabilities at amortised cost (FLAC)	-489	92
Financial liabilities at fair value through profit and loss (FLTPL)	35	0

Net earnings from financial assets and liabilities recognised at fair value through profit and loss include changes in market value as well as exchange-rate related income and expenses from these financial instruments. Interest expenses and interest income are not part of net earnings.

Financial assets measured at amortised costs include value adjustments of receivables and other assets, income from the reversal of value adjustments for receivables and other assets, as well as proceeds from derecognised receivables in the amount of EUR -3,954 K.

Total interest income and expense from financial instruments not recognised at fair value through profit and loss

in EUR K	2018	2017
Interest income	534	630
Interest expenses	654	654
Net interest income	-120	-24

Impairment losses on financial assets by class

in EUR K	2018	2017
Measured at amortised costs of acquisition	9,599	9,353

Income and expenses from measurement at fair value are reported under other operating income and other operating expenses, respectively.

Notes on the consolidated statement of financial position

(12) Intangible assets

Changes in intangible assets from 1 January until 31 December 2017

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	Total
Cost of acquisition/production				
1 January 2017	39,697	43,881	513	84,091
Additions	1,412	0	673	2,085
Disposals	865	1,198	0	2,063
Transfers	311	0	-299	12
Exchange rate differences	-497	-108	0	-605
31 December 2017	40,058	42,575	887	83,520
Cumulative depreciation and impairment losses				
1 January 2017	28,762	5,506	0	34,268
Depreciation for the year	2,632	0	0	2,632
Impairment losses	5	0	0	5
Disposals	852	1,198	0	2,050
Transfers	5	0	0	5
Exchange rate differences	-366	-61	0	-427
31 December 2017	30,186	4,247	0	34,433
Net carrying amount as at 31 December 2016	10,935	38,375	513	49,823
Net carrying amount as at 31 December 2017	9,872	38,328	887	49,087

Development of intangible assets from 1 January until 31 December 2018

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	Total
Cost of acquisition/production				
1 January 2018	40,058	42,575	887	83,520
Additions	1,198	0	425	1,623
Disposals	1,160	0	649	1,809
Transfers	157	0	0	157
Exchange rate differences	-214	-6	0	-220
31 December 2018	40,039	42,569	663	83,271
Cumulative depreciation and impairment losses				
1 January 2018	30,186	4,247	0	34,433
Depreciation for the year	2,426	0	0	2,426
Impairment losses	0	0	0	0
Disposals	1,159	0	0	1,159
Transfers	2	0	0	2
Exchange rate differences	-199	0	0	-199
31 December 2018	31,256	4,247	0	35,503
Net carrying amount as at 31 December 2017	9,872	38,328	887	49,087
Net carrying amount as at 31 December 2018	8,783	38,322	663	47,768

As in the previous year, the useful lives for patents are generally 20 years, provided there is no lower statutory period of protection, 3 to 8 years for software, and 3 to 20 years for other intangible assets. These assets are depreciated exclusively on a straight-line basis.

Goodwill is not subject to scheduled amortisation and is only adjusted if it is not recoverable.

Goodwill

Goodwill reported, amounting to EUR 38,322 K (previous year: EUR 38,328 K), breaks down as follows:

Cash Generating Units in EUR K	31 Dec 2018	31 Dec 2017
Sto SE & Co. KGaA	15,760	15,760
Beissier S.A.S., La Chapelle La Reine/France	3,635	3,635
Ströher GmbH, Dillenburg/Germany	3,570	3,570
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany	2,780	2,780
Beissier S.A.U., Errenteria/Spain	2,679	2,679
Sto Sp. z o.o., Warsaw/Poland	2,402	2,402
Sto Epitöanyag Kft., Dunaharaszti/Hungary	1,764	1,764
Sto Isoned B.V., Tiel/Netherlands	1,189	1,189
Sto Norge AS, Oslo/Norway	1,001	1,007
Miscellaneous under EUR 1,000 K	3,542	3,542
Total goodwill	38,322	38,328

With the exception of Sto SE & Co. KGaA and Ströher GmbH, the cash-generating units (CGUs) identified for purposes of calculating goodwill are identical to the legal entities. The Sto CGU comprises Sto SE & Co. KGaA, Stühlingen/Germany, Verotec GmbH, Lauingen/Germany, and StoCretec GmbH, Kriftel/Germany. The CGU Ströher consists of Ströher GmbH, Dillenburg/Germany, Ströher Fliesen GmbH, Dillenburg/Germany, Ströher Produktions GmbH & Co. KG, Dillenburg/Germany, as well as GEPADI Fliesen GmbH, Dillenburg/Germany.

(13) Property, plant, and equipment**Changes in property, plant, and equipment from 1 January to 31 December 2017**

in EUR K	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plant, operating and business equipment	Payments made on account and equipment under construction	Total
Cost of acquisition/production					
1 January 2017	342,999	205,798	190,213	14,536	753,546
Additions	8,443	6,999	10,751	4,462	30,655
Disposals	1,557	2,281	8,075	101	12,014
Transfers	6,633	5,722	901	-13,268	-12
Exchange rate differences	-3,317	-3,544	-1,705	-112	-8,678
31 December 2017	353,201	212,694	192,085	5,517	763,497
Cumulative depreciation and impairment losses					
1 January 2017	180,409	158,463	155,915	273	495,060
Depreciation for the year	9,213	9,302	10,577	0	29,092
Impairment losses	1,521	77	5	14	1,617
Disposals	1,121	1,910	7,842	0	10,873
Transfers	53	28	-85	0	-4
Exchange rate differences	-1,935	-2,515	-1,256	14	-5,692
31 December 2017	188,140	163,445	157,314	301	509,200
Net carrying amount as at 31 December 2016	162,590	47,335	34,298	14,263	258,486
Net carrying amount as at 31 December 2017	165,061	49,249	34,771	5,216	254,297
of which leased assets classified as financial leases, carrying amount as at 31 December 2017	0	0	650	0	650

Development of property, plant, and equipment from 1 January to 31 December 2018

in EUR K	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plant, operating and business equipment	Payments made on account and equipment under construction	Total
Cost of acquisition/production					
1 January 2018	353,201	212,694	192,085	5,517	763,497
Additions	4,275	4,482	12,759	8,933	30,449
Disposals	325	1,589	7,562	135	9,611
Transfers	182	1,442	1,229	-3,010	-157
Exchange rate differences	-175	124	57	10	16
31 December 2018	357,158	217,153	198,568	11,315	784,194
Cumulative depreciation and impairment losses					
1 January 2018	188,140	163,445	157,314	301	509,200
Depreciation for the year	9,134	9,245	10,480	0	28,859
Impairment losses	0	0	0	14	14
Disposals	303	1,592	7,331	0	9,226
Transfers	-21	-33	52	0	-2
Exchange rate differences	247	149	107	-2	501
31 December 2018	197,197	171,214	160,622	313	529,346
Net carrying amount as at 31 December 2017	165,061	49,249	34,771	5,216	254,297
Net carrying amount as at 31 December 2018	159,961	45,939	37,946	11,002	254,848
of which leased assets classified as financial leases, carrying amount as at 31 December 2018	0	0	407	0	407

Property, plant and equipment in the amount of EUR 27,088 K (previous year: EUR 26,873 K) are encumbered with land charges which serve to secure payables to banks. The land charges are valued on the balance sheet date at EUR 89 K (previous year: EUR 118 K).

Impairment losses on property, plant, and equipment amounted to EUR 14 K (previous year: EUR 1,617 K). The impairment loss in 2018 related to a building under construction and a machine under construction, which were impaired due to lower market prices.

The future payments due from finance leases are shown in the following tables:

in EUR K	up to 1 year	1–5 years	5–10 years	31 Dec 2017
Lease payments	280	330	3	613
Interest portions	9	8	0	17
Carrying amount / present value	271	322	3	596

in EUR K	up to 1 year	1–5 years	5–10 years	31 Dec 2018
Lease payments	192	234	0	426
Interest portions	5	6	0	11
Carrying amount / present value	187	228	0	415

Call options have mostly been agreed for the plants and equipment leased under financial leases which are expected to be exercised.

Leases are based on a weighted interest rate of 2.5 % (previous year: 2.5 %).

(14) Financial assets accounted for using the equity method

As at 31 December 2018, the carrying amount of shares accounted for using the equity method stands at EUR 11,138 K (previous year: in EUR 11,020 K).

Positive earnings of EUR 118 K (previous year: EUR 0 K) as well as cumulative losses of EUR 320 K (previous year: EUR 365 K) resulted from investments accounted for using the equity method.

Companies accounted for using the equity method require the joint approval of all shareholders to pay dividends or repay loans.

The Group had no contingent liabilities or contingent receivables as of the balance sheet date.

(15) Inventories

Inventories are measured at the lower of acquisition/production cost and the net realisable amount. Impairment in relation to the gross amount came to EUR 8,667 K (previous year: EUR 8,430 K).

Net carrying amounts are reported as follows:

in EUR K	31 Dec 2018	31 Dec 2017
Raw materials, processing aids, and operating materials	23,170	23,095
Work in progress	8,242	9,091
Finished products and goods	65,019	62,721
Payments made on account	1,432	1,833
Total inventories	97,863	96,740

Inventory with a carrying amount of EUR 2,120 K (previous year: EUR 1,892 K) serve to secure liabilities to banks. On the balance sheet date, the value amounted to EUR 505 K (previous year: EUR 595 K).

(16) Current and non-current trade receivables

in EUR K	Carrying amount as at 31 Dec 2018			Carrying amount as at 31 Dec 2017		
	current	non-current		current	non-current	
from						
Third parties	134,700	1,068	135,768	124,976	1,208	126,184
Companies accounted for using the equity method	2	0	2	2	0	2
Total trade receivables	134,702	1,068	135,770	124,978	1,208	126,186

The fair values of trade receivables equal their carrying amounts. Value adjustments of EUR 20,572 K (previous year: EUR 20,837 K) were taken into account.

Trade receivables with a carrying amount of EUR 1,771 K (previous year: EUR 737 K) serve to secure liabilities to banks. On the balance sheet date, the value amounted to EUR 264 K (previous year: EUR 229 K).

(17) Non-current and current financial assets

in EUR K			Carrying amount as at 31 Dec 2018			Carrying amount as at 31 Dec 2017
	current	non-current		current	non-current	
Financial assets from third parties	82,163	501	82,664	76,429	525	76,954
Other receivables and financial assets from companies accounted for using the equity method	652	0	652	2	650	652
Positive fair value of derivative financial instruments	442	0	442	23	0	23
Total financial assets	83,257	501	83,758	76,454	1,175	77,629

Financial assets from third parties include cash investments due for settlement in more than three months. In addition, this item includes receivables from suppliers amounting to EUR 3,935 K (previous year: EUR 3,503 K).

In the reporting period, value adjustments were made on financial assets in the amount of EUR 370 K (previous year: EUR 0 K).

As in the previous year, the total positive fair value of derivative financial instruments results from currency hedging transactions.

Derivative financial instruments as a whole are described in greater detail in Note (31).

(18) Other non-current and current assets

in EUR K			Carrying amount as at 31 Dec 2018			Carrying amount as at 31 Dec 2017
	current	non-current		current	non-current	
Other receivables from third parties	14,415	11	14,426	18,138	3	18,141
Other tax reimbursement claims	3,326	0	3,326	3,049	0	3,049
Prepaid expenses	6,203	324	6,527	6,103	413	6,516
Other payments made on account	587	0	587	378	0	378
Total other assets	24,531	335	24,866	27,668	416	28,084

Other tax reimbursement claims include VAT reimbursement claims of EUR 3,157 K (previous year: EUR 2,873 K).

No adjustments were made to Other assets in the period under review and in the previous year.

(19) Cash and cash equivalents

in EUR K	31 Dec 2018	31 Dec 2017
Credit balances with banks	104,473	83,738
Cheques, cash in hand	821	684
Total cash and cash equivalents	105,294	84,422

In the reporting period, value adjustments in the amount of EUR 455 K were included due to IFRS 9.

(20) Equity

Changes in equity and minority interests are analysed in the statement of changes in equity.

Subscribed capital

On 31 December 2018, the share capital of Sto SE & Co. KGaA amounted to EUR 17,556 K. It was divided into 4,320,000 registered limited ordinary shares and 2,538,000 limited preference shares with no voting rights with a notional nominal value of EUR 2.56 per share. The figures for the 2018 fiscal year correspond to the previous year.

The limited preference shares each beforehand bore a higher dividend than the limited ordinary shares by EUR 0.06. A minimum dividend of EUR 0.13 per limited preference share was guaranteed. If net income is not sufficient for an advance dividend of at least EUR 0.13 per limited preference share in one or more fiscal years, then the missing amounts (without interest) are subsequently paid from the net income of the following fiscal years prior to a dividend being paid on limited ordinary shares.

Stotmeister Beteiligungs GmbH, Stühlingen/Germany was holding all but four of the limited ordinary shares of Sto SE & Co. KGaA not in the ownership of Sto SE & Co. KGaA. The personally liable partner STO Management SE, Stühlingen/Germany, does not have a share in the capital of Sto SE & Co. KGaA.

The limited preference shares of Sto SE & Co. KGaA are listed at the stock exchanges in Frankfurt/Main and Stuttgart/Germany in the 'Regulated market' segment. The limited ordinary shares are not listed on the stock market.

The shares of STO Management SE, Stühlingen/Germany, are held to 100 % by Stotmeister Beteiligungs GmbH, Stühlingen/Germany.

Capital reserves

Capital reserves essentially comprise additions from premiums.

Revenue reserves and other reserves

Revenue reserves and other reserves comprise the following items:

- Reserves for accrued profits:
Reserves for accrued profits include the current profits and profits from previous years earned by Sto SE & Co. KGaA and its subsidiaries that were not distributed.
- Currency translation reserve:
The currency translation reserve is used to record any differences arising from the translation of the financial statements of foreign subsidiaries.
- Reserve for pensions:
The post-employment benefit reserve contains actuarial gains or actuarial losses from the post-employment benefit provisions arising from differences between the actual development and the assumed trends as well as changes in the assumptions underlying calculations.
- Treasury stock:
As at 31 December 2018, Sto SE & Co. KGaA, Stühlingen/Germany, held treasury stock in the form of 432,000 registered limited ordinary shares with a notional value of EUR 1,105,920.00. This is equivalent to 10 % of all ordinary shares, or 6.3 % of the share capital of Sto SE & Co. KGaA. Treasury stock is not entitled to dividends. The figures for the 2018 fiscal year correspond to the previous year.

Proposed dividend

In accordance with Sections 278, 58 (4) of the German Stock Corporation Act, the dividend distributed is based on the unappropriated surplus recorded in the financial statements prepared according to German commercial law. Hence, a net income of EUR 41,486 K (previous year: EUR 46,759 K) was recorded.

The personally liable partner of Sto SE & Co. KGaA, STO Management SE, Stühlingen/Germany, proposes via its Executive Board at the Annual General Meeting of Sto SE & Co. KGaA a dividend payout per limited ordinary share of EUR 0.25 (previous year: EUR 0.25) plus a bonus of EUR 3.78 (previous year: EUR 3.78) to form a total of EUR 4.03 (previous year: EUR 4.03), and EUR 0.31 (previous year: EUR 0.31) plus a bonus of EUR 3.78 (previous year: EUR 3.78) to form a total of EUR 4.09 (previous year: EUR 4.09) per limited preference share, and hence a total payout amount of EUR 26,049 K (previous year: EUR 26,049 K).

It is also proposed to retain EUR 15,000 K (previous year: EUR 20,000 K) as revenue reserves and to carry the remaining amount of EUR 437 K (previous year: EUR 710 K) forward to a new account.

Notes on capital management

The purpose of capital management is to ensure that the Group effectively achieves its goals and pursues its strategies in the interests of the shareholders, employees and other stakeholders and that it successfully implements the defined strategies. In particular, management focuses on achieving the minimum return on invested assets sought by the capital market as well as on maintaining a solid return on equity. In selecting financial instruments, the Group attaches importance to matching-maturities finance.

in EUR K	31 Dec 2018	31 Dec 2017*	Change in %
Equity attributable to the shareholders of Sto SE & Co. KGaA	469,907	442,367	6.2 %
Current borrowings	11,459	9,757	17.4 %
Non-current borrowings	3,345	2,032	64.6 %
Less cash and cash equivalents	105,294	84,422	24.7 %
Net assets	90,490	72,633	24.6 %
% of equity	19.3 %	16.4 %	
Equity ratio	60.9 %	60.1 %	
Return on Capital Employed (ROCE)	15.6 %	16.1 %	

* before effects from IFRS 9

In the fiscal year of 2018, the equity attributable to the shareholders of Sto SE & Co. KGaA rose by 6.2 % as compared to the previous year. This was essentially the result of the increase in revenue reserves.

As in the previous year, no net debt has been incurred in the current fiscal year.

Due to the credit line agreed with a banking consortium in December 2012, most recently extended in 2017, the Group is subject to complying with financial covenants. In case of non-compliance the lenders are entitled to terminate the loan for good cause. The agreed-upon covenants were complied with in the year under review as well as in the previous year.

(21) Share of minority interests

The shares of equity on the part of minority interests in the past fiscal year as well as in the previous year were attributable to shareholders of the Ströher Group, Dillenburg/Germany, UAB TECH-COAT, Klaipėda/Lithuania as well as to shareholders of Sto Italia Srl, Empoli/Italy. All non-controlling interests are insignificant for the Group.

(22) Post-employment benefits and similar liabilities

Provisions for post-employment benefits are recognised in accordance with entitlement arising under the company pension scheme. The benefits provided by the Group vary according to the legal, tax and economic situation in the individual country and are based on the length of service and the salary of the entitled employees. The Group pension scheme primarily comprises defined benefit obligation plans. In addition, there are also some defined contribution plans. In the case of defined contribution plans, the Company pays contributions into public or private pension funds in accordance with statutory or contractual obligations. Upon payment of these contributions, no further obligations accrue for the company. Current contribution payments (net of contributions to statutory pension funds) are reported as post-employment benefit expenses for the year in question and in 2018 were valued in the Sto Group at a total of EUR 1,070 K (previous year: EUR 1,106 K).

Contributions to statutory pension funds came to EUR 20,974 K (previous year: EUR 18,702 K).

The available company pension schemes are for the most part based on internally funded defined benefit plans.

Benefit obligations assumed by the German companies primarily exist for old-age, invalidity, widow's and orphan's pensions. A prerequisite for receiving benefits is that upon occurrence of the event the employee either had a minimum period of service of 10 years after the age of 25, or had been in an employment relationship with Sto or has a non-lapsable entitlement.

Old-age pension is granted with receiving state pension. The monthly old-age or invalidity pension amounts to between EUR 5.11 and

EUR 9.20 per year of service and depending on the employee's status. The widow's pension amounts to 60 % of the old-age and invalidity pension.

In Switzerland, the current benefits agreements for employees are effected by plans which are regulated by Federal Law on Occupational Old-age, Survivor's and Disability Insurance (BVG). Pension plans in Switzerland are administered by collective foundations which are financed by regular employee and employer contributions. The final pension benefits are contribution-based with specific minimum guarantees. Due to these minimum guarantees, pension plans in Switzerland are allocated as being defined benefit plans, although they possess many properties of defined contribution plans. The deficient cover can be remedied by various methods, such as increasing employee and employer contributions, lowering the interest rate for retirement assets, or reducing future benefit claims.

The generally applicable calculation methods that are based on assumptions were used for the calculations. The sensitivity analysis listed below shows the impacts of potential deviations.

Post-employment benefit provisions are calculated in accordance with IAS 19 (Employee benefits) using the projected unit credit method, which is the standard international method. For this purpose, future obligations are measured on the basis of the benefit entitlements acquired as at the balance sheet date. In making this assessment, assumed relevant trends are taken into account. Actuarial calculations are necessary for all pension systems.

Actuarial gains or losses arise from changes in the plan assets or deviations in actual trends (e.g. income and pension increases, changes in

interest rates) from the assumptions, and from changes in the assumptions underlying the calculations. All actuarial gains and losses are recognised in equity in full and with no impact on profit or loss in the period in which they arise. Actuarial gains and losses reported within equity are presented in the following provisions table.

Summary of the post-employment benefit provisions

in EUR K	2018	2017
Pension plan of the Euro companies	-89,409	-87,236
Pension plan of Sto AG, Switzerland	-9,858	-11,858
Total	-99,267	-99,094

Changes in post-employment benefit provisions

Pension plan of the Euro companies

in EUR K	Present value of the defined-benefit obligation	Fair value of the plan assets	Liability from the defined-benefit obligation
As at 1 January 2017	-89,287	8,414	-80,873
Current service cost	-2,967	0	-2,967
Interest expense/income	-1,719	157	-1,562
Expenses for post-employment benefit obligations recognised through profit and loss	-4,686	157	-4,529
Pension benefits paid	2,311	-226	2,085
Actuarial gains and losses from changes in demographic assumptions	-91	0	-91
Actuarial gains and losses from changes in financial assumptions	-4,303	400	-3,903
Experience-based adjustments	-56	0	-56
Profit/loss from reassessment recognised in other earnings	-4,450	400	-4,050
Employer contributions	0	131	131
As at 31 December 2017	-96,112	8,876	-87,236

Pension plan of the Euro companies

in EUR K	Present value of the defined-benefit obligation	Fair value of the plan assets	Liability from the defined-benefit obligation
As at 1 January 2018	-96,112	8,876	-87,236
Current service cost	-3,200	0	-3,200
Interest expense/income	-1,665	154	-1,511
Expenses for post-employment benefit obligations recognised through profit and loss	-4,865	154	-4,711
Pension benefits paid	3,181	-227	2,954
Actuarial gains and losses from changes in demographic assumptions	-659	0	-659
Actuarial gains and losses from changes in financial assumptions	-457	421	-36
Experience-based adjustments	155	0	155
Profit/loss from reassessment recognised in other earnings	-961	421	-540
Employer contributions	0	124	124
As at 31 December 2018	-98,757	9,348	-89,409

Current service costs are included in staff costs; interest expenses on the obligation is reported under interest expenses, Note (9).

The plan assets of the Euro companies are qualifying insurance contracts in the form of almost risk-free direct insurances.

The contributions to the plan assets for the following fiscal year are expected to amount to EUR 124 K (previous year: EUR 120 K).

The calculation of pension provisions was based on the following assumptions, with the predominant share of the amount recognised in the balance sheet being accounted for by Germany.

	Germany		Non-Germany	
	2018	2017	2018	2017
Discount rate as at 31 December in %	1.95	1.75	1.95	1.75
Future pension increases in %	1.50	1.13	2.40	2.40
Age of retirement in years	65	65	62 – 65	62 – 65

Since 31 December 2018, the Heubeck 2018G (previous year: Heubeck 2005G) tables have been used as the biometric basis for calculations in Germany.

The running period of the performance-oriented liability of the Euro companies averages at 18.85 years (previous year: 18.78 years) at the end of the reporting period.

Pension plan of Sto AG, Switzerland

in EUR K	Present value of the defined-benefit obligation	Fair value of the plan assets	Liability from the defined-benefit obligation
As at 1 January 2017	-38,934	26,576	-12,358
Currency differences	3,304	-2,260	1,044
Current service cost	-1,233	0	-1,233
Interest expense/income	-226	154	-72
Expenses for post-employment benefit obligations recognised through profit and loss	-1,459	154	-1,305
Pension benefits paid	2,631	-2,631	0
Actuarial gains and losses from changes in demographic assumptions	0	0	0
Actuarial gains and losses from changes in financial assumptions	351	245	596
Experience-based adjustments	-804	0	-804
Profit/loss from reassessment recognised in other earnings	-453	245	-208
Employer contributions	0	969	969
Employee contributions	-2,722	2,722	0
As at 31 December 2017	-37,633	25,775	-11,858

Pension plan of Sto AG, Switzerland

in EUR K	Present value of the defined-benefit obligation	Fair value of the plan assets	Liability from the defined-benefit obligation
As at 1 January 2018	-37,633	25,775	-11,858
Currency differences	-1,363	966	-397
Current service cost	-1,290	0	-1,290
Interest expense/income	-248	170	-78
Expenses for post-employment benefit obligations recognised through profit and loss	-1,468	170	-1,298
Pension benefits paid	5,321	-5,321	0
Actuarial gains and losses from changes in demographic assumptions	0	0	0
Actuarial gains and losses from changes in financial assumptions	2,369	241	2,610
Experience-based adjustments	134	0	134
Profit/loss from reassessment recognised in other earnings	2,503	241	2,744
Employer contributions	0	951	951
Employee contributions	-2,980	2,980	0
As at 31 December 2018	-35,620	25,762	-9,858

The plan assets of Sto AG, Switzerland, take the form of qualifying insurance contracts. All regulatory benefits such as disability, death and longevity are integrally covered in the insurance contract.

The contributions to the plan assets for the following fiscal year are expected to amount to EUR 970 K (previous year: EUR 954 K).

The calculation of post-employment benefit provisions of Sto AG, Switzerland, was based on the following assumptions:

	Switzerland	
	2018	2017
Discount rate as at 31 December in %	0.95	0.65
Future salary increases in %	1.00	1.00
Age of retirement in years	65	65

The BVG 2010 Generation Life Table was used as the biometric base for calculation.

The running period of the performance-oriented liability averages at 16.90 years at the end of the reporting period (previous year: 17.10 years).

The following shows a quantitative sensitivity analysis of the most important assumptions as at 31 December 2018:

in EUR K	Effects on the performance-based obligation of the Euro countries	
	31 Dec 2018	31 Dec 2017
Discount rate		
Decline by 0.5 %	10,357	9,265
Increase by 0.5 %	-8,208	-9,073
Pensions		
Decline by 1.0 %	-12,331	-10,888
Increase by 1.0 %	10,794	11,909
Life expectancy		
Decrease by 1 year	-2,594	-3,809
Increase by 1 year	3,391	4,268
Retirement age		
Decrease by 1 year	1,924	1,272
Increase by 1 year	-1,522	-2,565

in EUR K	Effects on the performance-based obligation of Sto AG, Switzerland	
	31 Dec 2018	31 Dec 2017
Discount rate		
Decline by 0.5 %	3,303	3,553
Increase by 0.5 %	-2,876	-3,089
Salary adjustments		
Decline by 0.5 %	-290	-306
Increase by 0.5 %	286	310
Life expectancy		
Decrease by 1 year	-620	-709
Increase by 1 year	594	682

To determine the above sensitivity analysis, the provisions were determined based on the internationally applicable projected unit credit method taking into consideration the changed

parameters while keeping the other parameters steady. These provisions were then compared to the provision recorded as at 31 December 2018.

The following amounts are expected to be paid over the next few years as part of defined-benefit liabilities:

in EUR K	Expected disbursements as at 31 Dec 2018	Expected disbursements as at 31 Dec 2017
Within the next 12 months	4,088	3,952
Between 1 and 5 years	18,151	17,843
Between 5 and 10 years	29,331	24,062
Expected disbursements within the next 10 years	51,570	45,857

(23) Non-current and current provisions

in EUR K	Human resources division	Production division	Sales division	Other provisions	Total
As at 1 January 2017	17,326	1,243	37,421	1,680	57,670
Currency differences	-17	0	-907	-121	-1,045
Consumption	-3,928	-131	-8,881	-320	-13,260
Additions/formation	2,420	137	23,781	1,190	27,528
Actuarial gains	0	0	0	0	0
Compounding of interest	75	18	123	1	217
Reversal	-4,257	0	-3,289	-52	-7,598
As at 31 December 2017	11,619	1,267	48,248	2,378	63,512
Currency differences	-9	0	-670	-7	-686
Consumption	-5,417	-196	-15,858	-517	-21,988
Additions/formation	2,755	101	20,316	1,220	24,392
Actuarial gains	0	0	0	0	0
Compounding of interest	68	15	155	0	238
Reversal	-851	0	-4,232	-361	-5,444
As at 31 December 2018	8,165	1,187	47,959	2,713	60,024
of which current	3,989	406	38,903	2,171	45,469
of which non-current	4,176	781	9,056	542	14,555

Provisions in the staff area have been set aside for anniversary expenses, termination settlements and similar obligations, among other things.

Provisions of the production division comprise, inter alia, asset retirement obligations and disposal costs.

Provisions in the sales area essentially comprise provisions for warranties, compensation claims

of commercial representatives as well as provisions for litigation risks. Provisions for warranty obligations are carried as liabilities for individual cases.

In addition to provisions for acceptance obligations and safe-keeping obligations, the remaining other provisions comprise additional factual circumstances subordinate in nature in terms of their recognition.

(24) Non-current and current borrowings

in EUR K			Carrying amount as at 31 Dec 2018			Carrying amount as at 31 Dec 2017
	current	non-current		current	non-current	
Liabilities to banks	10,270	3,117	13,387	8,486	1,707	10,193
Liabilities under finance leases	187	228	415	271	325	596
Other borrowings	1,002	0	1,002	1,000	0	1,000
Total borrowings	11,459	3,345	14,804	9,757	2,032	11,789

The conditions applicable to the liabilities under finance leases are explained in Note (13).

(25) Trade payables

in EUR K	31 Dec 2018	31 Dec 2017
from		
Third parties	47,164	46,256
Companies accounted for using the equity method	142	134
Total trade payables	47,306	46,390

The trade payables result almost entirely from current liabilities.

The fair values of trade payables correspond to the carrying amounts reported.

(26) Non-current and current financial liabilities

in EUR K			Carrying amount as at 31 Dec 2018			Carrying amount as at 31 Dec 2017
	current	non-current		current	non-current	
Negative fair values of derivative financial instruments	256	0	256	260	0	260
Other liabilities						
towards customers	15,114	0	15,114	13,307	0	13,307
towards employees	1,099	0	1,099	1,082	0	1,082
Other	16,112	283	16,395	13,823	316	14,139
Total financial liabilities	32,581	283	32,864	28,472	316	28,788

As in the previous year, the total negative fair value of derivative financial instruments results from currency hedging transactions.

Derivative financial instruments as a whole are described in detail in Note (31).

(27) Non-current and current other liabilities

in EUR K			Carrying amount as at 31 Dec 2018			Carrying amount as at 31 Dec 2017
	current	non-current		current	non-current	
Advance payment received on orders	1,045	0	1,045	1,601	0	1,601
Other liabilities						
from other taxes	9,397	0	9,397	8,668	0	8,668
social security liabilities	2,833	0	2,833	3,350	0	3,350
towards employees	25,191	0	25,191	25,599	0	25,599
Other	5,904	10	5,914	6,124	8	6,132
Total other liabilities	44,370	10	44,380	45,342	8	45,350

(28) Further notes on financial instruments in accordance with IFRS 7**Reconciliation of balance sheet items with financial instrument categories as at 31 December 2017**

in EUR K	Valuation category in accordance with IAS 39	Carrying amount 31 Dec 2017	Financial instruments					No financial instrument
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet in acc. with IAS 17	Not within the scope of IFRS 7/Hedge accounting	
			Carrying amount	Fair value				
Assets								
Equity investments	n.a.	11,020	0	0	0	0	0	11,020
Trade payables	LaR	126,186	126,186	126,186	0	0	0	0
Other receivables and financial assets								
- Available-for-sale financial assets	AfS	15	15	15	0	0	0	0
- Held-to-maturity investments	HtM	7,175	7,175	7,156	0	0	0	0
- Financial assets held for trading	FAHfT	0	0	0	0	0	0	0
- Derivative assets								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FAHfT	23	0	0	23	0	0	0
- Other assets	LaR/n.a.	98,499	70,415	70,415	0	0	0	28,084
Total other receivables and financial assets		105,712	77,605	77,586	23	0	0	28,084
Cash and cash equivalents	LaR	84,422	84,422	84,422	0	0	0	0
Liabilities								
Borrowings	FLAC	11,193	11,193	11,193	0	0	0	0
Liabilities under finance leases	n.a.	596	0	0	0	596	0	0
Total borrowings		11,789	11,193	11,193	0	596	0	0
Trade payables	FLAC	46,390	46,390	46,390	0	0	0	0
Other liabilities and financial liabilities								
- Derivative liabilities								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FLHfT	260	0	0	260	0	0	0
- Other liabilities	FLAC/n.a.	73,879	28,529	28,529	0	0	0	45,350
Total other liabilities and financial liabilities		74,139	28,529	28,529	260	0	0	45,350

Reconciliation of valuation categories under IAS 39 to the valuation categories under IFRS 9 as at 01 January 2018

in EUR K	Valuation category in accordance with IAS 39	Carrying amount		Valuation category in accordance with IFRS 9	Change of the valuation category	Valuation adjustment	Carrying amount
		1 Jan 2018					1 Jan 2018
Equity investments	n.a.	11,020	Equity investments	n.a.	0	0	11,020
Trade payables	LaR	126,186	Trade payables	FAAC	0	-1,032	125,154
Other receivables and financial assets			Other receivables and financial assets				
- Available-for-sale financial assets	AfS	15	- Other investments	FVTPL	0	0	15
- Held-to-maturity investments	HtM	7,175	- Financial investments > 3 months	HtM FAAC	-7,175 7,175	-17	7,158
- Derivatives without hedge relationship	FAHfT	23	- Derivatives without hedge relationship	FVTPL	0	0	23
- Other assets	LaR/n.a.	98,499	- Financial investments > 3 months	LaR FAAC	-64,672 64,672	-148	64,524
			- other financial assets	LaR FAAC	-5,743 5,743	-14	5,729
			- other assets	n.a.	0	0	28,084
Total other receivables and financial assets		105,712	Total other receivables and financial assets		0	-179	105,533
Cash and cash equivalents	LaR	84,422	Cash and cash equivalents	FAAC	0	-194	84,228
Total		327,340	Total		0	-1,405	325,935

Reconciliation of balance sheet items with financial instrument categories as at 31 December 2018

in EUR K	Valuation category in accordance with IFRS 9	Carrying amount 31 Dec 2018	Financial instruments				No financial instrument	
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet in acc. with IAS 17		Not within the scope of IFRS 7/Hedge accounting
			Carrying amount	Fair value				
Assets								
Equity investments	n.a.	11,138	0	0	0	0	0	11,138
Trade payables	FAAC	135,770	135,770	135,770	0	0	0	0
Financial assets								
- Other investments	FVTPL	49	0	0	49	0	0	0
- Derivative assets without hedge relationship	FVTPL	442	0	0	442	0	0	0
- Other financial assets	FAAC	6,301	6,301	6,301	0	0	0	0
- Financial assets – associated companies	FAAC	652	652	652	0	0	0	0
- financial investments	FAAC	76,314	76,314	76,368	0	0	0	0
Total financial assets		83,758	83,267	83,321	491	0	0	0
Other assets	n.a.	24,866	0	0	0	0	0	24,866
Cash and cash equivalents	FAAC	105,294	105,294	105,294	0	0	0	0
Liabilities								
Borrowings	FLAC	14,389	14,389	14,389	0	0	0	0
Liabilities under finance leases	FLAC	415	415	415	0	415	0	0
Trade payables	FLAC	47,306	47,306	47,306	0	0	0	0
Other liabilities and financial liabilities								
- Derivative liabilities without hedge relationship	FLTPL	256	0	0	256	0	0	0
- Other financial liabilities	FLAC	32,608	32,608	32,608	0	0	0	0
- Other liabilities	n.a.	44,380	0	0	0	0	0	-44,380

The carrying amounts of the financial instruments are aggregated as follows in accordance with the categories stipulated in IFRS 9:

in EUR K	31 Dec 2018	31 Dec 2017
Financial assets measured at fair value through profit and loss (FVTPL)	491	38
Financial assets measured at amortised cost (FAAC)	324,332	288,198
Financial assets measured at fair value through other comprehensive income (FVOCI)	0	0
Financial liabilities measured at amortised cost (FLAC)	94,303	86,111
Financial liabilities measured at fair value through profit and loss (FLTPL)	256	260

Balance sheet items measured at fair value

in EUR K	31 Dec 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
- Derivatives with no hedge relationship	23	0	23	0
Available-for-sale financial assets				
- Derivatives with a hedge relationship	0	0	0	0
Financial assets measured at fair value	23	0	23	0
Financial liabilities measured at fair value through profit and loss				
- Derivatives with no hedge relationship	260	0	260	0
Financial liabilities recorded in other earnings with no impact on profit and loss				
- Derivatives with a hedge relationship	0	0	0	0
Financial liabilities measured at fair value	260	0	260	0

in EUR K	31 Dec 2018	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
- Derivatives with no hedge relationship	442	0	442	0
Available-for-sale financial assets				
- Derivatives with a hedge relationship	0	0	0	0
Financial assets measured at fair value	442	0	442	0
Financial liabilities measured at fair value through profit and loss				
- Derivatives with no hedge relationship	256	0	256	0
Financial liabilities recorded in other earnings with no impact on profit and loss				
- Derivatives with a hedge relationship	0	0	0	0
Financial liabilities measured at fair value	256	0	256	0

The following financial assets and liabilities accounted for at fair value are structured according to the following levels:

Level 1

Financial instruments traded in active markets, the listed prices of which were adopted unchanged for measurement purposes.

Level 2

The measurement is made on the basis of valuation methods in which the influential factors are derived either directly or indirectly from observable market data. They are measured based on the observable exchange rates, the interest structure curves of the respective currencies as well as the currency-related basic spreads between the respective currencies. The derivatives are currency hedges only.

Level 3

The measurement is effected using valuation methods where the influential factors are not based exclusively on observable market data.

Neither any reclassifications between the levels and nor any additions or disposals were carried out during the reporting period.

The measurement of the portfolio of financial instruments at fair value as at 31 December 2018 resulted in a net income of EUR 185 K (previous year: expense of EUR 238 K). The valuation result from fair value measurement is a component of Other operating income (Note 3) and Other operating expenses (Note 6). No netting takes place.

Development of value adjustments of financial instruments measured at amortised acquisition costs (trade receivables, other receivables and financial assets):

in EUR K	Trade receivables	in EUR K	Trade receivables	Financial assets FAAC
As at 1 Jan 2017	20,791	As at 31 Dec 2017	20,837	0
Exchange rate differences	-146	First-time application of IFRS 9	1,032	374
Additions	7,093	As at 1 Jan 2018	21,869	374
Consumption	-2,701	Exchange rate differences	-185	0
Reversals	-4,200	Additions	8,062	455
As at 31 December 2017	20,837	Consumption	-3,950	0
		Reversals	-5,224	-4
		As at 31 December 2018	20,572	825

Impairments in the reporting period

IFRS 9 Provisions for trade receivables as at 31 December 2018:

in EUR K	Not due:	1–30 days	31–60 days	61–90 days	91–120 days	121–180 days	181–364 days	365–730 days	> 730 days	Total
Trade receivables	68,726	13,103	4,762	1,702	1,356	1,589	1,132	802	2,038	95,210
Risk efficient	2%	3%	6%	12%	15%	20%	26%	85%	95%	
Provision for risk	1,375	393	286	204	203	318	294	682	1,936	5,691

IFRS 9 Provisions for financial assets as at 31 December 2018

in EUR K	Basis for valuation	Discount in %	Provision for risk
Financial investments, and cash and cash equivalents (FAAC)	182,393	0.43 %	784
Other financial assets – associated companies (FAAC)	653	0.16 %	1
Other financial assets – Third parties (FAAC)	6,315	0.26 %	14

Total impairment loss, including individual value adjustments, for the reporting period:

in EUR K	Value adjustments of the period	of which recovery measures
Trade receivables	8,062	8,062
Financial assets at amortised acquisition and production costs	455	455
Financial assets at fair value with no impact on profit and loss	0	0

In the case of trade receivables, items that are overdue are the key indicator of impairment or the assumption of non-realizability. If trade receivables become increasingly overdue, it is assumed that there will also be an increasing lack of realizability in accordance with IFRS 9.

Written-off trade receivables subject to enforcement measures continue to be regularly reviewed for the possibility of recovering open items.

The following table shows the carrying amounts and fair values of the financial instruments as at 31 December 2018, excluding financial instruments which typically barely differ between carrying amount and fair values.

in EUR K	Carrying amount 31 Dec 2018	Fair value 31 Dec 2018	Fair Value level
Financial assets			
Non-current			
Investments	49	49	Level 2
Loans	1	1	Level 2
Other financial assets	451	451	Level 2
Total non-current financial assets	501	501	
Current			
Financial investments	76,314	76,368	Level 2
Loans	1,571	1,571	Level 2
Forward exchange contracts	442	442	Level 2
Other financial assets	4,930	4,930	Level 2
Total current financial assets	83,257	83,311	
Total financial assets	83,758	83,812	
Financial liabilities			
Non-current			
Borrowings	3,345	3,121	Level 2
Other financial liabilities	283	283	Level 2
Total non-current financial liabilities	3,628	3,404	
Current			
Borrowings	11,459	11,459	Level 2
Forward exchange contracts	256	256	Level 2
Other financial liabilities	32,325	32,325	Level 2
Total current financial liabilities	44,040	44,040	
Total financial liabilities	47,668	47,444	

The carrying amounts of cash and cash equivalents, receivables and liabilities as well as current borrowings and other liabilities nearly correspond to the fair values due to their short terms. The financial investments and borrowings are mainly borrower's note loans, Money

Market Funds, fixed term deposits, loans and overdrafts to credit institutions, as well as liabilities from financial leases. The fair values were determined using the present value method based on interest rates appropriate to maturities and creditworthiness.

Other disclosures

(29) Cash flow statement

The cash flow statement shows how the Group's liquidity position has changed in the course of the year under review as a result of cash inflows and outflows. For this purpose, it distinguishes cash flow from operating activities, cash flow from investing activities and cash flow from financing activities (IAS 7 Statement of cash flows).

The cash flow statement solely comprises the cash and cash equivalents reported in the statement of financial position that include financial investments with an original term of up to three months.

Based on earnings before taxes, the cash flow is indirectly derived from operating activities. Earnings before taxes are adjusted to take account of non-cash expenses (essentially depreciation) and non-cash income. Cash flow from operating activities reflects changes in working capital.

Cash inflows and outflows from investing and financing activities are calculated using the direct method. Investment activities comprise disbursements for additions to intangible assets and tangible fixed assets as well as disbursements for the acquisition of consolidated companies and other business units, interest received, deposits arising from the disposal of intangible assets and property, plant and equipment, as well as disbursements and payments for financial investments.

Financing activities comprise cash outflows from payments to shareholders, interest payments and the taking-out and repayment of loans, as well as changes to other borrowings. Changes in items of the statement of financial position analysed for the cash flow statement cannot be directly derived from the balance sheet on account of non-cash currency translation effects and other non-cash transactions.

(30) Segment reporting

For the purpose of corporate management by the responsible corporate entity – the personally liable partner STO Management SE – the Group is divided up into geographical business units. The geographical business units were consolidated to form the segments of Western Europe and Other with the segment Other being broken down into the regions of Northern/Eastern Europe and America/Asia. The business segment of Western Europe comprises the geographical business units of the Euro zone (without Finland and Slovakia), Switzerland, as well as the United Kingdom.

Internal reporting is carried out in accordance with IFRS.

The activities of all segments included the production and distribution of facade systems, facade coatings, interior products and Other product groups.

The netting prices between segments conform to arms-length conditions. Transfers between business segments are eliminated on consolidation.

The segment results are reported in the levels EBITDA, EBIT and EBT.

Depreciation/amortisation and investments relate to property, plant and equipment, and intangible assets.

Segment assets mainly comprise property, plant and equipment, intangible assets, inventories, trade receivables from third parties as well as other receivable and financial assets from third parties.

Income tax receivables in the amount of EUR 2,577 K, and Deferred tax receivables in the amount of EUR 20,541 K are listed in the

'Reconciliation/consolidation booking entries' column under 'Segment assets'. In the same column in line 'EBT', this table also shows the elimination of earnings between the segments as well as earnings to the amount of EUR 118 K from investments of companies accounted for using the equity method. No significant adjustments were made to earnings.

Owing to the broad customer structure, there is no customer with whom 10 % or more of sales revenues are generated.

The breakdown of sales revenues is made according to the customer's head office.

in EUR K	2017			Total
	Germany	France	Others	
External revenues	562,808	121,315	593,275	1,277,398
Intangible assets, property, plant, and equipment	191,045	27,707	84,632	303,384

in EUR K	2018			Total
	Germany	France	Others	
External revenues	596,003	124,897	611,470	1,332,370
Intangible assets, property, plant, and equipment	189,220	27,379	86,017	302,616

(31) Financial risk management and financial instruments

Hedging policy

The Sto Group's international activities expose it to interest and currency risks in particular. The goal of risk management is to adequately hedge currency risks that can arise during planning. Forward exchange transactions with a term of up to one year are generally concluded for this purpose.

Guidelines have been adopted to govern the scope for hedging and internal monitoring. Within the framework of these guidelines, only hedging transactions with approved counterparties may be concluded only to hedge existing or planned transactions. As a matter

of principle, the type and scope of hedging operations are determined by the underlying transaction.

Liquidity risk

Detailed liquidity planning is the basis of liquidity management. On balance sheet date, cash and cash equivalents as well as existing, unused credit lines were available. These credit lines are mainly a syndicated loan, which was taken out in 2012 and which was extended until 2022 in 2017.

The following overview sets out the contractually agreed cash outflows from financial instruments, including interest and not including cash outflows from finance leasing contracts shown in Note (13).

in EUR K	Cash outflows			31 Dec 2017
	up to 1 year	1 – 5 years	5 – 10 years	
Borrowings	9,486	1,707	0	11,193
Trade payables	46,035	355	0	46,390
Other borrowings	28,213	316	0	28,529
Derivatives	40,938	0	0	40,938
Total cash outflows	124,672	2,378	0	127,050

in EUR K	Cash outflows			31 Dec 2018
	up to 1 year	1 – 5 years	5 – 10 years	
Borrowings	11,487	2,831	379	14,696
Trade payables	47,405	151	0	47,556
Other financial liabilities	32,356	283	0	32,639
Derivatives	38,656	0	0	38,656
Total cash outflows	129,904	3,265	379	133,547

There are contingencies in the amount of EUR 795 K (previous year: EUR 678 K) for which no liability is currently expected to arise (Note 32).

The amounts of the derivatives shown correspond to the un-discounted cash flows. These payments can be processed on a gross or net basis.

In the following table, the cash outflows are compared to the corresponding cash inflows:

in EUR K	Cash inflows/outflows as at 31 Dec 2017			Total
	up to 1 year	1 – 5 years	5 – 10 years	
Inflow	40,701	0	0	40,701
Outflow	40,938	0	0	40,938
Balance	-237	0	0	-237

in EUR K	Cash inflows/outflows as at 31 Dec 2018			Total
	up to 1 year	1 – 5 years	5 – 10 years	
Inflow	38,841	0	0	38,841
Outflow	38,656	0	0	38,656
Balance	185	0	0	185

The following overview shows the changes in the liabilities from financing activities.

in EUR K	1 Jan 2017	Cash flows	New leases	Other	31 Dec 2017
current interest-bearing loans (without the following item)	13,097	-3,696		85	9,486
current liabilities from financial leases	401	-431	63	238	271
Total current liabilities from financing activities	13,498	-4,127	63	323	9,757
non-current interest-bearing loans (without the following item)	792	1,000		-85	1,707
non-current liabilities from financial leases	329		234	-238	325
Total non-current liabilities from financing activities	1,121	1,000	234	-323	2,032
Total liabilities from financing activities	14,619	-3,127	297	0	11,789

in EUR K	1 Jan 2018	Cash flows	New leases	Other	31 Dec 2018
current interest-bearing loans (without the following item)	9,486	757	0	1,029	11,272
current liabilities from financial leases	271	-288	27	177	187
Total current liabilities from financing activities	9,757	469	27	1,206	11,459
non-current interest-bearing loans (without the following item)	1,707	2,439	0	-1,030	3,116
non-current liabilities from financial leases	325	0	80	-177	228
Total non-current liabilities from financing activities	2,032	2,439	80	-1,207	3,344
Total liabilities from financing activities	11,789	2,908	107	-1	14,803

The effects of the reclassification of the long-term portion of interest-bearing loans and finance lease obligations as well as currency translation differences over time are reported under 'Other'.

Default risk arising from financial assets

The credit and default risk arising from financial assets entails the risk of a counterparty defaulting and is limited to the maximum net carrying amount of the receivable due from the defaulting counterparty.

In connection with the investment of cash and the portfolio of derivative financial assets, there are generally default risks due to the risks of financial institutions failing to honour their

obligations. The resulting risk was controlled by means of diversification and the careful selection of counterparties. At the moment, no cash investments or derivative financial assets are overdue or individually impaired on account of default risks.

The default risk of financial assets in the form of trade receivables was taken into account by means of value adjustments. There was no concentration of default risks, which were mainly measured by cluster risks, i.e. risk concentrations with regard to borrower rating classes, customer structure and proportion of receivables from a customer in relation to total receivables.

Presentation of net carrying amounts of financial instruments measured at amortised costs of acquisition:

in EUR K	not due, not value- adjusted	overdue, not value- adjusted	overdue, value-adjusted	Carrying amount 31 Dec 2017
Other financial assets	77,506	11	88	77,605
Trade receivables	80,718	21,037	24,431	126,186
Cash and cash equivalents	84,422	0	0	84,422
Total financial instruments measured at amortised cost of acquisition	242,646	21,048	24,519	288,213

in EUR K	of which individually value-adjusted	of which not due, and value-adjusted in accordance with IFRS 9	of which overdue and value-adjusted in accordance with IFRS 9	Carrying amount 31 Dec 2018
Financial assets	25	77,906	5,337	83,268
Trade receivables	5,761	95,741	34,268	135,770
Cash and cash equivalents	0	105,294	0	105,294
Total financial instruments measured at amortised cost of acquisition	5,786	278,941	39,605	324,332

Trade receivables are assessed on the basis of the creditworthiness of the respective customer. Information is obtained and regularly updated to assess the credit quality of financial assets which are neither overdue nor adjusted. On the basis of this and other information, the financial assets are classified and credit limits defined.

Collateral amounting to EUR 6,754 K (previous year: EUR 6,323 K*) was held in the fiscal year for overdue and impaired trade receivables. This mainly relates to pledged land and bank guarantees received.

* figure in the previous year: EUR 555 K – transfer error

The gross carrying amount of receivables which were individually value-adjusted stood at EUR 20,642 K (previous year: EUR 17,417 K) in the reporting period. The gross carrying amount of receivables which are subject to impairment according to IFRS 9 stood at EUR 135,701 K.

The gross carrying amount of the financial assets measured at amortised cost with individual value adjustments stood at EUR 50 K (previous year: EUR 0 K).

The financial assets measured at fair value are neither overdue nor impaired.

In the case of financial instruments that are not due, and value-adjusted in accordance with IFRS 9, there were no signs of possible default as of the 2018 balance sheet date.

Maturity analysis of overdue and not value-adjusted financial instruments:

in EUR K	overdue				31 Dec 2017
	up to 30 days	30 days to 60 days	60 days to 90 days	more than 90 days	
Other financial assets	0	0	0	11	11
Trade receivables	11,637	3,759	2,075	3,567	21,037
Total overdue and not value-adjusted financial instruments	11,637	3,759	2,075	3,578	21,048

Maturity analysis of overdue financial instruments value-adjusted in accordance with IFRS 9:

in EUR K	overdue				31 Dec 2018
	up to 30 days	30 days to 60 days	60 days to 90 days	more than 90 days	
Financial assets	3	1,741	1,351	2,242	5,337
Trade receivables	17,704	5,837	2,245	8,482	34,268
overdue financial instruments value-adjusted in accordance with IFRS 9	17,707	7,578	3,596	10,723	39,605

Currency risk

Payments in foreign currency are determined in the budget phase for the following year. On the basis of the planned payment flows, suitable hedging strategies are created, agreed upon with the relevant bodies, and implemented.

The planned cash positions are hedged without exception through hedging instruments congruent with the time and economic state from the area of derivatives. The currency hedge mainly affected CNY/EUR, CZK/EUR, HUF/EUR, RUB/EUR, SGD/EUR, USD/EUR, NOK/EUR, SEK/EUR, PLN/EUR, CAD/EUR, CHF/EUR, GBP/EUR as well as CAD/USD. The changes in fair value were recognised in the statement of profit and loss with an impact on profit and loss.

The main operative currency risks are due to the manufacture of products in Germany and their subsequent selling and delivery to foreign subsidiaries in Euro. Currency risks occurred due to business completed in euros with subsidiaries outside the Euro zone, mainly in Switzerland, Sweden, Poland, Hungary, Great Britain, Norway, and the Czech Republic.

All non-functional currencies in which the Group holds financial instruments are used as relevant risk variables in the sensitivity analysis stipulated by IFRS 7.

The essential currency risk results from the change in assets and liabilities in the non-functional currency of the CNY/EUR currency pair. If the Chinese renminbi had been 10 % lower/higher against the euro, pre-tax earnings would have been up by EUR 90 K (previous year: EUR 91 K higher), or down by EUR 74 K (previous year: EUR 74 K lower).

Interest rate risk

Interest rate risks according to IFRS 7 arise due to possible changes in the market interest rates for cash investments and due to the variable interest rates for current and non-current liabilities.

The volume of non-current, variable-rate borrowings was so low that a change of the market interest level by 100 basis points on 31 December 2018 would have had no significant impact on earnings, like in the previous year.

Due to the maturity of the financial investments with a running period of up to one year, there is no interest rate risk for the as at 31 December 2018.

Valuation of derivative financial instruments

The market values of the derivative financial instruments are determined on the basis of the tradability based on reference prices and valuation models and is presented as follows:

in EUR K	31 Dec 2018		31 Dec 2017	
	Nominal volume	Total market value	Nominal volume	Total market value
Forward exchange transactions/options	38,872	185	40,986	-237
Total derivative financial instruments	38,872	185	40,986	-237

The nominal volume of a derivative hedge transaction is the reference amount for which the payments are derived. The hedged contract and the risk are not the same as the nominal volume but only reflect rate changes to which they refer. The market value corresponds to the amount that would have to be paid at the balance sheet date if the hedge had been settled.

The decrease in the nominal volume in a functional currency in case of the foreign currency forwards is based on a reduced hedging volume of payments outside the functional currency.

As a rule, the residual maturity of the currency derivatives lies within a year.

(32) Contingencies

in EUR K	2018	2017
Guarantees from the Sto Group to third parties	794	677
Reserve liability to cooperatives	1	1
Total contingencies	795	678

In the case of guarantees, no liability is currently expected to arise.

(33) Litigation

Neither Sto SE & Co. KGaA nor its Group companies are involved in any court litigation or arbitration proceedings which are liable to exert a significant influence on the Group's economic situation or have done so in the past two years. There is no evidence that any such litigation or proceedings will arise in the future. Provisions in an appropriate amount have been set aside by the individual Group companies to allow for any expenses arising from court litigation or arbitration proceedings.

(34) Other financial obligations

in EUR K	31 Dec 2017	within one year	Maturity between 1 – 5 years	after 5 years
Liabilities from operating leases	59,992	21,279	35,166	3,547
Liabilities from maintenance contracts	5,552	3,592	1,960	0
Acceptance obligations	9,035	8,663	349	23
Other obligations	580	366	214	0
Total other financial obligations	75,159	33,900	37,689	3,570

in EUR K	31 Dec 2018	within one year	Maturity between 1 – 5 years	after 5 years
Liabilities from operating leases	59,143	20,801	35,960	2,382
Liabilities from maintenance contracts	8,167	3,490	4,193	484
Acceptance obligations	13,770	11,157	2,591	22
Other obligations	7,357	6,985	372	0
Total other financial obligations	88,437	42,433	43,116	2,888

The liabilities from operating leases comprise primarily building rental contracts as well as liabilities relating to the vehicle fleet, and plants.

There are no purchasing intentions at the end of the leasing contracts. Insofar as final payments are to be expected resulting from damages, provisions have been made.

Of the acceptance obligations, an amount of EUR 6,639 K (previous year: EUR 5,672 K) relates to items of tangible fixed assets. Furthermore, acceptance obligations relating to inventories as well as other acceptance obligations exist.

(35) Auditors' fees

The following fees paid to the auditors of the consolidated annual financial statement of the Sto Group, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, for services provided are recorded as expenses in 2018:

in EUR K	2018	2017
Audits of financial statements	370	321
Other certification or valuation activities	4	4
Other services	0	11
Auditors' fees in total	374	336

(36) Events after the balance sheet date

Between the end of the fiscal year and the point at which this report was signed off, there were no events of particular note and with a significant impact on the earnings, financial, and asset situation of the Sto Group.

(37) Related party disclosures

IAS 24 defines related parties as persons or entities liable to be influenced by the reporting entity or are capable of influencing the reporting entity in question.

All business relations with related parties were conducted on arms-length terms.

With the exception of the dividend payout, there were no transactions between the Group and the ultimate parent company, Stotmeister

Beteiligungs GmbH, during the fiscal year or the year prior.

As at 31 December 2018, members of the Executive Board of STO Management SE and the Supervisory Board of Sto SE & Co. KGaA are members of the executive boards and supervisory boards of other companies with which Sto SE & Co. KGaA maintains relations as part of its ordinary business activities. All transactions with such companies are conducted on arms-length terms.

The volume of deliveries and services, including net interest income, between companies in the Sto Group and related parties and persons are set out in the following table:

in EUR K	Share	Rendered deliveries and services		Received deliveries and services		Receivables from		Liabilities to	
		2018	2017	2018	2017	2018	2017	2018	2017
Inotec GmbH, Waldshut-Tiengen/Germany	47.5 %	48	75	2,987	3,638	655	654	71	134
JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany	49.8 %	343	0	0	0	343	0	0	0
STO Management SE		859	808	4,080	3,698	90	79	1,965	1,714
Other		0	0	10	5	0	0	10	0

(38) List of subsidiaries and investments as at 31 December 2018

Fully consolidated companies in Germany	Capital share in %
Name, registered office	
StoCretec GmbH, Kriftel/Germany	100
Verotec GmbH, Lauingen/Germany	100
Gefro Verwaltungs-GmbH & Co. KG, Stühlingen/Germany	100
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany	100
Südwest Lacke + Farben Verwaltungs-GmbH, Böhl-Iggelheim/Germany	100
VeroStone GmbH, Eichstätt/Germany	100
Innolation GmbH, Lauingen/Germany	100
Sto SMEE Beteiligungs GmbH, Stühlingen/Germany	100
Ströher GmbH, Dillenburg/Germany	50.1
Ströher Fliesen GmbH, Dillenburg/Germany	50.1
Ströher Produktions GmbH & Co. KG, Dillenburg/Germany	50.1
GEPADI Fliesen GmbH, Dillenburg/Germany	50.1
Sto BT GmbH, Stühlingen/Germany	100
Sto BTN GmbH, Stühlingen/Germany	100
Sto Building Solutions GmbH, Stühlingen/Germany (formerly Sto BTJ GmbH)	100

For changes in the current year,
please refer to 'General disclosures'
Note 4 'Companies consolidated'.

Fully consolidated companies outside Germany	Capital share in %
Name, registered office	
Sto Ges.m.b.H., Villach/Austria	100
Sto S.A.S., Bezons/France	100
Beissier S.A.S., La Chapelle La Reine/France	100
Innolation S.A.S., Amilly/France	100
Beissier S.A.U., Erreterria/Spain	100
Sto SDF Ibérica S.L.U., Mataró/Spain	100
Sto Isoned B.V., Tiel/Netherlands	100
Sto N.V., Asse/Belgium	100
Sto Italia Srl, Empoli/Italy	52
Sto Finexter OY, Vantaa/Finland	100
Sto Scandinavia AB, Linköping/Sweden	100
Sto Danmark A/S, Hvidovre/Denmark	100
Sto Norge AS, Oslo/Norway	100
StoCretec Flooring AS, Moss/Norway (formerly Hesselberg Bygg AS)	100
UAB TECH-COAT, Klaipėda/Lithuania	95
Hesselberg Sverige AB, Helsingborg/Sweden	100
Sto AG, Niederglatt/Switzerland	100
Sto Ltd., Paisley/Great Britain	100
Sto Sp. z o.o., Warsaw/Poland	100
Sto Epitöanyag Kft., Dunaharaszti/Hungary	100
Sto s.r.o., Dobřejovice/Czech Republic	100
STOMIX spol s.r.o., Skorosice/Czech Republic	100
Sto Slovensko s.r.o., Zvolen/Slovakia (formerly STOMIX Slovensko s.r.o.)	100
OOO Sto, Moscow/Russia	100
OOO STOMIX Orel, Orel/Russia	100
Sto Yapı Sistemleri Sanayi ve Ticaret A.Ş., Istanbul/Turkey	100
Sto Gulf Building Material LLC., Dubai/UAE	49
Sto Corp., Atlanta/USA	100
Sto Canada Ltd., Etobicoke/Canada	100
Industrial y Comercial Sto Chile Ltda., Santiago de Chile/Chile	100
Sto Colombia S.A.S., Bogota D.C./Colombia	100
Sto Mexico S. de R.L. de C.V., Monterrey/Mexico	100
Sto Brasil Revestimentos e Fachadas Ltda., Itaquaquetuba/Brazil	100
Sto Corp. Latin America Inc., Panama/Panama	100
Shanghai Sto Ltd., Shanghai/China	100
Langfang Sto Building Material Co. Ltd., Hebei/China	100
Wuhan Sto Building Material Co. Ltd., Wuhan/China	100
Sto SEA Pte. Ltd., Singapore/Singapore	100
Sto SEA Sdn. Bhd., Masai/Malaysia	100

For changes in the current year, please refer to 'General disclosures' Note 4 'Companies consolidated'.

Companies accounted for using the equity method	Capital share in %	No restrictions apply with regard to the liquidation of assets or the payment of debts for a fully consolidated company within the Sto Group.
Name, registered office		
Inotec GmbH, Waldshut-Tiengen/Germany	47.5	
JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany	49.8	
JONAS GmbH, Wülfrath/Germany	49.8	

(39) German Corporate Governance Code

On 20 December 2018, the Executive Board of the personally liable partner of Sto SE & Co. KGaA, STO Management SE, and the Supervisory Board of Sto SE & Co. KGaA issued the declaration of compliance with the recommendations of the Government Commission on German Corporate Governance Code in accordance with Section 161 of the German Companies Act and made it available to shareholders on the Internet page of Sto SE & Co. KGaA on 20 December 2018.

(40) Remuneration of the Executive Board and the Supervisory Board

The remuneration paid to the members of the Executive Board in the fiscal year of 2018 complies with the statutory provisions contained in the German Companies Act. Current due remunerations of the Executive Board totalled EUR 2,689 K (previous year: EUR 2,462 K). The long-term incentive payments, which are also due in the short term, amounted to EUR 88 K (previous year: EUR 0 K). Short-term and long-term obligations amounted to a total of EUR 2,777 K* (previous year: EUR 2,462 K). Expenses for future benefits after terminating the employment relationship (current service cost) amounted to EUR 330 K (previous year: EUR 309 K). Executive Board remunerations thus total EUR 3,107 K (previous year: EUR 2,771 K).

As at 31 December 2018, the non-current financial liabilities for the current members of the Executive Board amounted to EUR 128 K (previ-

ous year: EUR 164 K). As at 31 December 2018, post-employment benefit provisions for former members of the Executive Board amounted to EUR 2,062 K (previous year: EUR 2,039 K) due to offsetting against plan assets. Remuneration paid to former members of the Executive Board and the Supervisory Board came to EUR 443 K (previous year: EUR 424 K).

The remunerations of the Supervisory Board of Sto SE & Co. KGaA and the compensation of expenditure in this regard as stipulated in Section 6 Paragraph 3 of the regulations of Sto SE & Co. KGaA for the Supervisory Board of STO Management SE for the 2018 fiscal year amounted to EUR 636 K (previous year: EUR 627 K).

The members of the Supervisory Board will only receive currently due payments for their activities on the committee. Excluded from this are compensation and other payments to operations employee representatives pursuant to their employment contracts. No compensation has been granted for personally rendered services outside of committee activities by the members of the Supervisory Board.

Following the decision at the annual general meeting on 16 June 2015, the need for disclosure in accordance with Section 314 No. 6a sentence 5-9 of the German Commercial Code (HGB) and Section 314 Paragraph 2 sentence 2 HGB in conjunction with Section 286 Paragraph 5 HGB has been dispensed with.

* Total remuneration for the Executive Board pursuant to § 314 (1) No. 6a of the German Commercial Code (HGB)

**Members of the Executive Board of STO Management SE in the fiscal year of 2018
(personally liable partner of Sto SE & Co. KGaA):**

Rainer Hüttenberger

Spokesman of the Executive Board responsible for Marketing and Sales Sto Brand International Stein a. Rhein/Switzerland, Dipl.-Betriebswirt (FH)
Member of the BOD of Sto Corp., Atlanta/USA
Chairman of the BOD of Shanghai Sto Ltd., Shanghai/China
Chairman of the BOD of Sto Scandinavia AB, Linköping/Sweden
Chairman of the BOD of Sto Danmark A/S, Hvidovre/Denmark
Chairman of the BOD of Sto Yapı Sistemleri Sanayi ve Ticaret A.Ş., Istanbul/Turkey
Member of the BOD of Sto Norge AS, Oslo/Norway
Member of the BOD of Sto Finexter OY, Vantaa/Finland
Member of the BOD of Sto SEA Pte Ltd., Singapore/Singapore

Michael Keller

Chief Sales Officer, responsible for Sales Sto Brand Germany, Distribution and Central Services
Bonndorf/Germany, Ing.-Päd. (TU)
Member of the Supervisory Board of JONAS Farbenwerke GmbH & Co.KG, Wülfrath/Germany
Member of the Administrative Board of Beissier S.A.U., Errenteria/Spain

Jan Nissen

Chief Technical Officer, responsible for Process Engineering, Innovation, Materials Management and Logistics
Trossingen/Germany, Bachelor of Science
Deputy Chairman of the Advisory Board of Inotec GmbH, Waldshut-Tiengen/Germany
Member of the BOD of Shanghai Sto Ltd., Shanghai/China
Member of the BOD of Sto SEA Pte Ltd., Singapore/Singapore

Rolf Wöhrle

Chief Financial Officer, responsible for Finance, Controlling, IT, Legal, Internal Audit, and Information Technology
Bad Dürkheim/Germany, Dipl.-Betriebswirt (BA)
Member of the BOD of StoCretec Flooring AS, Moss/Norway
Member of the BOD of Sto Scandinavia AB, Linköping/Sweden
Member of the BOD of Sto Norge AS, Oslo/Norway
Member of the BOD of Sto Finexter OY, Vantaa/Finland
Member of the BOD of Sto Danmark A/S, Hvidovre/Denmark
Member of the BOD of Sto Ltd., Paisley/ Great Britain

Members of the Supervisory Board of Sto SE & Co. KGaA in the fiscal year of 2018:**Dr Max-Burkhard Zwosta**

Chairman of the Supervisory Board
Wittnau/Germany, Chartered Accountant and
Tax Consultant
Member of the Supervisory Board of STO
Management SE, Stühlingen/Germany
Chairman of the Supervisory Board of Brauerei
Ganter GmbH & Co. KG, Freiburg i.Br./Germany
Chairman of the Supervisory Board of Ganter
Grundstücks GmbH, Freiburg i.Br./Germany
Chairman of the Advisory Board of Brauerei
Ganter Real Estate Nr. 1 GmbH & Co KG,
Freiburg i.Br./Germany
Chairman of the Supervisory Board of Freicon AG,
Freiburg i.Br./Germany
Chairman of the Advisory Board of alfer alumin-
ium Gesellschaft mbH, Wutöschingen/Germany
Chairman of the Advisory Board of Walter Maisch
Familien Holding GmbH & Co. KG, Gaggenau/
Germany
Member of the Supervisory Board of Testo SE &
Co. KGaA, Lenzkirch/Germany
Member of the Supervisory Board of Testo
Management SE, Lenzkirch/Germany
Member of the Advisory Board of EGT AG,
Triberg/Germany

Lothar Hinz

Deputy Chairman of the Supervisory Board and
employee representative, Reutlingen/Germany
Chairman of the Group Works Council and Chair-
man of the Works Council for the Baden-Würt-
temberg sales region, Sto SE & Co. KGaA, and
StoCretec GmbH

Maria H. Andersson

Munich/Germany
Managing Director of N4 Beteiligungsgesellschaft
mbH, Family Officer/Single Family Office, Munich/
Germany
Member of the Supervisory Board of STO
Management SE, Stühlingen/Germany
Member of the Advisory Board of Matador
Partners Group AG, Sarnen/Switzerland

Dr Renate Neumann-Schäfer

Überlingen/Germany
Business consultant, Economist
Member of the Supervisory Board of STO
Management SE, Stühlingen/Germany
Member of the Supervisory Board of Villeroy &
Boch AG, Mettlach/Germany (until 23 March 2018)
Member of the Supervisory Board of R. Stahl
Aktiengesellschaft, Waldenburg/Germany
Member of the Administrative Council of
Samariter GmbH, Nürtingen/Germany
Member of the Foundation Council of Samariter
Stiftung, Nürtingen/Germany
Member of the Foundation Council of Stiftung
Zeit für Menschen, Nürtingen/Germany

Cornelia Reinecke

Emmendingen/Germany
Head of Human Resources and Member of the
Management Board of Sick AG

Prof Dr Klaus Peter Sedlbauer

Rottach-Egern/Germany
Chairholder at the Institute of Building Physics of
the Technical University Munich/Germany
Head of the Fraunhofer Institute for Building
Physics, Stuttgart, Holzkirchen, and Nuremberg/
Germany
Deputy Chairman of the Supervisory Board of
Calcon AG, Munich/Germany

Peter Zürn

Bretzfeld-Weißensburg/Germany
Member of the Management of the Würth Group, Künzelsau/Germany
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
Chairman of the Administrative Board of InovaChem Engineering AG, Wetzikon/Switzerland
Chairman of the Administrative Board of Würth á Islandi ehf., Garðabær/Iceland
Chairman of the Administrative Board of Würth Norge AS, Hagan/Norway
Member of the Administrative Board of Tunap International Trading Co., Ltd., Shanghai/China
Member of the Administrative Board of Würth AG, Arlesheim/Switzerland
Member of the Administrative Board of Würth International AG, Chur/Switzerland
Member of the Administrative Board of Würth Logistics, Rorschach/Switzerland
Member of the Administrative Board of Würth Australia Pty. Ltd., Dandenong South/Australia
Member of the Supervisory Board of Wuerth China Co. Ltd., Shanghai/China
Member of the Supervisory Board of Wuerth Indonesia P.T., Jakarta/Indonesia
Member of the Supervisory Board of Würth Szereléstechnika KFT, Budaörs/Hungary
Member of the Supervisory Board Würth France SA, Erstein/France
Member of the Advisory Board of Würth Técnica de Montagem Lda., Sintra/Portugal

Wolfgang Dell

Employee representative, Hattersheim/Germany
Administrator Maintenance Plant Technology,
Sto SE & Co. KGaA

Frank Heßler

Employee representative, Mannheim/Germany
Political Trade Union Secretary
Deputy regional manager IG BCE of the regional district of Baden-Württemberg

Barbara Meister

Employee representative, Blumberg/Germany
Deputy Chairperson of the Group Employee Representative Council and Chairperson of the Weizen Employee Representative Council,
Sto SE & Co. KGaA

Roland Schey

Employee representative, Tengen/Germany
Head of Finance and Accounting Sto Group

Martina Seth

Employee representative, Uelzen/Germany
Personnel Developer and Trade Union Secretary
of IG BCE, Hanover Head Office

**Members of the Supervisory Board of STO Management SE in the fiscal year 2018
(personally liable partner of Sto SE & Co. KGaA):**

Jochen Stotmeister
Chairman of the Supervisory Board
Grafenhausen/Germany

Dr Max-Burkhard Zwosta
Deputy Chairman of the Supervisory Board
Wittnau/Germany

Maria H. Andersson
Munich/Germany

Dr Renate Neumann-Schäfer
Überlingen/Germany

Gerd Stotmeister
Allensbach/Germany

Peter Zürn
Bretzfeld-Weißleinsburg/Germany

Stühlingen/Germany, 12 April 2019

Sto SE & Co. KGaA
represented by STO Management SE
Executive Board



Rainer Hüttenberger
(Spokesman)



Michael Keller



Jan Nissen



Rolf Wöhrle

Audit certificate of the independent auditor

To STO SE & Co. KGaA

Report on the audit of the consolidated financial statements and the Group management report

Audit assessments

We have audited the consolidated annual financial statement prepared by STO SE & Co. KGaA, Stühlingen/Germany and its subsidiaries (the Group), comprising the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated cash flow statement for the fiscal year from 1 January until 31 December 2018 as well as the notes to the financial statements, together with a summary of important accounting methods. Furthermore, we have audited the Group management report of STO SE & Co. KGaA, Stühlingen/Germany for the fiscal year from 1 January until 31 December 2018. In accordance with German legal requirements, we have not audited the content of the non-financial group declaration and group declaration on corporate governance contained in the 'Business management control system' section of the Group management report.

In our opinion based on the findings of our audit,

- the accompanying consolidated annual financial statement of the Group complies in all material respects with the IFRSs as they are to be applied in the EU, and additionally with German legal regulations to be applied in accordance with Section 315e Paragraph 1 of the HGB (German Commercial Code), and gives a true and fair view of the assets and financial situation of the Group as at 31 December 2018 as well as of its income situation for the fiscal year from 1 January until 31 December 2018,

- and the accompanying Group management report provides a suitable view of the Group's position. In all material respects, this Group management report is consistent with the consolidated annual financial statement of the Group, complies with German legal regulations and accurately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not extend to the contents of the above-mentioned non-financial group declaration and group declaration on corporate governance.

In accordance with Section 322 Paragraph 3 Sentence 1 of the HGB (German Commercial Code), we declare that our audit has not given rise to any objections to the correctness of the consolidated annual financial statement of the Group and the Group management report.

Basis for the audit opinions

We conducted our audit of the consolidated annual financial statements of the Group and the Group management report in accordance with Section 317 HGB and the EU regulation on statutory audits (no. 537/2014) while observing the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility in accordance with these regulations and principles is mostly described under 'Responsibility of the auditor for the audit of the consolidated annual financial statement of the Group and the Group management report'. We are independent of the Group companies in accordance with European and German commercial and professional legal regulations and have fulfilled our German professional duties in accordance with these requirements. Furthermore, in accordance with Article 10 Paragraph 2 Letter (f) of the EU regulation on statutory audits we declare that we have not provided any prohibited non-audit services pursuant to Article 5 Paragraph 1 of the EU regulation of

statutory audits. We are of the opinion that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated annual financial statement of the Group and on the Group management report.

Particularly important audit matters in the audit of the consolidated annual financial statement of the Group

Particularly important audit matters are those matters which, according to our dutiful judgement, were most significant in our audit of the consolidated annual financial statement for the fiscal year from 1 January until 31 December 2018. These matters have been considered in connection with our audit of the consolidated annual financial statement as a whole and in forming our opinion thereon; we do not express a separate opinion on these matters.

In the following, we describe what we consider to be particularly important audit issues:

1) Recognition and valuation of provisions for warranty risks

Reasons for determining this as a particularly important audit matter

The Group is exposed to considerable warranty risks. For our audit, provisions for warranty risks are of particular importance as their recognition and valuation are fraught with uncertainties and are highly dependent on the evaluations and assumptions of the statutory representatives. The assessment of the probability of damage occurring and estimates of the costs which would be incurred have a significant impact on the assets and earnings situation of the Group.

Auditing procedure

As part of our audit we have examined the processes established by the Sto Group for the identification, assessment, and reporting of provisions for warranty risks. Our auditing

procedures included inquiries of legal representatives and other persons entrusted with these matters within the Group, obtaining written statements from internal legal advisors regarding the evaluation of the estimated outflow of funds and the likelihood of occurrence, obtaining confirmation from external legal advisors, and assessing internal opinions on the reporting in the consolidated annual financial statement. In addition, we have assessed the accuracy of the estimates made by the legal representatives with regard to the costs incurred and the probabilities of occurrence on the basis of the development of the amounts of provisions set aside in previous years.

Our auditing procedure has not given rise to any objections to the reporting of provisions for warranty risks.

Reference to related information

The Sto Group has provided information on the accounting and valuation methods applied to the provisions for warranty risks, and on the amount of contingent liabilities resulting from warranty risks under '6) Presentation of the major accounting and valuation policies', in the subsection 'Estimates and assumptions by Management' as well as under 'Notes on the consolidated statement of financial position', Note (23).

2) Recoverability of goodwill

Reasons for determining this as a particularly important audit matter

Goodwill is subjected to an impairment test at least once per fiscal year as at 31 December and additionally during the year if there are indications of an unscheduled depreciation requirement in order to determine a possible depreciation requirement. These evaluations are regularly based on the present value of future cash flows of the respective cash-generating units to which goodwill has been allocated. The

result of these evaluations depends to a large extent on the assessment of the future development of the respective parts of the company by the legal representatives and on the determination of the discount rate.

Due to the complexity of this evaluation and the discretionary scope available in the context of the evaluation, this impairment test was one of the most significant matters in the context of our audit.

Auditing procedure

Within the framework of our audit, we have followed the methodical procedure of the legal representatives for carrying out the impairment test in accordance with IAS 36 with the assistance of internal evaluation experts. Among other things, we compared the definition of the cash-generating units with the control levels used in the Group at which goodwill is monitored. We have verified whether the legal representatives have determined the carrying amount and the recoverable amount of the cash-generating units in an equivalent manner. The corporate planning underlying the impairment tests of goodwill, especially regarding the future development of turnover and the EBIT margin, have been compared with the planning of the future development of the company set up by the legal representatives and approved by the Supervisory Board. We have discussed the major premises of the planning with the legal representatives and compared it to the earnings and the inflow of cash and cash equivalents in the past. The derivation of the discount rate and its individual components has been assessed by questioning the peer group, comparing the market data with external evidence and verifying the arithmetical accuracy of the calculation. We have also looked at the growth rate assumptions on the basis of long-term inflation expectations for the respective countries.

Our auditing procedure has not given rise to any objections to the measurement of goodwill of cash-generating units.

Reference to related information

The Sto Group reports on the procedure regarding the impairment test of cash-generating units as well as their earnings in the Notes to the consolidated annual financial statement under '6) Presentation of the major accounting and valuation policies' in the subsection 'Intangible assets'.

Other information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the legal representatives are responsible for the other information. Other information comprises the components provided for the Annual Report, of which we had received a version by the time this audit certificate was issued, in particular the sections 'Sto at a glance', 'Foreword', 'Report of the Supervisory Board', 'Corporate Governance Report / Declaration on management of the company', 'The Sto share', 'Sustainability and Corporate Social Responsibility', 'Responsibility statement by the legal representatives' as well as 'Financial calendar with publisher's details'.

Our audit opinions on the consolidated annual financial statement of the Group and the Group management report do not extend to other information, and accordingly we express neither an audit opinion nor any other form of audit conclusion.

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

- is materially inconsistent with the consolidated annual financial statement, the Group management report or our audit findings or
- otherwise appears materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the consolidated annual financial statement and the Group management report

The legal representatives are responsible for drawing up the consolidated annual financial statement, which complies with the IFRSs, as they are to be applied in the EU, and additionally with the German legal regulations in accordance with Section 315e Paragraph 1 of the HGB (German Commercial Code) in all material aspects. They are also responsible for ensuring that the consolidated annual financial statement gives a true and fair view of the assets situation, financial position and earnings situation of the Group. In addition, the legal representatives are responsible for the internal controls they have determined necessary to enable the preparation of a consolidated annual financial statement that is free from material misstatements, whether intentional or not. When preparing the consolidated annual financial statement of the Group, the legal representatives are responsible for assessing the capability of the Group to continue corporate activity. Furthermore, it is their responsibility to disclose matters in connection with the continuation of corporate activity where relevant. In addition, they are responsible for preparing the balance sheet on the basis of the accounting principle of continuing corporate activity, unless there is the intention to liquidate the Group or to discontinue operations or there is no realistic alternative.

The legal representatives are also responsible for preparing the Group management report which gives a suitable view of the Group's position and which is consistent with the consolidated annual financial statement in all material aspects, complies with the German legal regulations, and suitably presents the opportunities and risks of the development in the future. Moreover, the legal representatives are responsible for the precautions and measures

(systems) which they have deemed necessary to enable the preparation of a Group management report in accordance with the applicable German legal regulations and to provide sufficient suitable evidence for the statements in the Group management report.

The Supervisory Board is responsible for monitoring the accounting process of the Group for preparing the consolidated annual financial statement and the Group management report.

Responsibility of the auditor for the auditing of the consolidated annual financial statement and the Group management report

Our objective is to obtain sufficient certainty as to whether the consolidated annual financial statement as a whole is free from material misstatements, whether intended or not, and whether the Group management report as a whole provides a suitable view of the Group's position and, in all material aspects, is in accordance with the consolidated annual financial statement and the findings of our audit, complies with German legal regulations and suitably presents the opportunities and risks of the development in the future, as well as to issue an audit certificate which contains our audit opinions on the corporate annual financial statement and the Group management report. Sufficient certainty is a high degree of certainty but no guarantee that an audit conducted in accordance with Section 317 of the HGB (German Commercial Code) and the EU regulation on statutory audits while observing the generally accepted German principles of proper audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a materially false statement. False statements can result from infringements or inaccuracies and are considered to be material if the reasonable assumption can be made that they, individually or collectively, could influence decisions taken by addressees on the basis of this consolidated

annual financial statement and the Group management report.

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

- we identify and evaluate risks resulting from materially false statements, whether intentional or not, in the consolidated annual financial statement and in the Group management report, we plan and conduct audit procedures as a reaction to these risks, and obtain audit evidence which is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misstatements are not detected is higher in the case of infringements than in the case of inaccuracies, since infringements may involve fraudulent interaction, forgery, intentional incompleteness, misleading statements, or the repeal of internal controls;
- we gain an understanding of the internal control system relevant for the auditing of the consolidated annual financial statement and the precautions and measures relevant for the auditing of the Group management report in order to plan auditing procedures which are appropriate for the given circumstances but without the objective of issuing an audit opinion of the effectiveness of these systems;
- we assess the appropriateness of the accounting methods used by the legal representatives, and the reasonableness of estimates and related disclosures made by the legal representatives;
- we draw conclusions about the appropriateness of the accounting principle of continuing corporate activity applied by the legal representatives and, based on the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's capability to continue corporate activity. If we come to the conclusion that there is a material uncertainty, we are obliged to point out the related disclosures in the consolidated annual financial statement and the Group management report in our audit certificate or, if these disclosures are inappropriate, to modify our respective audit certificate. We draw our conclusions based on audit evidence obtained by the date of our audit certificate. However, future events or circumstances may prevent the Group from continuing its corporate activity;
- we assess the overall presentation, the structure and the content of the consolidated annual financial statement, including disclosures, and whether the consolidated annual financial statement presents the underlying business transactions and events in such a way that the consolidated annual financial statement gives a true and fair view of the assets situation, financial position and earnings situation of the Group in accordance with the IFRSs, as they are to be applied in the EU, and additionally with the German legal regulations in accordance with Section 315e Paragraph 1 of the HGB (German Commercial Code);
- we obtain sufficient and appropriate audit evidence for the accounting information of the companies or business activities within the Group in order to issue an audit opinion on the consolidated annual financial statement and the Group management report. We are responsible for instructing, monitoring and conducting the audit of the consolidated annual financial statement. We are solely responsible for our audit opinions;
- we assess whether the Group management report is in accordance with the consolidated annual financial statement, its compliance with the law and the view it gives of the position of the Group.
- we conduct audit procedures relating to the future-oriented statements made by the legal representatives in the Group management

report. On the basis of sufficient suitable audit evidence, we particularly retrace the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not issue an independent audit opinion on the future-oriented statements and the underlying statements. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, amongst other things, the planned scope and time schedule of the audit and significant audit findings, including any deficiencies in the internal control system, which we identify during our audit.

We issue a statement to those responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and the protective measures taken to that end.

From the matters that we have discussed with those responsible for monitoring, we determine those matters that were most significant in the audit of the consolidated annual financial statement for the current reporting period and which are therefore particularly important audit matters. We describe these matters in the audit certificate, unless laws or other legal regulations exclude public disclosure of the matter.

Other statutory and other legal requirements

Other information in accordance with Article 10 of the EU regulation on statutory audits

We were elected as Group auditors at the Annual General Meeting on 21 June 2018. We were commissioned by the Supervisory Board

on 20 November 2018. We have been the Group auditors of STO SE & Co. KGaA, Stühlingen/Germany, without interruption since the 1989 fiscal year.

We declare that the audit opinions contained in this audit certificate are consistent with the additional report to the Audit Committee in accordance with Article 11 of the EU regulation of statutory audits (Audit report).

In addition to the audit, we performed the following services, which were not disclosed in the consolidated annual financial statements or the Group management report, for the group companies:

- Advice on accounting, general legal and governance issues
- Non-legally required audits for specific industries
- Non-legally required agreed investigative actions with respect to financial information

Responsible chartered accountant

The chartered accountant responsible for the audit is Dr Eckart Wetzel.

Villingen-Schwenningen/Germany,
15 April 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr Wetzel	Busser
Chartered accountant	Chartered accountant

Responsibility statement by the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stühlingen/Germany, 12 April 2019

Sto SE & Co. KGaA
represented by STO Management SE
Executive Board



Rainer Hüttenberger
(Spokesman)



Michael Keller



Jan Nissen



Rolf Wöhrle

Financial calendar 2019

Electronic publication of the annual financial statements for 2018.....	30 April 2019
Interim report on the first half of 2019	15 May 2019
Annual General Meeting in 2019.....	19 June 2019
Report on the first half of 2019	30 August 2019
Interim report on the second half of 2019	19 November 2019
Electronic publication of the 2019 annual financial statement	27 April 2020

The annual financial statements of Sto SE & Co. KGaA (HGB) are available in electronic form at www.unternehmensregister.de. In addition, they are published on the website www.sto.de or may be requested in writing by post:

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This report contains forward-looking statements which are based on Management's current assumptions and estimates concerning future developments. Such statements are subject to risks and uncertainties which Sto cannot control or estimate precisely. If any uncertainty arises or the assumptions on which these statements are based prove to be incorrect, actual results may differ significantly from these statements. Sto is under no obligation to update forward-looking statements to incorporate any events which come to light after the publication of this report.

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