Building with conscience.

Sto SE & Co. KGaA | **2019 Annual Report**

Sto at a glance

Sto Group	2014	2015	2016	2017	2018	**2019***	Changes in % 19/18
Turnover	1,208.7	1,216.6	1,230.7	1,277.4	1,332.4	1,398.2	4.9 %
Germany	549.2	535.4	548.7	562.8	596.0	611.3	2.6 %
Outside of Germany	659.5	681.2	682.0	714.6	736.4	786.9	6.9 %
Investments (without: financial assets and IFRS 16)	39.1	35.8	37.5	32.7	32.1	35.3	10.0 %
Depreciation/amortisation (without: financial assets and IFRS 16)	29.9	31.0	32.7	33.3	31.3	33.2	6.1 %
EBITDA	126.9	112.6	103.0	117.3	113.2	138.2	22.1 %
EBIT	97.0	81.5	70.3	84.0	81.9	85.9	4.9 %
EBT	96.2	81.2	68.1	82.2	80.2	83.1	3.6 %
EAT (earnings after taxes)	66.0	55.7	45.7	55.8	53.8	56.3	4.7 %
Earnings per limited ordinary share (EUR)	10.29	8.71	7.14	8.62	8.33	9.03	8.4 %
Earnings per limited preference share (EUR)	10.35	8.77	7.20	8.68	8.39	9.09	8.3 %
Cash flow from operating activities	93.9	78.9	95.4	86.5	80.7	117.0	45.0 %
per share (EUR)	14.61	12.28	14.85	13.46	12.56	18.21	45.0 %
Total assets	751.3	641.9	714.2	749.6	784.4	896.1	14.2 %
Equity capital	506.5	404.7	425.2	450.1	477.5	486.5	1.9 %
in % of total assets	67.4	63.0	59.5	60.1	60.9	54.3	
Employees (year end)	4,979	5,032	5,251	5,308	5,333	5,533	3.8 %
of which in Germany	2,623	2,652	2,895	2,884	2,887	2,943	1.9 %
of which outside of Germany	2,356	2,380	2,356	2,424	2,446	2,590	5.9 %

* From 2019 including IFRS 16

Sto SE & Co. KGaA	2014	2015	2016**	2017**	2018**	**2019****	Changes in % 19/18
Turnover	604.2	598.8	610.7	627.0	667.1	685.3	2.7 %
Export ratio in %	17.4	18.7	20.5	19.9	20.2	20.2	
Investments							
in property, plant and equipment and Intangible assets	11.6	20.1	15.5	9.5	14.5	14.7	1.4 %
in financial assets	6.4	9.6	14.7	18.4	5.5	40.7	640.0 %
Depreciation/amortisation (without financial assets)	13.4	13.4	12.7	12.8	12.5	13.2	5.6 %
Earnings before income taxes* **	79.1	64.6	56.5	62.0	59.3	71.4	20.4 %
Net profit for the year	62.8	48.2	45.4	45.8	40.8	51.8	27.0 %
Cash flow from operating activities******	35.1	41.9	35.6	47.6	56.3	27.4	–51.3 %
Dividend							
per limited ordinary share (EUR)*****	0.25/25.14	0.25/4.56	0.25/3.00	0.25/3.78	0.25/3.78	0.25/3.78	
per limited preference share (EUR)*****	0.31/25.14	0.31/4.56	0.31/3.00	0.31/3.78	0.31/3.78	0.31/3.78	
Total assets	560.6	446.0	475.2	508.2	531.5	572.3	7.7 %
Equity capital	433.9	318.7	333.1	357.9	372.6	398.4	6.9 %
in % of total assets	77.4	71.5	70.1	70.4	70.1	69.6	
Employees (year end)	2,134	2,148	2,133	2,102	2,093	2,149	2.7 %

(Figures in EUR million unless otherwise indicated)

* From 2016 in accordance with BilRUG (Accounting Directive Implementation Act)
** Until 2015 earnings on ordinary activities
*** Since 2014 cash flow has been adapted to comply with the new DRS 21 (German accounting standard)
***** 2019: proposal by the personally liable partner STO Management SE and the Supervisory Board

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:

For the new Paper Museum in Düren/Germany, the Cologne-based architect Klaus Hollenbeck took inspiration from the material to which the museum is dedicated. Folds, impressions, and watermarks hence became the starting point for his striking design. The consultants of the Sto Group took care of the technical feasibility of his ideas and trained the skilled craftsmen. The architect used a ventilated rainscreen cladding system (StoVentec R), which covers both parts of the building with a seamless render surface, to create a visual link between the existing and the new building during the comprehensive renovation and expansion of the aging museum. As protection against algae and fungi, the biocide-free facade paint StoColor Dryonic with its biomimetic principle was applied.

Foreword

Rainer Hüttenberger, Spokesman of the Executive Board

Dear Shareholders,

Sto SE & Co. KGaA is turning 65 years old in 2020. Since its founding, the company has experienced its share of highs and lows, but all in all, we can look back on very positive corporate development. The 2019 fiscal year is no exception; we saw operational growth, were able to improve our earnings and reach all projected values despite another year of challenging conditions. Overall, I am satisfied with the 4.9 % increase in sales to EUR 1,398.2 million and the EBIT plus of 4.9 % to EUR 85.9 million we achieved.

Business development benefitted from mostly good weather conditions, which have always played a crucial role at Sto because the majority of our products are used in exteriors. Positive currency translation effects and, not least, the company acquisitions completed in 2019 contributed massively to the company's growth in the last year. In the year under review, we carried out five M&A measures to further develop our regional presence, our product range, the skills available within the Group, our competencies, and our staff capacities.

With the acquisition of Liaver GmbH & Co. KG on 1 January 2019, we also ensured our access to a strategically important raw material. Liaver is one of the few manufacturers of expanded glass granulate made from recycled glass. We use this environmentally friendly and sustainable material in several Sto products. The next acquisition followed in May, when we acquired a majority interest in Skyrise Prefab Building Solutions Inc. in Canada. We have already been working with this company for some time as part of our StoPanel network. Skyrise specialises in the industrial prefabrication of large-size facade panels. In July, we acquired the remaining 49.9 % of the brick and ceramic manufacturer Ströher, which had already been part of our companies consolidated since the beginning of 2016. We also ensured access to the Australian market with Unitex Australia Pty Ltd, which we acquired on 1 August 2019. Unitex mainly produces plasters, renders, reinforcing compounds, and decorative profiles for interior and exterior use.

The acquisition of VIACOR Polymer GmbH was the last one during the year under review and helped to strengthen our floor coatings product segment, which is sold under the brand name StoCretec. VIACOR Polymer GmbH has made a name for itself in the industrial and sports floor coatings sector. This investment of 50.1 % will be consolidated into the Sto Group beginning from 2020 onwards.

On the other hand, we have stepped away from the operation of VeroStone GmbH, which previously included the Sto Group's natural stone activities. As part of a management buyout, the assets of this company were sold to long-standing members of management, effective as of the 2019 year end.

The numerous changes made last year have opened up new opportunities for Sto. At the same time, they present us once again with challenging tasks that need to be tackled, as does the uncertain environment in which we operate. Over the past 65 years, we have largely succeeded in doing so. We have always looked to the future and made use of our potential, been prepared for market developments, and proactively incorporated them into our decisions, such as considerations for acquisition. We aim to maintain this way of thinking and to never stop working on optimising the Group.

In 2019, we started another thorough review of our strategic direction in order to determine where we can improve. We are currently analysing both external factors such as megatrends and developments in construction as well as internal approaches and potential to enhance efficiency. We will then use this as a basis to define tangible measures and begin to implement them. At the end of the process, our aim is for the Sto Group to be in a position to better recognise and tap into our market opportunities.

Meanwhile, we have always kept our eyes firmly on the company's mission. It is embedded in our brand claim of 'Building with conscience.', which has stood for our commitment to contribute to maintaining the value and aesthetic appeal of buildings since 1988. These values, sustainable action, and conscientious handling of resources are seeing a strong rise in popularity in society at the moment. For us, these objectives are not just short-term trends. Rather, the issue of sustainability has been the core of Sto and has embodied our 'way of life' from the very beginning.

As such, conservation of the environment and resources plays a significant role in our company. Our products mainly serve to protect buildings and in doing so make a significant contribution to sustainability. Without a protection layer, buildings would age much more quickly and then require refurbishment years earlier than anticipated. Furthermore, our facade systems help to protect the climate with efficient building insulation that save a considerable amount of energy. This is a contribution to environmental protection that we are continually expanding – for example, in our new and further development of products.

We have been adapting to the heavily growing demand for building products that are not harmful to health, with preservative-free products in particularly gaining in importance. In addition to the planned expansion of our range in this direction, we reworked existing products in 2019 and introduced a new quality seal to increase transparency for the user. Products bearing this seal of quality have been tested for harmful substances, conserve resources, are low in emissions, and are free from preservatives, solvents, and plasticisers. If the use of preservatives cannot be avoided entirely in order to prevent the product from premature deterioration, we will only use them to the extent technically necessary.

The building sector in which we operate generally considers matters of climate protection to be extremely important, as good insulation can achieve tremendous savings in energy and, in turn, carbon dioxide. Appropriate solutions are available, but require political decision-makers to implement them. These decision-makers must work together and set the right course in order to bring about climate change. The German federal government took an important first step at the end of December 2019 and decided to subsidise insulation measures. As of 1 January 2020, energy-focused building refurbishment by private homeowners and flat owners will receive a tax incentive, which may lead to an increased rate in refurbishment in Germany and higher demand on the EWIS market.

We're also seeing a major opportunity for Sto in digitisation, which is a big part of our reorientation. To benefit even more strongly from the opportunities associated with it in the future, we have established a comprehensive programme that involves nearly all processes within the company. The projects included in the programme are designed to help us think more strongly in line with processes, which we will then optimise across divisions and hierarchies. To do this, we will use digital tools such as a cloud-based CRM software, which will be introduced during the year. This will ensure that all customer and project data can be retrieved and edited by sales staff at any time and from anywhere.

Overall, we initially had a positive outlook for 2020. Our project forecast is promising, in the most important regions we can build on good market development and both the political and economic general conditions provide a strong tailwind for us. The growing commitment and efforts by the younger generation in particular not has not only prompted the German government to address the topic of climate protection in much more tangible ways, but has also triggered a global trend that corresponds to our mission and our goals.

However, as has been the case throughout our company's history, 2020 brings with it a host of uncertainties. These include economic factors such as international trade disputes, protectionist tendencies, and the subdued momentum in the global economy. In Germany, the growing shortage of specialists in construction, political decisions, such as the rent cap in Berlin, among other things, are causing a strain on the market segments important to us. We are also keeping our eyes on the coronavirus pandemic at the moment, which may have an enormous impact on economic development and people around the world.

In addition to dealing with these external parameters, we have internal tasks to accomplish in order to reach our goals. Our primary concern in 2020 will be the integration of new acquisitions, as well as the improvement of profitability within the Sto Group. We are addressing this issue at all stages of the value-added chain: from procurement and development to sales and the product mix, which is even more consistently being aimed at high-income offers and markets. At the same time, we are continuing our consistent cost management.

This year, we expect a growth in turnover of 6.6 % and an EBIT of between EUR 93 million and EUR 103 million, before taking into consideration potential impacts from the coronavirus pandemic – as described in the Risks and opportunities report.

The prospects for the global economy have worsened considerably since March 2020 due to the coronavirus pandemic, which has overshadowed all other influences. At the time of preparing the Group management report, it was not possible to make a reliable prediction of the economic consequences of the pandemic because of the high level of uncertainty regarding the further spread of the virus, the effectiveness of the measures taken by governments to contain the disease, and the macroeconomic extent of the consequences.

Ambitious and extremely challenging general conditions, for which we'll once again need the commitment of our highly motivated employees. An extensive global employee survey that we conducted in 2019 revealed, among other things, that over 80 % of our employees would recommend Sto as an employer. An impressive testament to the level to which our employees feel solidarity and identify with the company. 91 % of respondents, a percentage well above average, said they fully and completely support Sto's values. On behalf of the entire Executive Board, I would like to take this opportunity to express my sincere thanks to the Sto team for their services and spirit.

We would also like to thank the shareholders for their trust and confidence. To ensure that they benefit appropriately from the success of the company while also further strengthening the equity base of Sto SE & Co. KGaA, we will propose to the 2020 Annual General Meeting, as in the previous year, to distribute an ordinary dividend of EUR 0.31 per limited preference share and EUR 0.25 per limited ordinary share, as well as a special bonus of EUR 3.78 in both cases. If the negative development of the overall economic situation due to the coronavirus pandemic further deteriorates until the Annual General Meeting scheduled for 10 June 2020, especially in the markets relevant to Sto, the Annual General Meeting could, in deviation from the proposals of the management and at the request of the shareholders with the required quorum in place, resolve a dividend payout that is lower or that is limited to the statutory minimum dividend of preference shareholders, or even no dividend payout.

'Close', 'Experienced', 'Performing', and 'Advanced' – these values have embodied the focus of Sto for 65 years. In the next few years, we also need to continually check whether we are still targeting them efficiently, how market participants perceive us, where there are opportunities for Sto, and how we can best achieve our goals. As we do so, we will remain true to our core, while also being flexible and forward-thinking – a good basis for successfully continuing the Sto company story.

Dear shareholders, employees, members of the committees, customers and other stakeholders: Stay healthy!

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, Chairperson

Members of the Supervisory Board

Fritz Stotmeister,
Öhningen/Germany | Honorary Chairperson

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

Lothar Hinz*, Reutlingen/Germany,
Chairperson of the General Works Council and Chairperson of the Works Council for the Baden-Württemberg sales region of Sto SE & Co. KGaA and StoCretec GmbH (until 30 September 2019) | Deputy Chairperson (suspended from office since 1 October 2019)

Maria H. Andersson
Munich/Germany, Family Officer, Partner, Managing Director

Dr Renate Neumann-Schäfer, Überlingen/Germany, Corporate 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, and Head of the Fraunhofer Institute for Building Physics, Stuttgart, Holzkirchen, and Nuremberg/Germany

Peter Zürn
Bretzfeld-Weißlensburg/Germany, Member of the Management of the Würth Group (until 31 December 2019)

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

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

Barbara Meister*
Blumberg/Germany, Deputy Chairperson of the General Works Council and Chairperson of the Weizen Works Council, Sto SE & Co. KGaA

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

Martina Seth*
Bad Münder/Germany, Head of the IG BCE Wilhelm-Gefeller Education and Conference Center

** 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 year under review. The Supervisory Board advised the personally liable partner STO Management SE in the management of the company and continually monitored and supervised its work. This cooperation was constructive and characterised by an open and trusting exchange between the parties. The personally liable partner briefed the Supervisory Board on a regular, timely, and comprehensive basis on the issues relating to the company and the Group and discussed these contents in both their regular meetings and in their 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 Chairperson and obtained information about all important issues and decisions of the Group.

In particular, the Supervisory Board was always comprehensively informed about the current situation of the company and the Group, the business policy, planning including financial, investment, and personnel planning, the income situation, and the business development of the individual company and Group, the opportunities and risks, risk management, and the compliance situation. The members of the Supervisory Board also comprehensively reviewed and gave conscientious advice on decisions and measures of the personally liable partner, 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.

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. During the reporting period, there were no conflicts of interests affecting the Supervisory Board members' abilities to perform their duties. No member of the Supervisory Board was absent from half or more sessions during the period in which they belonged to the Board.

Key issues dealt with by the Supervisory Board

During the 2019 fiscal year, the Supervisory Board held four regular meetings, on 25 April, 25 July, 30 October, and 19 December. The Supervisory Board constituted a quorum at all of the meetings. The members of the Executive Board of the personally liable partner STO Management SE were present at the meetings unless topics had to be discussed in their absence.

At each session, the Supervisory Board addressed the market situation as well as the current business development of Sto SE & Co. KGaA and of both domestic and foreign Group companies in depth. The strategy, opportunities and risks for the company, personnel matters, compliance, investments, and Group planning were also discussed regularly. In addition, the strategic procedure in connection with possible acquisition projects or investments was one of the main topics in 2019.

At the first session on 25 April 2019, the annual financial statement and management report for Sto SE & Co. KGaA as well as the consolidated annual financial statement of the Sto Group and the Group management report, including the sustainability report, were each discussed in detail for the 2018 fiscal year. The auditor reported on their audit at the Supervisory Board meeting and explained the focal points of the audit. The chairperson of the Audit Committee, who had looked at the documents in depth beforehand, also reported on the audit and the discussion of the financial statements, the sustainability report, and the dependent company report in accordance with sections 312 et. seq. of the Law on share companies

(Aktiengesetz, AktG). The Executive Board of the personally liable partner STO Management SE provided a report on the mandatory publications that must be stated in the management report, especially the Corporate Governance, remuneration and sustainability report. Following detailed discussions and based on its own extensive audit, the Supervisory Board approved the annual financial statement of Sto SE & Co. KGaA and the consolidated annual financial statement of the Sto Group for the 2018 fiscal year, as well as the company's sustainability report, the dependent company report, and the Corporate Governance Report, in accordance with section 171 of the Law on share companies (AktG).

After thorough discussion, the Supervisory Board also finalised the Supervisory Board report for the 2018 fiscal year, and the agenda for the ordinary Annual General Meeting of 19 June 2019. The appropriation of profits proposed by the personally liable partner STO Management SE was approved by the Supervisory Board.

Furthermore, the Supervisory Board addressed the 2019-2023 5-year plan for the Sto Group, which was the subject of thorough discussion taking into consideration the details elaborated on in the finance committee. The Board also reviewed the planned investment in Skyrise Prefab Building Solutions Inc., near Toronto/Canada, and the takeover of the remaining shares in Ströher GmbH in Dillenburg/Germany.

The main topics of the Supervisory Board meeting on 25 July 2019 included business development in the first half of the year and the projection for the 2019 fiscal year. The Supervisory Board also deliberated on various investment projects and the planned acquisition of the majority interest in VIACOR Polymer GmbH, Rottenburg/Germany.

In the meeting of 30 October, the Supervisory Board discussed, among other things, the current development of operational business, which was presented and interpreted in detail, the current projection for 2019 as a whole, and the implementation of the company-wide Compliance Management System. The Executive Board presented both the current state of implementation and the main aspects of the system. The Supervisory Board also discussed the planned restructuring and sale of the Group's natural stone activities, as well as the results of the employee survey conducted in 2019.

Planning for 2020 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 19 December 2019. The draft of the 5-year plan for 2020 to 2024 was also debated. It is to be finalised in the meeting scheduled for April 2020. Other important topics were the auditor's preliminary audit and audit planning of the annual financial statement and consolidated annual financial statement of the Sto Group for the 2019 fiscal year for Sto SE & Co. KGaA, the risk assessment and provisions for risk, and the adoption of the Declaration of Conformity in accordance with Section 161 of the Law on share companies (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 on 15 March 2019.

Supervisory Board committees

In the 2019 fiscal year, the Supervisory Board of Sto SE & Co. KGaA formed a nomination committee, 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.

The Nomination Committee met once in 2019 to initiate the appointment of Ms Kirsten Stotmeister as an alternate candidate for all members of the Supervisory Board representing the shareholders. The Audit Committee and Finance Committee held four meetings each. Major topics for the Audit Committee were the 2018 annual financial statement for Sto SE & Co.

KGaA, the 2018 consolidated annual financial statement of the Sto Group, the management report, the dependent company report, and the auditor's report. The current business development, the projection for the year as a whole, and the interim reports and half-year report for 2019 were each reviewed in detail. Furthermore, the members of the committee discussed issues of Compliance Management and the effectiveness of the internal control and risk management system, as well as the internal audit. The Finance Committee primarily examined the important management issues of STO Management SE, particularly potential acquisitions, the expansion of some of the company's business units, the financing of Group companies, as well as Group planning.

Corporate Governance and Declaration of Compliance

In the year under review, the Supervisory Board of Sto SE & Co. KGaA duly addressed the German Corporate Governance Code. A Declaration of Conformity in accordance with Section 161 of the Law on share companies (AktG) was issued in December 2019 which is based on the 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 2019 Annual Report.

Audit of the annual financial statement

On 19 June 2019, the ordinary Annual General Meeting of Sto SE & Co. KGaA appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, to act as the auditor for the 2019 fiscal year. Ernst & Young 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 2019 fiscal year as well as the dependent company report in accordance with Sections 312, 278 of the Law on share companies (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 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 Law on share companies (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 15 April 2020. In advance of the committee and Supervisory Board meeting, other preliminary examinations and explanatory meetings were held between the Executive Board of the personally liable partner STO Management SE, the Chairperson of the Supervisory Board, and the Chairperson of the Audit Committee to discuss key audit matters. At the Supervisory Board meeting on 16 April 2020, 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 Law on share companies (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 carried 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 Executive Board of the personally liable partner STO Management SE, and the consolidated annual statement for 2019 in accordance with Section 171 of the Law on share companies (AktG), as well as the dependent company report. The Supervisory Board will hence propose the approval of the annual financial statement of Sto SE & Co. KGaA for the 2019 fiscal year at the Annual General Meeting to be held on 10 June 2020. The non-financial statements, in particular those statements and data on sustainability and Corporate Social Responsibility, have been reviewed by the Supervisory Board and 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 are expected to receive an ordinary dividend of EUR 0.25 and also a bonus of EUR 3.78 per share. If the negative development of the overall economic situation due to the coronavirus pandemic further deteriorates until the Annual General Meeting scheduled for 10 June 2020, especially in the markets relevant to Sto, the Annual General Meeting could, in deviation from the proposals of the management and at the request of the shareholders with the required quorum in place, resolve a dividend payout that is lower or that is limited to the statutory minimum dividend of preference shareholders, or even no dividend payout.

Personnel-related matters

On 19 June 2019, the company's Annual General Meeting elected Ms Kirsten Stotmeister as an alternate candidate for all members of the Supervisory Board representing shareholders. Charles Stettler, the previous alternate member, had passed away in 2018.

The employment relationship with Supervisory Board member Lothar Hinz ended on 30 September 2019. Mr Hinz filed an action against the termination. Until the court decision regarding the effectiveness the termination of his employment relationship, Mr Hinz will be suspended from his Supervisory Board office and is hence not currently a member of the Supervisory Board.

The Supervisory Board thanks all employees of Sto SE & Co. KGaA and the Executive Board members of the managing STO Management SE for their great dedication and the results delivered in the 2019 fiscal year. We would like to wish the entire team every success in tackling the challenges and achieving the goals that the 2020 fiscal year is set to bring, and above all, good health.

Stühlingen/Germany, 16 April 2020

Dr Max-Burkhard Zwosta
Chairperson of the Supervisory Board

Corporate Governance Report/ Declaration on management of the company

Corporate Governance at Sto

In this report, Sto SE & Co. KGaA and its personally liable partner STO Management SE describe all the processes involved in the management and monitoring of the company (Corporate Governance) in accordance with Item 3.10 of the German Corporate Governance Code ('Code') as well as the key company management practices in accordance with Sections 289f and 315d of the German Commercial Code (HGB). The combined document is part of this Annual Report and is published under 'Investor Relations' in the section 'Unternehmen' (Company) on the Sto website (www.sto.de). The supplementary remuneration report is included in the Notes to the consolidated annual financial statement of the Sto Group.

Sto is committed to responsible and transparent management and monitoring of the company, with a focus on sustainable value creation. This mission forms the basis for the internal decision-making and control processes in the Sto Group.

Statutory regulations, ethical standards, a sound financial policy, the strategy that is geared towards sustainability, and the Code all provide the foundation for corporate governance. Sometimes, Sto departs from the requirements of the Code in its version of 7 February 2017 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 and the respective reasons for doing so are explained in the Declaration of Conformity in accordance with Section 161 of the Law on share companies (AktG). The 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 Law on share companies) in the 'Investor Relations' area of the 'Unternehmen' (Company) section.

Bodies

The bodies of Sto SE & Co. KGaA are the personally liable partner STO Management SE, which is responsible for managing the company, the Supervisory Board, and the Annual General Meeting. 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. Both the personally liable partner and the Supervisory Board of Sto SE & Co. KGaA collaborate closely for the company's benefit and consistently abide by the standards of proper corporate management at all times.

Shareholders and the Annual General Meeting

At the end of 2019, Sto SE & Co. KGaA's subscribed capital amounted to an unaltered figure of EUR 17.556 million. Each of the 4.32 million limited ordinary shares (ordinary shares) grants one voting right. The 2.538 million limited preference shares (preference shares) do not have voting rights but take priority for the purpose of profit distribution and are entitled to a higher dividend. There were no shares with preferential or multiple 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. These 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 Sto SE & Co. KGaA's 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 legal provisions, the articles of association, the Code, and rules of procedure.

In accordance with the German Co-Determination Act, the Supervisory Board of the company is composed of an equal number of shareholder and employee representatives, i.e. six shareholder and six employee representatives. The members are introduced in the report of the Supervisory Board. 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 Conformity in accordance with Section 161 of the Law on share companies (AktG).

In accordance with Section 96 Paragraph 2 Sentence 1 of the Law on share companies, 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 Supervisory Board on the whole unless the shareholder or the employee representatives object to the overall fulfilment in accordance with Section 96 Paragraph 2 Sentence 3 of the Law on share companies. 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 Law on share companies (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 company, 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 2019 fiscal year, the Supervisory Board gathered for four ordinary meetings. The main topics discussed and the focal points of the meetings are reported in depth in the report of the Supervisory Board. In addition to the regular gatherings, the Supervisory Board is briefed by the Executive Board of 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 employment situation, as well as the risk situation, and risk management. Any departures from 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 Chairperson of the Supervisory Board to coordinate the Board's work, steer the meetings, and represent it externally. Between meetings, the chairperson 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 regularly checks the efficiency of his or her work. To increase this efficiency as much as possible, technically qualified committees are formed where necessary. In 2019, a Nomination Committee, an Audit Committee, and a Finance Committee were formed at Sto SE & Co. KGaA. 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 Audit Committee is independent and, as a financial expert, has the special knowledge required for this position. This chairperson does not simultaneously serve as the Chairperson of the Supervisory Board and has not been a member of the Executive Board for the past two fiscal years.

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. The Executive Board discusses the halfyear financial report and the interim reports within the first and second half of the year with the Chairperson of the Supervisory Board and the Chairperson of the Audit Committee, who consult with the other members of the Supervisory Board.

A Nomination Committee is formed if there are upcoming Supervisory Board elections. The next elections for shareholder representatives 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

The Executive Board of the personally liable partner STO Management SE is responsible for the management of Sto SE & Co. KGaA. It acts under its own authority and in the interests of the company; this means aiming to achieve sustainable added value while keeping the needs of shareholders, employees, and other stakeholders in mind. The Management Board develops a corporate 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.

Furthermore, 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.

In its work, the personally liable partner STO Management SE complies with all 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 remuneration of the Executive Board is summarised in the Notes to the consolidated annual financial statement of the Sto Group.

Diversity

The Executive Board of listed companies sets target figures for the percentage of women in the two management levels below the Executive Board in accordance with Section 76 Paragraph 4 of the Law on share companies (AktG). In accordance with Section 278 Paragraph 3 of the Law on share companies (AktG), this is the responsibility of the personally liable partner. STO Management SE promotes diversity as required by the Code and considers it an important success factor for the future of the Group. Furthermore, industry-specific conditions and the current proportion of women in the workforce were also taken into account when setting the target quotas.

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. As at 31 December 2019, 0 % of the management positions on the division management level and 9.2 % of the department manager positions were held by women. By 31 December 2020, these percentages are expected to be at 0 % and 12.0 % respectively.

Despite the relevant requests having been submitted during the process of searching for candidates, it was not possible to find any suitable female candidates during the 2019 fiscal year. This means that the proportion of women at the second management level still falls short of the set quota target.

The obligation applicable to the Supervisory Board in accordance with Section 96 Paragraph 2 Sentence 1 of the Law on share companies (AktG) to be comprised of at least 30 % men or women 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 amendments and the German Corporate Governance Code, Sto SE & Co. KGaA applies internal regulations and external standards. For example, Sto joined the 'UN Global Compact' 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 'Sustainability and Corporate Social Responsibility' section of the Annual Report. It also represents the annual Communication on Progress (COP) required by the 'Global Compact'.

Our most important internal regulations within the company include the 'Principles for Cooperation and Management within the Sto Group', which include 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'.

Procedures and systems for compliance are linked to the Group's risk and opportunity management. Through consistent compliance management, internal regulations and guidelines are made known throughout the Group and ensure that all business practices conform to the law. Along with abiding by laws, regulations, and values of the company, for Sto, compliance provides the foundation for integrity in the business arena. It underpins the company's strong commitment to ethical and fair behaviour in our own organisation, and creates the framework for dealing with external partners. Sto's Compliance Management System consists of several interconnected building blocks. Its aim is to ensure that company rules and laws are complied with at all times. It covers the areas of prevention, detection, and reaction, aided by the implemented risk management, guidelines, and extensive training and advice for employees worldwide. Ways and means are provided for reporting suspected or actual violations of company rules and statutory regulations in order to facilitate the detection and complete investigation of misconduct. Every instance of misconduct is investigated thoroughly.

The Compliance Management System follows the PDCA (Plan-Do-Check-Act) cycle. By following this logical sequence, the Compliance Management System can be implemented methodically, effectively, and in the optimum manner, and can be further developed and improved by remedying weak points. In the Sto Group, compliance is integrated into our operational and added-value processes. In this context, communication is the key to enshrining compliance at Sto. It is reinforced by what we refer to as the 'tone from the top' adopted by the Executive Board of STO Management SE. This method of leading by example embeds responsible conduct permanently in the minds of all employees in the Sto Group. Moreover, legally compliant, risk-aware, opportunity-oriented, and informed action in a dynamic business environment ensure Sto's competitiveness and sustainable corporate success in line with Sto's corporate mission 'Building with conscience.'.

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.

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

All key dates are listed in the financial calendar, which is announced well in advance. The financial calendar, valid as of the end of March 2020, can be found both in the 2019 Annual Report and on the Group'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 2019.

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 the auditor reports on the key findings of their 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 Heimburger 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 Law on share companies (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 Law on share companies (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 at 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 2019
(personally liable partner of Sto SE & Co. KGaA)

Rainer Hüttenberger,
Stein am Rhein/Switzerland | Spokesman of the Executive Board responsible for Sales Sto Brand International, Business Unit Organisation, and Corporate Strategic Development, and M&A

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

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

Rolf Wöhrle,
Bad Dürrheim/Germany | Chief Financial Officer responsible for Finances, Controlling, Legal, Internal Auditing, and Information Technology

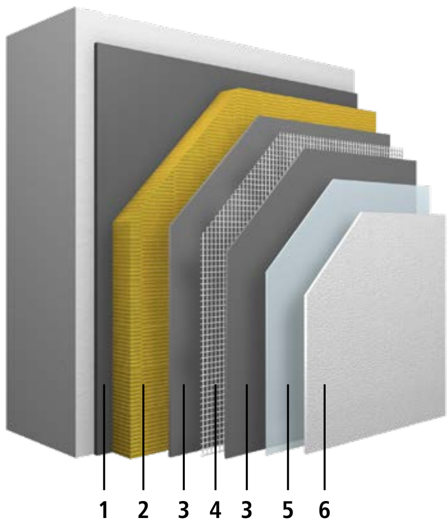
The 2019 fiscal year at a glance

- Turnover in the Sto Group up by 4.9 % to EUR 1,398.2 million in 2019
- Positive currency translation and first-time consolidation effects support operational growth
- Turnover outside of Germany increases by 6.9 % to EUR 786.9 million and turnover in Germany by 2.6 % to EUR 611.3 million
- Improved earnings: consolidated EBIT improves by 4.9 % to EUR 85.9 million and earnings before tax (EBT) by 3.6 % to EUR 83.1 million
- Return on sales virtually stable at 5.9 % (previous year: 6.0 %)
- After the first-time application of IFRS 16, cash flow from operating activities amounts to EUR 117.0 million (previous year: EUR 80.7 million)
- Group's workforce increased by 200 to 5,533 employees, in particular due to a rise in companies consolidated
- Outlook for 2020: increase in turnover of 6.6 % to around EUR 1,490 million and an EBIT of between EUR 93 million and EUR 103 million expected, without taking the effects of the coronavirus pandemic into account

A. Group fundamentals

Business model

Sto 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** includes external wall insulation systems (EWIS), a segment in which the company occupies a leading position, as well as rainscreen cladding systems (RSC). In the fiscal year of 2019, the share of this product group was 48.4 % of the total group turnover. The area of **facade coatings**, which includes render and paint systems for external applications, made up 21.8 % of the turnover in the year under review. Products for **interiors** accounted for 14.1 %; these include plaster and paint systems for home and office spaces, 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 the **Other product groups** category.



StoTherm Mineral system build-up

1. **Bonding: StoLevell Combi plus, full surface**
2. **Insulation: Sto-Stone Wool Insulation Board Xtra 2/B/H4**
3. **Base coat: StoLevell Combi plus**
4. **Reinforcement: Sto-Glass Fibre Mesh**
5. **Intermediate coat: Sto-Primer**
6. **Top coat: StoSilco/StoSilco blue, paint coat if required**

Thanks to the Sto-Stone Wool Insulation Board Xtra 2/B/H4, the proven StoTherm Mineral facade insulation system can now be used without anchors.

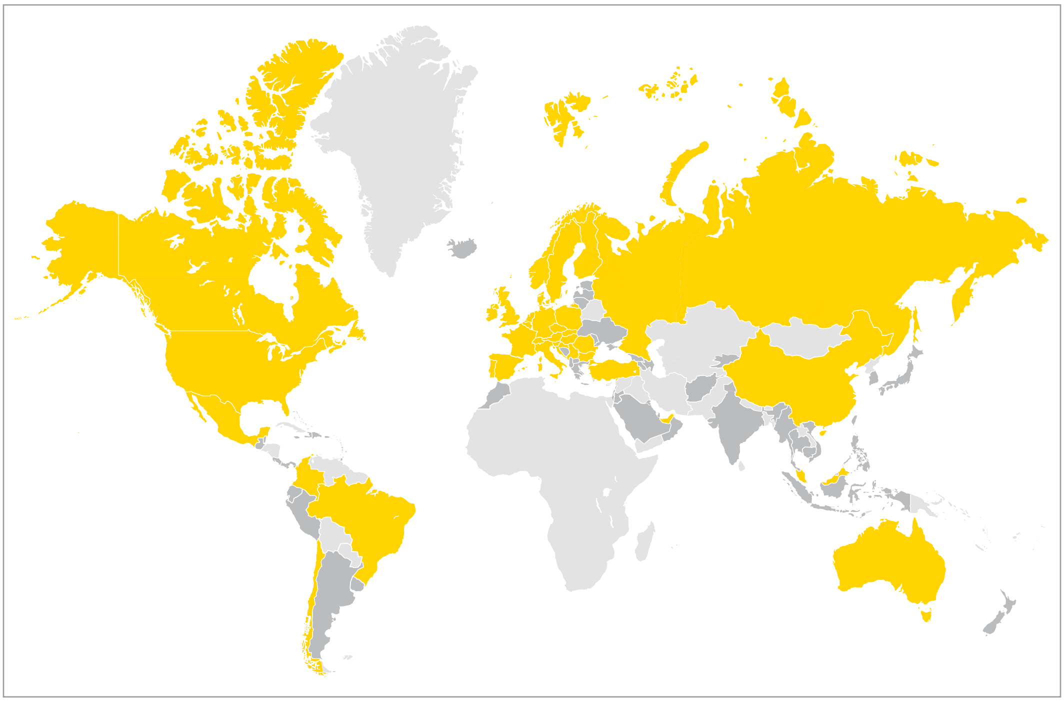
The factors that play a major role in the success of the Sto Group include its comprehensive **pool of knowledge**, which it has gained from its efforts to ensure that the products in its range complement one another perfectly. Sto boasts extensive expertise not only in our core business of facade systems, but also in related areas such as design and consultancy services and in alternative coating materials or claddings such as brick slips. As the individual components of our range work in perfect harmony with one another, processing efficiency can be boosted and value maintained over the long term. At the same time, Sto is able to afford building owners maximum freedom to create their own designs.

Our business model is built on a foundation of expertise, quality, and customer benefits, and is backed up by a consistent market presence in every country where Sto is represented. This has enabled Sto to establish itself successfully as an **international product brand**. Following a survey conducted by the University of St. Gallen and German business magazine Wirtschafts-Woche in early 2018, Sto has had the honour of officially being able to call itself the 'world market leader for external wall insulation systems'. Our brand strategy, which we are continually developing and improving, is based on the four core brand values 'Close', 'Experienced', 'Performing', and 'Advanced'.

The Group's **innovative strength** is another pillar of the positive image the Sto brand has cultivated and of our corporate success. To secure the position we are seeking to uphold as a technology leader and tap into new growth areas at the same time, we engage in comprehensive research and development activities within the Group. This is one of the cornerstones of our strategy. The actions we take in this area are also enshrined in our corporate vision: 'Technology leader in the sustainable design of living space tailored to human needs. Worldwide.'

Sales markets

The 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/Pacific** within the internal reporting framework. Our corporate management is primarily focused on these regions. In Western Europe, which includes Germany and



is also the most important market, Sto generated a share of 76.6 % of the consolidated turnover in the 2019 fiscal year. Northern and Eastern Europe generated 11.2 % of the business volume, while 12.2 % was attributed to America, Asia, and Pacific. The most significant individual market is Germany. In the year under review, it contributed 43.7 % 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 opportunities worldwide. By increasingly internationalising our business activities – something that is another of Sto's key strategic aims – we are also able to spread business risk and compensate for some fluctuations in individual countries. At the 2019 year end, the Group was represented in 38 countries with 50 subsidiaries of its own as well as their operating sites, and maintained supply partnerships with sales partners in numerous other regions.

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 range of the Sto brand is targeted at professional applicators such as painters and building contractors, as well as architects, planning offices, and the real estate sector. These customers are supported on site by means of a **direct distribution system** which, in Germany, covers almost the entire country. For some years now, this has been supplemented by a **multi-stage distribution concept** that enables the Group to tap into additional sales potential. This second sales channel covers selected products that we have clearly defined as distinct from our core business and that have their own market niche: these include trim paint and fillers. In the coming years, we intend to expand the two-stage distribution concept gradually via wholesalers and specialist dealers.

Group structure

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

In **Germany**, 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.
- **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.
- **Liaver GmbH & Co. KG**, located in Ilmenau/Germany, is a manufacturer of expanded glass granulates made of recycled glass. The company also uses these materials to produce acoustic products and shipbuilding panels.

On 31 December 2019, the operation of the natural stone activities handled within **Vero-Stone GmbH** in Eichstätt/Germany was sold to the long-term managers of the subsidiary as part of a management buyout. The sale took the form of an asset deal.

Outside of Germany, Sto's business is largely handled by national companies operating independently, with the service spectrum offered in each case being tailored to suit local conditions. Production takes place on site in some cases, and the remaining products are purchased via the Group. A list of all subsidiaries of Sto SE & Co. KGaA is reproduced in the Notes for the Group.

The individual business fields of the Sto Group are each managed by a team of product managers that 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 Sto to become better acquainted with the vast range of different requirements that the individual markets have, address each of them specifically, and tap into additional sales potential through its specialist technical expertise.

Central units such as technical service or strategic marketing complement the business fields. 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 Sto to conduct efficient management on a global scale, and for targeted further development of the service portfolio.

Business management control system

The four-member Executive Board of the personally liable partner STO Management SE is responsible for managing Sto SE & Co. KGaA's business. It develops the Group's strategy and ensures that it is put into practice. 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 are part of a standardised reporting system. 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 also create a foundation for the planning and controlling processes.

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 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 and the new construction and renovation segments.

Declaration on management of the company/Non-financial statement

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 of the German Commercial Code, and the explanations by the personally liable partner, can be found in the 'Corporate Governance Report' chapter of the

Annual Report. This information is also provided 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. It provides information about key issues 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 chairperson is entitled to four times and his or her deputy to two and a half times the amount of the basic remuneration. The chairperson 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, this relies on 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. Evidence of this corporate vision is shown in our brand claim 'Building with conscience.' This has been in place since 1988 and is anchored in the Sto Guiding Principles along with the other principles underpinning our practice, which provide all employees and managers with guidance on 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 our vision as a technology market leader. Additionally, we take an active role in trade associations and interest groups so that we can contribute to 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 2019 and general statement on economic development

In the 2019 fiscal year, Sto was able to continue growing throughout the Group thanks to a solid foundation of healthy operational development. Momentum slowed slightly in the second half of the year due primarily to the general conditions in the market segments that are relevant to Sto, which had been more difficult as compared to those affecting the construction sector as a whole. This was contrasted by first-time consolidation effects, positive currency translation effects, and favourable weather conditions, which contributed to healthy business results in December in particular.

Overall, turnover in the Sto Group rose by 4.9 % year-on-year to EUR 1,398.2 million (previous year: EUR 1,332.4 million), which exceeded the forecast increase of 4.1 % to EUR 1,387 million. When adjusted for currency effects and first-time consolidation effects, this would have represented a 3.4 % organic growth for 2019.

Earnings also improved in 2019: both earnings before interest and taxes (EBIT) and earnings before taxes (EBT) for the Group were noticeably higher than in 2018 and within the forecast ranges. In addition to the price level on the procurement markets, which weakened as a net result in the course of 2019, the measures initiated in order to compensate for the increases in the cost of materials in the previous year also had a tangible effect. Furthermore, consistent cost management had a noticeable impact. Consolidated EBIT increased from EUR 81.9 million to EUR 85.9 million compared to 2018 (forecast: between EUR 81 million and EUR 91 million) and EBT rose from EUR 80.2 million to EUR 83.1 million (forecast: between EUR 78 million and EUR 88 million). At 5.9 %, return on sales remained slightly below the previous year's value of 6.0 % (forecast: between 5.6 % and 6.3 %). Net profit for the year grew from EUR 53.8 million to EUR 56.3 million. Additionally, the return on capital employed (ROCE) fell in line with the forecast level by reaching 14.0 % (previous year: 15.6 %; forecast: between 13.0 % and 14.6 %).

Liaver GmbH & Co. KG, located in Ilmenau/Germany, was consolidated within the Sto Group for the first time at the beginning of 2019. The Canadian company Skyrise Prefab Building Solutions Inc., in which Sto has had a majority share since May 2019, also underwent first-time consolidation, as did Unitex Australia Pty Ltd in Dandenong/Australia on 1 August 2019. Furthermore, Sto SE & Co. KGaA took over the remaining 49.9 % share in Ströher GmbH, located in Dillenburg/Germany, on 1 July 2019. The company had already been fully consolidated since 2016. Sto SE & Co. KGaA also acquired a 50.1 % share in VIACOR Polymer GmbH in Rottenburg am Neckar/Germany, which will be accounted for in the consolidated annual financial statement of the Sto Group from 1 January 2020. The VeroStone GmbH operation in Eichstätt/Germany was sold as part of an asset deal that took effect on 31 December 2019. The company has been trading as Sto BTV GmbH since January 2020. Based in Stühlingen/Germany, it now consists of the assets that have remained following the sale.

The financial and asset situation of the Sto Group continued to deliver a solid performance in 2019. Following the first-time application of IFRS 16, the equity ratio fell but still remained at the high level of 54.3 % (31 December 2018: 60.9 %). IFRS 16 requires recognition of current and non-current lease liabilities and thus results in an extended balance sheet. Cash stocks rose from EUR 105.3 million to EUR 128.6 million. Taking borrowings into account, net financial assets amounted to EUR 119.8 million on the reference date (31 December 2018: EUR 90.5 million). Cash flow from operating activities stood at EUR 117.0 million (previous year: EUR 80.7 million) following the first-time application of IFRS 16.

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 10 June 2020. 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 above proposal by the personally liable partner STO Management SE requires the consent of the Supervisory Board. The decision of the Supervisory Board is expected to be made on 16 April 2020. However, should the negative development of the economy as a whole worsen until then due to the coronavirus pandemic, the Supervisory Board might feel compelled to propose a reduced dividend payout in agreement with the personally liable partner STO Management SE. The same applies if the overall economic situation further deteriorates, especially in the markets relevant to Sto SE & Co. KGaA, between the Supervisory Board meeting scheduled for 16 April 2020 and the Annual General Meeting scheduled for 10 June 2020. In such a case, the Annual General Meeting could, in deviation from the proposals of the management and at the request of the shareholders with the required statutory quorum in place, resolve a dividend payout that is lower or that is limited to the statutory minimum dividend of preference shareholders, or even no dividend payout.

Due to the above-average weather conditions in January and February, the 2020 fiscal year started on a favourable footing in most of the key markets for Sto. While March initially demonstrated a positive trend on the whole, the impact of the coronavirus pandemic became increasingly significant in several of Sto's markets by the middle of the month, and in some cases considerably hampered business activities.

In March, the Sto companies in France, Italy, and China in particular were negatively affected by the coronavirus pandemic. However, this contrasted with the situation at companies including Sto SE & Co. KGaA, which recently recorded high volumes of incoming orders and were therefore required to introduce special production shifts on Saturdays to accommodate this – an unusual circumstance for the time of year.

In total, consolidated turnover in the first three months of the year exceeded that of the previous year and fell in line with expectations.

Without taking into account the effects of the coronavirus pandemic, we are forecasting consolidated turnover growth of 6.6 % to EUR 1,490 million for 2020 as a whole. The resulting EBIT figure is expected to fall between EUR 93 million and EUR 103 million. At the time of compiling the Group management report, the Executive Board of STO Management SE views the business prospects of the Sto Group as positive. However, given the sheer uncertainty surrounding the coronavirus pandemic and the rapid rate at which it is spreading worldwide, it is difficult to make reliable predictions about how the business is set to develop.

Overall economic and sector-related general conditions in 2019

Global economic development

The global economy was impacted by several factors in 2019. According to the International Monetary Fund (IMF), the main reasons for economic momentum dropping worldwide included the ongoing trade disputes between the USA and China, and between the USA and the EU. Geopolitical tensions were also a key factor. In general, the persistent sense of uncertainty affecting international trade policy and transnational cooperation resulted in global trade performing extremely poorly. The IMF also believes that certain countries' hesitation to make investments, Germany included, was a pivotal factor in the sluggish growth that the international gross domestic product (GDP) demonstrated. Without the expansionary policy introduced by several reserve banks, this weak performance would have been exacerbated further.

According to IMF estimates, global economic growth in 2019 amounted to 2.9 %, a figure that was 0.7 percentage points less than the previous year. While the IMF had originally forecast an increase of 3.5 % at the start of the year, it then revised this figure down due to the tense situation. Trade volumes worldwide only increased by 1.0 % (previous year: 3.7 %), the lowest that this figure has been since 2012.

As with previous years, positive momentum was felt primarily in developing and newly industrialised nations, whose GDP rose by 3.7 % in total (previous year: 4.5 %). China and India both achieved significant increases even though the pace at which they occurred was slower. In industrialised nations, the economy grew by 1.7 % in 2019 (previous year: 2.2 %). The USA performed particularly well with growth of +2.3 %, while the eurozone contributed just +1.2 %.

The German economy also achieved an increase in 2019. Although this marked its tenth successive year of growth, its performance was still weaker overall and, once adjusted for price changes, amounted to just 0.6 % according to preliminary data of the German Federal Statistical Office (Destatis), following 1.5 % in 2018. This moderate upward trend was once again primarily the result of consumer behaviour, with private spending increasing by 1.6 % (previous year: 1.3 %) and public-sector spending by 2.5 % (previous year: 1.4 %) when adjusted for price changes. Gross capital investments in Germany rose by 2.5 % in 2019 (previous year: 3.5 %), with a 3.8 % increase in real terms indicating considerably more investment in building activities compared to the previous year (previous year: 2.5 %).

International trends for the construction sector

According to estimates from Germany's two central construction industry associations, the Hauptverband der Deutschen Bauindustrie (HDB) and Zentralverband des Deutschen Baugewerbes (ZDB), the **German building industry** grew by a total of 8.5 % following an increase of some 11 % in the previous year. Once again, all the sectors of the construction industry contributed to this growth: residential construction is estimated to have risen by 8.5 % in 2019, commercial construction by 7.5 %, and public-sector construction by 9.0 %. Preliminary figures from Destatis suggest that the number of approvals for new buildings and for construction work on existing buildings increased by 1.3 % between January and November 2019. This included a 1.5 % rise in approvals for detached houses and a 0.9 % growth in the number of semi-detached houses and multiple dwellings.

The sub-segment of building coatings, which is relevant to Sto, was unable to benefit from the ongoing construction boom in Germany.

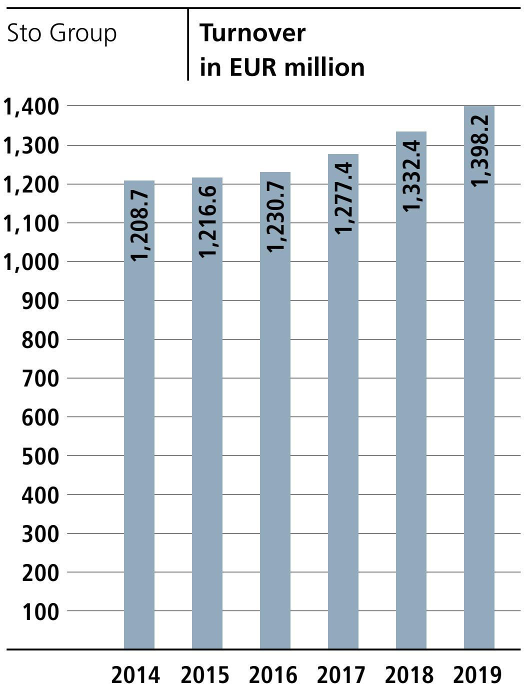
Sales in the EWIS market fell slightly in 2019. The Association of the German Paint and Printing Ink Industry (VDL) also expects a 1.4 % decline in turnover in the area of building coatings (paints, varnishes, and paste-form plasters/renders/fillers) for the year as a whole.

The growth rate of the **European construction sector** slowed significantly over the course of 2019. According to estimates from the industry network EUROCONSTRUCT, the increase in the volume of construction services across the 19 member states fell from 3.2 % in the previous year to 2.3 %. The new-buildings sector in particular lost a significant amount of momentum following its strong growth over the previous five years, but the renovation market recorded a healthy performance. Growth in Europe was primarily the result of economic factors such as strong buying power in private households, favourable financing conditions, and higher corporate profits. Demographic trends also supported this development, as did the ongoing demand for infrastructure measures and the growing interest in environmental conservation matters.

In **China**, the sentiment in the construction sector remained mixed. According to GTAI (Germany Trade & Invest), the sector continues to be one of the pillars of growth in the country, but demand has gradually been weakening. In the first half of 2019, the production value of the Chinese construction industry increased by 7.2 % (year of 2018 as a whole: 9.9 %). In the first seven months of the year, the value of realised property investments rose by 10.6 % as compared to the same period of the previous year, primarily as a result of residential construction (+15.1 %). By contrast, investments showed a decline in office construction (-0.2 %) and the retail space sector (-9.0 %).

According to GTAI, the construction industry in the **USA** demonstrated less growth in 2019 than it had in the previous year. Initial estimates suggest that the building construction sector in particular saw a weaker development, increasing by just 1 % (previous year: 4 %). The sector was primarily supported by public investments, in contrast to the reluctant attitude demonstrated by the majority of private contracting authorities. According to experts, results in the US residential construction sector were primarily due to a healthy employment situation, low mortgage rates, and an increase in average earnings.

Business performance and development of turnover

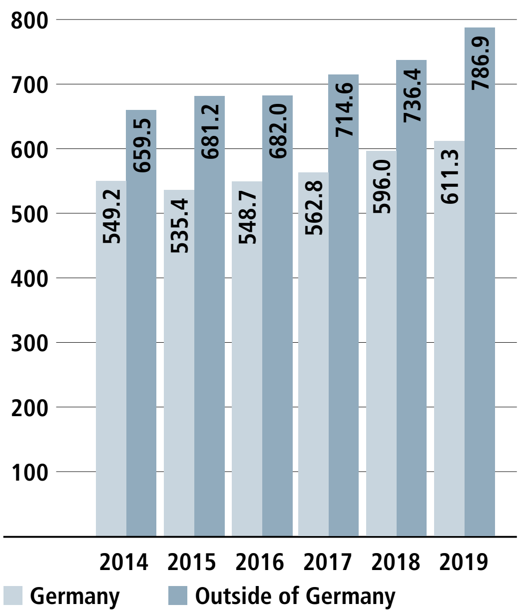


In the 2019 fiscal year, the Sto Group's **turnover** rose by 4.9 % to EUR 1,398.2 million (previous year: EUR 1,332.4 million). A total of EUR 15.1 million of this growth was attributable to the first-time consolidations of Liaver GmbH & Co. KG in Ilmenau/Germany, the Canadian company Skyrise Prefab Building Solution Inc., and Unitex Australia Pty Ltd. Positive currency translation effects, due in particular to the appreciation of the US dollar and Swiss franc, resulted in turnover of EUR 5.1 million. When adjusted for first-time consolidation and currency translation effects, consolidated turnover grew by 3.4 % compared to the same period of the previous year.

Consolidated turnover in **Germany** rose by 2.6 % to EUR 611.3 million in 2019 (previous year: EUR 596.0 million), although demand in key market segments for Sto declined over the course of the year. Not including the first-time consolidation effects resulting from Liaver GmbH & Co. KG, growth in Germany amounted to 1.5 %.

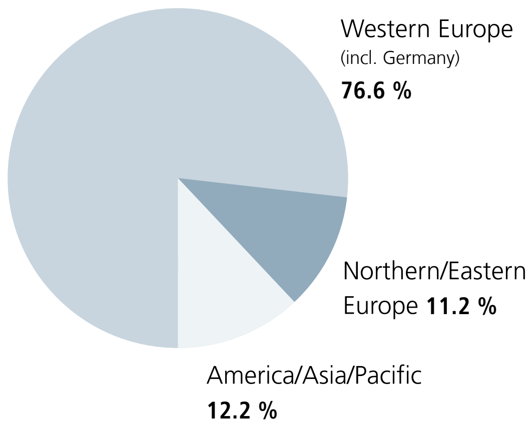
An increase of 6.9 % to EUR 786.9 million (previous year: EUR 736.4 million) was achieved **outside of Germany** during the year under review. A total of EUR 14.0 million was attributable to first-time consolidation and currency translation effects, equating to organic growth of 5.0 %. In comparison to the previous year, the share of Group turnover generated outside of Germany increased from 55.3 % to 56.3 %.

Sto Group | **Turnover in Germany and outside of Germany** in EUR million



Turnover in the **segment of Western Europe** (including Germany) grew by 4.5 % to EUR 1,070.9 million (previous year: EUR 1,024.4 million). Without currency translation and first-time consolidation effects, this represented growth of 3.7 %. The Sto companies in France, and sales figures in Austria performed particularly well. While demand continued to remain below expectations in Switzerland, the positive effects of exchange rate developments had an impact on the turnover level.

Sto Group | **Regional breakdown of consolidated turnover**



The volume in the **segment of Northern/Eastern Europe** fell slightly by a total of 0.1 % to EUR 156.5 million (previous year: EUR 156.7 million), with business development varying from one region to another. Healthy trends in several Eastern European countries came in contrast to results such as losses in certain Northern European companies.

The **sub-segment of America/Asia/Pacific** recorded an increase of 12.9 % to EUR 170.8 million (previous year: EUR 151.3 million). Adjusted for currency translation and first-time consolidation effects, this resulted in a 3.3 % growth. Turnover volume grew particularly strongly in China, but demand in other Asiatic companies performed below expectations. The business development of the US subsidiary remained below the target level, although positive currency translation effects largely managed to compensate for this.

Performance of product groups
In 2019, Sto was once again able to gain market shares in its core business of facade systems and generate growth in turnover. However, provisional estimates suggest that the volume only increased slightly on the challenging German EWIS market, and the controversial debate concerning the use of external thermal insulation composite systems continued to have a negative impact on demand. The growth initiatives launched in the previous year, the intensification of sales activities, and a more diversified range all played a strong role in Sto's expansion. Sto currently offers a range of different external wall insulation systems plus a variety of insulants, including soft wood fibre, mineral foam, mineral wool, and rigid foams of various kinds. This allows it to provide the best possible solutions to meet a whole host of different requirements relating to ecological concerns, fire protection, design, efficiency, and cost-effectiveness.

Turnover in the product group of facade systems grew by 6.7 % in total to EUR 677.1 million in 2019, hence contributing 48.4 % to the overall Group turnover. In the business area of facade coatings, which has high margins, turnover increased slightly by 0.8 % to EUR 304.6 million, with the corresponding share in Group turnover amounting to 21.8 %. Rigid facade claddings, such as natural stone slabs and brick slips for facades, saw a positive development, as did external wall insulation systems, which offer a variety of design options. In 2019, turnover generated by interior products increased by 3.7 % to EUR 197.8 million (share: 14.1 %). An increase of 7.0 % to EUR 218.8 million (share: 15.7 %) was recorded in the other business fields.

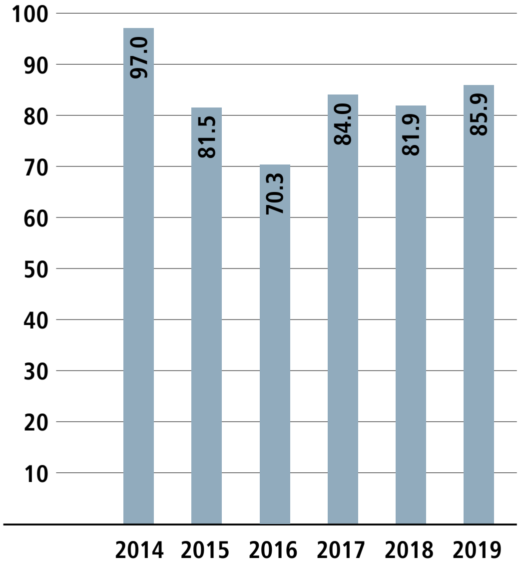
The first-time application of IFRS 16 in the 2019 fiscal year means that leases will be recognised in the balance sheet, and this will have a significant impact on the Sto Group's asset, financial and income situation.

Income situation
The income situation within the Sto Group improved as a result of healthy operational business development and a consistent approach to cost management. The **cost of material**, which had risen considerably in the previous year, increased by 2.6 % to EUR 631.6 million in 2019 (previous year: EUR 615.9 million). In addition to the fact that cost pressure on procurement markets lessened over the course of 2019, the measures initiated in the previous year to optimise the gross margin also had an impact here. In relation to total revenues in the amount of EUR 1,396.7 million (previous year: EUR 1,332.3 million), the gross margin rate improved by one percentage point from 53.8 % to 54.8 %.

In 2019, **personnel expenditure** rose to EUR 372.2 million (previous year: EUR 352.3 million). This represents a 5.7 % increase and was due to pay scale effects plus the expansion of the Group's workforce, which primarily resulted from first-time consolidations. Select appointments were also made in certain companies, primarily in growth markets.

In the reporting period, the balance of **other operating expenses and other operating income** amounted to EUR -250.5 million (previous year: EUR -247.6 million), with income increasing from EUR 17.7 million to EUR 19.1 million and expenses only experiencing slight growth of 2.0 % to EUR 269.6 million (previous year: EUR 265.3 million) despite considerably higher freight costs. The result benefited primarily from the first-time application of IFRS 16, although this conversely also increased depreciation and amortisation, and interest expenses. The impairment of financial assets rose to EUR 4.2 million (previous year: EUR 3.3 million). **Depreciation and amortisation** increased from EUR 31.3 million to EUR 52.3 million, with EUR 19.0 million attributable to the IFRS 16 effect. In total, consolidated earnings before interest, taxes, and depreciation/amortisation (**EBITDA**) rose by 22.1 % from EUR 113.2 million to EUR 138.2 million, and consolidated earnings before interest and taxes (**EBIT**) increased by 4.9 % to EUR 85.9 million (previous year: EUR 81.9 million).

Sto Group | **EBIT** in EUR million

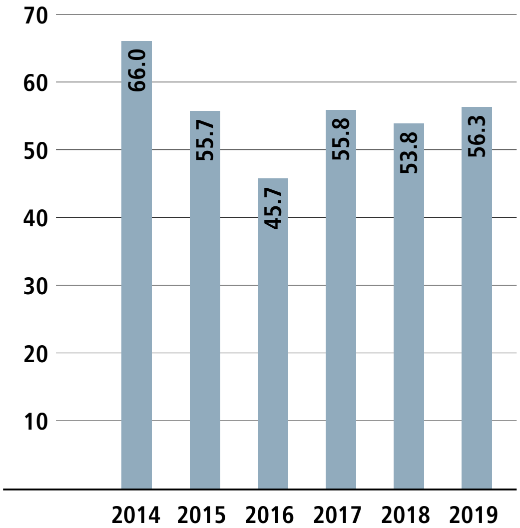


When broken down by **segment**, EBIT in Western Europe amounted to a significantly improved figure of EUR 84.9 million (previous year: EUR 77.0 million), while Northern/Eastern Europe recorded a decline to EUR 1.5 million (previous year: EUR 1.9 million) due to precautionary measures relating to warranty provisions within sales in Sweden. The sub-segment of America/Asia/Pacific posted a negative EBIT of EUR -0.4 million (previous year: EUR +3.2 million), primarily resulting from weak development of income in North America.

The application of IFRS 16 was felt particularly keenly in results including the net financial income/expense, which amounted to EUR -2.8 million (previous year: EUR -1.7 million). Interest expenses increased as a result of leasing obligations being recognised and totalled EUR -3.4 million in the year under review (previous year: EUR -2.6 million), EUR 0.6 million of which was attributable to the first-time application of IFRS 16. Interest income amounted to EUR 1.1 million (previous year: EUR 0.7 million),

while consolidated earnings before tax (EBT) improved by 3.6 % in 2019, reaching EUR 83.1 million (previous year: EUR 80.2 million). At 5.9 %, the return on sales remained virtually identical to the previous year's level of 6.0 %. The tax rate fell from 32.9 % in the previous year to 32.2 %, while the net profit for the year rose by 4.7 % from EUR 53.8 million to EUR 56.3 million.

Sto Group | **Net profit for the year** in EUR million



Diluted and basic earnings were EUR 9.09 per limited preference share (previous year: EUR 8.39) and EUR 9.03 per limited ordinary share (previous year: EUR 8.33).

As at 31 December 2019, the ROCE (return on capital employed) figure had fallen from 15.6 % to 14.0 % as compared to the same day of the previous year, mainly due to the first-time application of IFRS 16.

Sto SE & Co. KGaA – Dividend

The parent company Sto SE & Co. KGaA experienced growth in **earnings before income taxes**, determined in accordance with the German Commercial Code (HGB), from EUR 59.3 million to EUR 71.4 million, and in the **net profit for the year** from EUR 40.8 million to EUR 51.8 million. The financial and asset situation of Sto SE & Co. KGaA remained extremely solid, with an equity ratio of 69.6 % (previous year: 70.1 %).

The Executive Board of 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 10 June 2020. 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 are to be paid an ordinary dividend of EUR 0.25 as well as a bonus of EUR 3.78 per share.

The above proposal by the personally liable partner STO Management SE requires the consent of the Supervisory Board. The decision of the Supervisory Board is expected to be made on 16 April 2020. However, should the negative development of the economy as a whole worsen until then due to the coronavirus pandemic, the Supervisory Board might feel compelled to propose a reduced dividend payout in agreement with the personally liable partner STO Management SE. The same applies if the overall economic situation further deteriorates, especially in the markets relevant to Sto SE & Co. KGaA, between the Supervisory Board meeting scheduled for 16 April 2020 and the Annual General Meeting scheduled for 10 June 2020. In such a case, the Annual General Meeting could, in deviation from the proposals of the management and at the request of the shareholders with the required statutory quorum in place, resolve a dividend payout that is lower or that is limited to the statutory minimum dividend of preference shareholders, or even no dividend payout.

Financial situation

The most important objectives of **financial management** at Sto include ensuring liquidity, optimising financial expenses and income, and controlling and minimising currency and interest risks. Achieving these involves a wide range of 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 good credit ratings and are able to build long-term business 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. As an example, we primarily cover our current financial requirements – which can fluctuate significantly with the seasons over the course of the year – 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 2019 year end, the present value of disbursements due from leasing contracts in the future stood at EUR 65.7 million due to the first-time application of IFRS 16 (previous year: EUR 0.4 million).

Foreign currency items are netted within the Group to minimise the effect of exchange rate fluctuations on consolidated earnings. 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.

The Sto Group's liquidity is managed centrally through a **cash-pooling system**, into which almost all of the Group subsidiaries operating in the eurozone are integrated. This allows us to net cash surpluses and cash requirements, and minimise the number of external banking transactions. We invest any surplus liquidity under conditions that are as favourable as possible.

The duties of the **treasury** department include the recognition of financial resources for internal and external financing as well as the control of financial risk management. This approach takes into account the Group's continuing internationalisation and the increasing risk management requirements that come with it.

Development of liquidity in 2019

In 2019, **cash flow from operating activity** of the Sto Group totalled EUR 117.0 million compared to EUR 80.7 million in the previous year. In addition to the improved net profit for the year, this growth was primarily due to the application of IFRS 16 for the first time, the primary effect of which was a considerable increase in depreciation and amortisation. In total, depreciation and amortisation amounted to EUR 52.3 million (previous year: EUR 31.3 million). This was accompanied by an increase in provisions of EUR 8.6 million following a EUR 1.0 million reduction in the previous year. The cash flow margin improved, rising from 6.1 % to 8.4 %. Without IFRS 16 having been applied for the first time, cash flow from operating activity would have been EUR 97.1 million.

Cash flow from investment activities in the year under review amounted to EUR -31.6 million (previous year: EUR -35.9 million), with outflows from property, plant, and equipment as well as intangible assets increasing from EUR 32.0 million to EUR 35.3 million in comparison to the previous year. Additionally, funds in the amount of EUR 18.9 million (previous year: EUR 0 million) were also spent on the acquisition of consolidated companies and other business units in 2019, less acquired cash and cash equivalents. Funds amounting to a total of EUR 48.7 million (previous year: EUR 33.0 million) were released from financial investments on expiry of the maturity date, and cash and cash equivalents of EUR 27.9 million were reinvested (previous year: EUR 37.9 million). Cash flow from investment activities adjusted for these deposits and disbursements amounted to EUR -52.3 million (previous year: EUR -31.0 million).

Cash flow from financing activities amounted to EUR -62.9 million (previous year: EUR -24.2 million), with dividend payouts to the shareholders reaching EUR 26.1 million (previous year: EUR 26.4 million). Payments made for the repayment portion of lease liabilities came to EUR 19.3 million (previous year: EUR 0 million) and were recorded in this way for the first time due to the first-time application of IFRS 16. Payments for current borrowings increased to EUR 4.2 million (previous year: EUR 3.0 million), and the corresponding deposits fell from EUR 3.5 million to EUR 3.0 million. The cash

Sto Group | **Cash flow statement** in EUR K

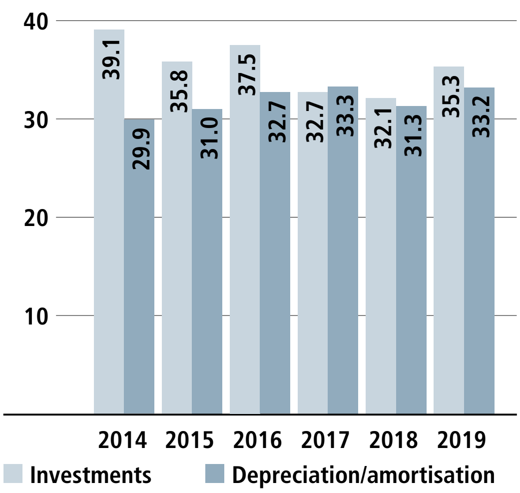
	2019	2018
Cash flow		
from operating activities	116,955	80,684
from investment activities	–31,585	–35,866
from financing activities	–62,892	–24,192
Change in cash and cash equivalents from changes in exchange rates and impairments in accordance with IFRS 9	835	246
Cash and cash equivalents at beginning of period	**105,294**	**84,422**
Change in cash and cash equivalents	23,313	20,872
Cash and cash equivalents at the end of period	**128,607**	**105,294**

outflow resulting from payments for non-current borrowings rose to EUR 8.8 million (previous year: EUR 0.1 million).

Financial resources at the 2019 year end came to EUR 128.6 million (previous year: EUR 105.3 million). This takes into account an amount of EUR 0.8 million (previous year: EUR 0.2 million) resulting from changes related to the exchange rate as well as impairment of expected losses on cash and cash equivalents in accordance with IFRS 9. As compared to the same day of the previous year, cash and cash equivalents increased by EUR 23.3 million (previous year: EUR 20.9 million).

Investments

Sto Group	**Investments and depreciation/amortisation (without financial assets and rights of use)** in EUR million



In the 2019 fiscal year, the Sto Group invested a total of EUR 35.3 million (previous year: EUR 32.1 million). This figure falls significantly below the budget of EUR 43 million, primarily because various projects had to be postponed as a result of delays in approval processes. This meant that investments in tangible assets remained virtually stable at EUR 32.6 million (previous year: EUR 30.5 million). The areas in which these were made included replacement and expansion measures carried out as part of the ongoing Retrofit programme. One of the focal points in 2019 was implementing a digital strategy in our production activities. A total of EUR 2.7 million was invested in intangible assets in 2019 (previous year: EUR 1.6 million). As in the previous year, we did not undertake any investments in financial assets.

Across the Group as a whole, EUR 27.3 million (previous year: EUR 26.8 million) of the total amount were invested in the segment of Western Europe, EUR 2.0 million in the segment of Northern/Eastern Europe (an unchanged figure compared to the previous year), and EUR 6.1 million (previous year: EUR 3.3 million) in America/Asia/Pacific.

Asset situation

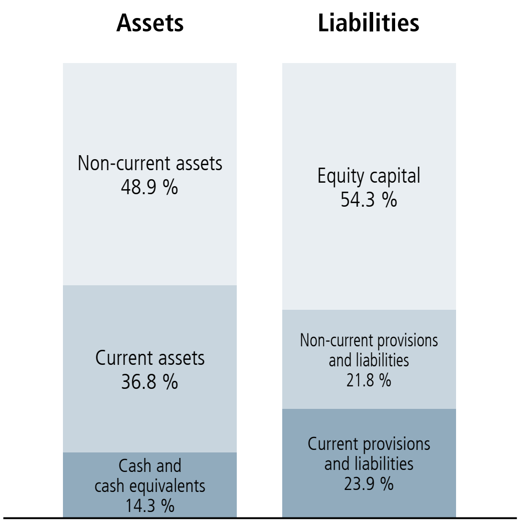
The **consolidated balance sheet** of Sto SE & Co. KGaA as at 31 December 2019 witnessed an increase of 14.2 % to EUR 896.1 million as compared to the 2018 year end (31 December 2018: EUR 784.4 million). This was largely attributable to the application of IFRS 16 for the first time and the expansion in the companies consolidated.

On the assets side, the total **non-current assets** increased from EUR 336.2 million to EUR 438.1 million, with **fixed assets** rising from EUR 313.8 million to EUR 401.2 million. Property, plant, and equipment experienced a year-on-year increase from EUR 254.9 million to EUR 262.4 million, and intangible assets grew from EUR 47.8 million to EUR 64.5 million, largely as a result of acquisitions. Following the first-time application of IFRS 16, rights of use were also recognised as fixed assets for the first time. At the 2019 year end, they amounted to EUR 63.6 million (31 December 2018: EUR 0 million). **Other non-current assets** rose to EUR 36.9 million (31 December 2018:

EUR 22.4 million). This growth was primarily due to the increase in the deferred tax assets item from EUR 20.5 million to EUR 29.8 million and in the non-current financial assets item from EUR 0.5 million to EUR 5.2 million. Current financial investments were reallocated to non-current financial investments in 2019 as part of efforts to optimise financial management and in particular to prevent negative interest.

Current assets showed an increase from EUR 448.2 million to EUR 458.0 million, with inventories rising from EUR 97.9 million to EUR 101.3 million. In addition to first-time consolidation effects, this was the result of an increase in inventory as at the reference date due to necessary maintenance measures performed on production facilities at the Stühlingen headquarters during the turn of the year. Current trade receivables totalled EUR 137.7 million (31 December 2018: EUR 134.7 million). The reduction in current financial assets from EUR 83.3 million to EUR 57.6 million was chiefly the result of their reallocation to cash and cash equivalents, and to financial investments with longer terms. The item of other current assets, which amounted to EUR 30.9 million (31 December 2018: EUR 24.5 million), primarily consists of refund claims. Cash and cash equivalents in the Sto Group increased year-on-year from EUR 105.3 million to EUR 128.6 million.

Sto Group | **Balance sheet structure as at 31 December 2019**



On the **liabilities side**, **equity** in the Group increased by 1.9 % to EUR 486.5 million as at 31 December 2019 (31 December 2018: EUR 477.5 million). The share of minority interests, which previously consisted mainly of the share of minority shareholders in Ströher GmbH, fell from EUR 7.6 million to EUR 0.4 million after the remaining 49.9 % of Ströher was acquired on 1 July 2019. The **equity ratio** dropped to 54.3 % (31 December 2018: 60.9 %) due to the balance sheet extension caused primarily by the first-time application of IFRS 16.

In 2019, **non-current provisions and liabilities** increased from EUR 119.7 million to EUR 195.0 million, mainly as a result of the new item of non-current lease liabilities. This was created on account of the first-time application of IFRS 16 and totalled EUR 47.2 million on the reference date (31 December 2018: EUR 0 million). Post-employment benefit provisions also grew by EUR 24.5 million to EUR 123.8 million (31 December 2018: EUR 99.3 million), chiefly due to the change in market interest rates.

Current provisions and liabilities experienced a net increase from EUR 187.2 million to EUR 214.6 million. In accordance with the regulations of IFRS 16, current lease liabilities amounting to EUR 18.5 million (31 December 2018: EUR 0 million) were recognised for the first time. Warranty provisions within sales represent the most significant item among other current provisions, which grew from EUR 45.5 million to EUR 48.2 million in total. This relates to insurance refund claims that are included on the assets side as other current assets. Current borrowings fell from EUR 11.5 million to EUR 5.1 million, mainly as a result of bank loans being repaid as part of Group financing for subsidiaries. Trade payables at the 2019 year end amounted to EUR 48.9 million (31 December 2018: EUR 47.2 million).

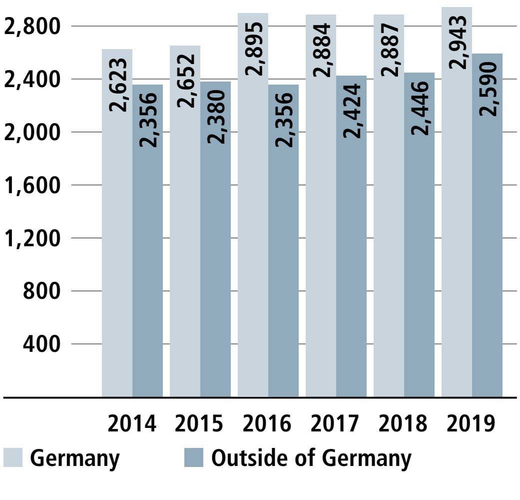
At the end of December 2019, total borrowings amounted to EUR 8.8 million after EUR 14.8 million in the previous year. Taking into account cash and cash equivalents of EUR 128.6 million, net financial assets stood at EUR 119.8 million, an improvement on the previous year (31 December 2018: EUR 90.5 million).

C. Other performance indicators

Employees

The number of Sto Group employees rose from 5,333 on the same day of the previous year to 5,533 at the 2019 year end (representing an increase of 200 or 3.8 %). The number of employees at locations in Germany experienced net growth of 56 to 2,943 (previous year: 2,887), mainly as a result of the first-time incorporation of Liaver GmbH & Co. KG, which

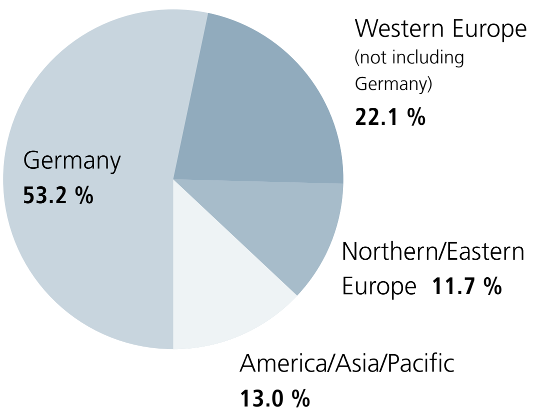
Sto Group | Number of **employees**



had 53 employees on the reference date. Other increases in personnel in Germany were mostly offset by the sale of the VeroStone GmbH operation and the reductions in staffing levels accompanying this.

Outside of Germany, the number of employees grew by a total of 144 to 2,590 (previous year: 2,446). This figure includes 43 employees at Skyrise Prefab Building Solutions Inc. in Canada and 67 employees at Unitex Australia Pty Ltd. Excluding these companies, the Group saw a plus of 34 employees as a result of select new appointments in countries with short-term and medium-term growth prospects. This increase was contrasted by specific restructuring measures in regions battling difficult general economic conditions. The percentage of the Group's workforce employed outside of Germany saw a net increase from 45.9 % to 46.8 %.

Sto Group | **Employees by region**



In the segment of Western Europe (including Germany), the number of employees amounted to 4,164 (previous year: 4,094), including those resulting from the first-time consolidation of Liaver GmbH & Co. KG. At the 2019 year end, the number of employees had risen to 648 in Northern/Eastern Europe (previous year: 636) and to 721 in America/Asia/Pacific (previous year: 603). This significant rise was primarily attributable to the first-time consolidation of Skyrise Prefab Building Solutions Inc. in Canada and Unitex Australia Pty Ltd with a total of 110 employees.

Sto considers diversity to be one of the keys to the company being successful in the future, and this approach is congruent with its corporate culture. In our experience, teams with a heterogeneous make-up are better at solving complex tasks and provide more scope for integrating societal and economic trends. This is why we seek to ensure that the Sto workforce is as diverse as possible. In 2019, for example, we appointed female candidates to several department manager posts. In total, the proportion of female employees in the Group amounted to approximately 25 % in 2019, as it had in the previous year.

HR strategy

In the year under review, we consistently pursued the human resources (HR) strategy defined for the Sto Group. This keeps us steadily on course in the area of HR and takes into account the environment in which the business is operating. The most significant factors that defined 2019 were the pressure that the Group felt from rising staff costs, the growing importance of flexibility, and intercultural skills, as well as the persistent shortage of specialist workers. It was also necessary to increase the speed of response, take account of the ageing workforce and the change in values, and respond to changing demands on our specialist and management staff.

We were able to achieve all the HR objectives that had been defined for 2019 and account for these factors in the process. These objectives were set with the aim of promoting the **Sto culture**, which 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. While the Sto culture is constantly evolving, we take care to ensure that its core values are upheld. The focal points of the 2019 fiscal year included the worldwide employee survey, which was conducted in May and then evaluated. This initiative achieved a participation rate of 83 % and delivered numerous insights and suggestions for improvement, some of which have already been translated into concrete actions. In addition, the new concept for appraisal interviews in Germany has been successfully introduced within the sales regions.

During the year under review, our **professional personnel and managerial development** – one of the three pillars of our corporate culture – focused on the succession planning strategy for various Sto companies, which has been implemented on an international level. This is based on customised qualification programmes that are designed to prepare our employees for the demands of the future and systematically develop the Group's stock of expertise and potential new managers.

Another key pillar of the Sto culture involves boosting our **attractiveness as an employer** and **securing the next generation of employees**. Through this, we are providing a strong foundation for the Sto Group to expand and we are actively addressing the shortage of skilled workers available. Our objectives include establishing attractive general conditions for applicants and employees, as well as offering a solid vocational training programme. In 2019, we dedicated our efforts primarily to the selection process for trainees, something that we revised and improved. The results of the employee survey conducted during the year under review revealed that more than 80 % of our Sto employees throughout the Group would recommend Sto as an employer – providing impressive evidence of our attractiveness. Our low employee fluctuation rate, which dropped once again in 2019, also indicates that employees identify strongly with the corporate culture and values that Sto upholds. Moreover, Sto achieved an excellent score in an analysis conducted by an independent opinion research institute that consulted thousands of employees on behalf of German magazine Stern. In January 2020, we received an award for being one of 'Germany's Best Employers 2020'.

Creating competitive employment conditions is another of the pillars on which the Sto culture rests. 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. For example, in the past fiscal year we have refined the remuneration systems for sales representatives and improved the general conditions for mobile working. Other focal points were occupational reintegration management and the use of an internal CRM system within the Group.

We are consistently seeking to boost the efficiency and professionalism of our workflows throughout all our HR operations. To this end, in 2019, we conducted an organisational analysis within the HR division and launched restructuring measures as a follow-up to this.

Fluctuation

Our aim is to keep our fluctuation rate within the Sto Group steadily in the lower single-digit percentage range. In Germany, the figure fell to an excellent 3.3 % in the year under review (previous year: 3.8 %). 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. The percentage of voluntary terminations remained virtually unchanged at approximately 2 %, demonstrating that Sto continues to be an attractive employer. In 2019, the average period of employment with the Sto Group was 10.8 years, while the average age of the Sto workforce was 43.4 (previous year: 43.5).

Occupational safety

Preventing and minimising accidents is a key component of our policy on occupational safety. 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 ten accidents per 1,000 employees per year. In 2019, the rate at Sto SE & Co. KGaA reached 13.5 – an improvement on 16.2 in the previous year.

As in the previous year, the main causes of accidents were falling, tripping, and slipping. In the year under review, no incidents occurred due to defective machinery or installations. With a view to achieving long-term improvements in safety, in 2019, we stepped up the focus on identifying and preventing trip hazards during our site visits, which have proven to be effective. These visits and tours were also combined with instructions and information on the StoInside employee portal with the objective of reducing inappropriate behaviour and increasing levels

At the 2019 year end, the Sto Group had a total of 5,533 employees.

of attention. 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.

The factories of the US subsidiary Sto Corp. in Atlanta (Georgia), 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.

Health management

With the aim of improving the wellbeing and vitality of employees, as well as maintaining their ability to perform, Sto has established a health management programme focused on specific target groups. In the 2019 fiscal year, it concentrated on areas including nutrition, sports, and flu vaccinations. With the Sto sports club at the Stühlingen headquarters closely involved, activities in the areas of exercise and relaxation were intensified and the corresponding range of offers further was expanded. The 25th anniversary of the club, celebrated in summer 2019, provided an occasion to present the full array of sports activities that are now available.

Further education and training activities

With the aim of fostering the skills and interests of our workforce as well as preparing them for the specific requirements they will need to fulfil in the future, the Sto Group offers a comprehensive range of opportunities for gaining qualifications and further training. A total of 34 seminars were held on 160 days during 2019. One of the focal points was management training – among others, trainings on implementing the measures necessary based on the results of the global employee survey. Onboarding seminars helped the Sto Group intensify its international focus and promote cooperation on a global level, while language courses and project management training opportunities were also made available.

Vocational training at Sto

In September 2019, a total of 93 young people started their vocational training at Sto in Germany. The range of available options includes 26 different industrial and commercial training paths, as well as cooperative study courses (classes at university combined with practical training in the company) in various areas. A civil engineering course with a focus on facade technology, leading to a Bachelor of Engineering degree, was launched in autumn 2019.

In Germany, the number of trainees, and students of cooperative state universities totalled 233 at the year end (previous year: 214). In relation to the total German workforce, this equates to a share of 7.9 % (previous year: 7.4 %). As a result, Sto far exceeded the approximately 4.8 % training rate of all the businesses working in the chemical industry in Germany.

A special page dedicated to providing extensive information about vocational training can be found at www.sto.de. In 2019, we also once again took part in numerous education fairs and careers days within Germany, made visits to schools, and cultivated education partnerships through applicant training opportunities and presentations. 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

We continually undertake in-depth R&D activities at a consistently high level. The primary aims of these are to keep enhancing our expertise within the Sto Group, secure the position we are aiming to achieve as a technology leader in our industrial sector, and tap into new markets and customers. In addition, these activities ensure that we are always able to receive sufficient supplies of the materials we need, at the standards of quality we expect and with reasonable value for money – regardless of the changing conditions to which we are subject and the impact that regulatory, ecological, and economic factors have on them. On both a European and national level, extensive reclassifications and revised labelling obligations with regard to raw materials were foremost among the challenges faced during the year under review. This resulted in Sto incurring considerable additional expense in some areas, such as the costs of qualifying alternative raw materials and suppliers or preparing additional fallback options in order to maintain a consistent level of supply over the long term and with the standards of quality Sto stands for.

Our Group-wide development activities take place predominantly at our Stühlingen headquarters. We also operate R&D departments based at various sites in and outside of Germany. Their activities are geared specifically towards each regional situation concerning the supply of raw materials, product features, and price structures. In 2019, a total of EUR 13.7 million (previous year: EUR 13.5 million) was recorded with an impact on profit and loss in the Sto Group's research and development costs, corresponding to 1.0 % (previous year: 1.0 %) of consolidated turnover.

Developed in 2019, StoLevell SW plus is a multi-purpose product for the plinth area that can be used as bonding and reinforcing mortar and as finishing render to create a fin, float-finished surface texture.

Fundamental research

The Sto Group relies on in-depth fundamental research when devising new or improved technologies and engaging in its successful development activities. 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. Our activities have included our ongoing participation in a project that is being funded by the German Federal Ministry of Education and Research and run jointly between us, the Institut für Bauforschung (Institute of Building Materials Research) in Aachen/Germany, the Institute of Structural Concrete in Aachen/Germany, and the Federal Highway Research Institute in Bergisch Gladbach/Germany. The debate surrounding preservative-free and preservative-adapted products remained a focal point of our fundamental research. We have conducted extensive work on concepts designed to accommodate the rising demand for preservative-free products without compromising the functionality and shelf life of the products. Through our activities in associations, we have also been involved in establishing appropriate handling practices for preservatives in technically demanding product groups.

Production and procurement

The basis for the premium quality standards that Sto products achieve is the company's strong production expertise. We are continually developing applications and methods, as well as making ongoing improvements to production processes, to ensure that our expertise remains at a consistently high level, and to always acquire new skills.

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-based (EPS) 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 2019 year end, the Sto Group's global production network comprised 33 locations, of which 11 were in Germany and 22 outside of Germany. In the year under review, we added new production sites through Liaver GmbH & Co. KG in Ilmenau/Germany, Skyrise Prefab Building Solutions Inc. in Canada, and Unitex Australia Pty Ltd. As in the previous year, all of Sto's factories operated mostly at a high capacity level and in two-shift or three-shift operation at least some of the time.

The Retrofit programme aims to continually modernise the capacities at the production sites, and to establish the right conditions for digitising production processes.

The Group's production facilities are continually being inspected and modernised in line with the latest standards. The Retrofit programme was launched with this purpose in mind, but its aims go beyond simply upgrading and renovating production sites on an ongoing basis: it also puts in place the conditions needed for establishing digitised production processes, reflecting a trend that is on the rise. During the reporting period, the programme's activities focused primarily on replacing process control systems, modernising system controls, and renewing sensor technology, actuator technology, and measuring equipment. 2019 also marked the start of the work involved in upgrading the control technology in the dosing and mixing plants at our headquarters in Stühlingen. Once all the control and instrumentation solutions have been brought up to the latest standards, the plan is to replace the individual site solutions with a uniform production management system that will provide digital support for virtually every process in the production environment and for order processing.

Another large-scale project that was involved in establishing automated production processes was the installation of three new silos at the Rüsselsheim/Germany plant for the purpose of dosing raw materials in powder form. The infrastructure at the site in Kriftel/Germany also underwent modernisation.

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. This level of quality is already being achieved almost consistently at the European Sto factories. Potential weaknesses are identified and eliminated as early as possible, and the training we provide ensures that our employees worldwide are qualified to do this.

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

Tested quality management

All key production facilities within the Sto Group are registered in the integrated management system, which incorporates the existing quality, environmental, safety and energy management systems that apply at each facility. Additionally, the majority of the Group's plants are certified in accordance with external standards. At the 2019 year end, 26 out of a total of 33 locations had been assessed and certified for their environmental management system in accordance with the international quality management standard ISO 9001:2015, and 15 in accordance with ISO 14001:2015. In the course of the year, production sites both in and outside of Germany underwent successful surveillance audits in accordance with ISO 9001:2015 and ISO 14001:2015. Internal audits were also conducted at the Stühlingen site and at all certified production sites in and outside of Germany.

These primarily focused on quality assurance during the production of EPS insulation boards. To achieve this, we supplement our existing production system with enhanced measures that go beyond the requirements of the applicable standard, ensuring that a high level of product quality is maintained among all the suppliers involved in the manufacturing process. Innolation GmbH in Lauingen/Germany acts as a Group-wide centre of expertise for insulants. The work that it undertook during the year under review included adding another production line to its existing processes and introducing a new data collection system for its production, maintenance, and quality assurance activities. Digitising the related processes has made it possible to obtain improved data evaluations and introduce appropriate measures more quickly. Production processes have also been optimised with the aim of ensuring ongoing improvements in quality.

Furthermore, Sto has introduced the ISO 50001 energy management system at several of its locations over recent years. As at the end of 2019, Sto SE & Co. KGaA's headquarters in Stühlingen, all the production sites and SalesCentres in Germany, and six subsidiaries were certified. Sto Ges.m.b.H in Villach/Austria also achieved ISO 50001 certification for the first time in 2019: this included its production, logistics, and sales activities plus seven SalesCentres.

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.

The situation on the procurement markets became significantly less strained in 2019 as compared to the previous year, which had been marked by steep price increases. Global demand for several of our key input materials declined during the year, mainly due to sluggish economic performance worldwide. The measures that Sto had initiated to offset increases in the cost of materials also had a noticeably positive impact. As an example of this, we intensified the strategic stockpiling of key input materials and made improvements in securing supply by putting contracts in place. In addition, we built up a pool of alternative suppliers to further extend our procurement network.

In 2019, procurement prices in areas of relevance to Sto were at a lower level in some cases, and often remained stable, when compared to 2018. Prices were still high compared to previous years, however. Significant rises were only seen in the areas of basic mineral raw materials and transportation, in which the persistently severe lack of HGV drivers was particularly evident. This trend has led to shipping companies incurring rising staff costs and passing them further down the chain. Higher expenses also arose from additional toll charges and city-centre bans on vehicles that have been introduced in a bid to cut down on particulate pollution – a move that is requiring shipping companies to provide on-demand flexibility much more than before. In the energy sector, Sto was able to make further savings on electricity and gas costs thanks to long-term contracts.

There were no significant bottlenecks in supply or longer lead times to deal with on the whole. The cost of goods sold in the Group fell by one percentage point to 45.2 % (previous year: 46.2 %).

Procurement management

The basis for end-to-end security of supply at all production locations of the Sto Group is proactive procurement management, which relies on close, long-term relationships with suppliers. In 2019, we increased staff capacity in this area as a result of the significant challenges we had faced in the previous year and sharp rises in costs. We also did so with the aim of further optimising our approach to risk management in purchasing. We also made improvements to our portfolios of the strategic purchasers.

Sto SE & Co. KGaA acts as an internal service provider within the Group for the professional procurement of capital goods, services, and consumables, and supports the subsidiaries by providing tailored consultation services, expertise, and state-of-the-art procurement methods. We reinforced this indirect purchasing approach in 2019 and were able to combine shared requirements even more effectively in areas such as IT, machinery, and systems. The efforts that have been made to work closely with various subsidiaries on complex procurement projects have had a remarkably positive impact on both costs and quality.

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 delivery to the customer. We use special software to assist us in this process. By consistently applying and constantly optimising this increasingly digitised process, 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. The planning process has also been 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 our 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. This year's score saw an improvement from 87.2 to 87.7 points in comparison to the previous year, with the values in virtually every sub-criterion rising once again. This was chiefly thanks to procurement markets across the globe being exposed to less strain.

Inventory ratios (average inventory in relation to annual sales) are agreed with the Sto subsidiaries as part of Group-wide **stock management**. These values depend on whether the company concerned is a production and/or sales company, and ranged between 2.3 % and 40.0 % in 2019. The process of defining the targets also involved analysing the relevant market conditions, such as product launches, strategic stockpiling of raw materials and trading goods, and necessary logistics-related changes. Higher stock values were approved in cases where this was necessitated by production-related, logistics-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.

In 2019, Sto-eProcure was launched in further European subsidiaries, for examples in Sto Ges.m.b.H in Austria as well as Innolation SAS and Sto SAS in France. Sto-eProcure is a state-of-the-art procurement platform that handles all indirect material demands using a standardised approval process across the Group. It is also linked directly to the Group-wide SAP system. This process also went hand in hand with further development of local processes in order to achieve additional improvements in the collaboration between the company headquarters and its subsidiaries.

D. Events after the reporting period

With effect from 1 January 2020, Sto SE & Co. KGaA has acquired 50.1 % of VIACOR Polymer GmbH, Rottenburg am Neckar/Germany. This renowned manufacturer of industrial flooring and coatings for sports flooring expands what Sto has to offer under the StoCretec brand and will be consolidated within the Sto Group starting from the current year.

Between the end of the 2019 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.

However, it is difficult to predict how the coronavirus pandemic is set to continue and what impact it will have on the global economy. This is a situation that involves considerable risks. We have provided more detail about the risks posed to Sto as a result of this in the 'Risks and opportunities report' and 'Outlook report' sections below.

E. Risks and opportunities report

Risks and opportunities

As a company with an international focus 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 the Executive Board of STO Management SE as the personally liable partner of Sto SE & Co. KGaA, asks for opportunities that arise to be exploited with rigour, and risks to be undertaken only where a commensurate contribution to earnings can be expected and a threat to the company's existence can be largely excluded. Generally speaking, we define risks and opportunities as potential deviations from the planned result.

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 CO_2 emissions is set to rise. Furthermore, decision-makers in the area of climate protection are now speaking with one voice. One example of this is the European Commission's expressed intention to make the EU climate-neutral by 2050. A European Climate Law is to make this aim legally binding. The Commission is currently working on the basis of this being an EU-wide objective.

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.

As we also expect to see prices for key fossil fuels 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.

The 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 our product range in comparison with the previous year, and our close proximity to customers and high customer retention level 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. This system 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. This has three categories of risk, 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. The likelihood of damage occurring is categorised as follows: lower than 30 %, 30 % to 60 %, and higher than 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 caused by unforeseeable events such as fire, explosion, or natural disasters, and business interruption resulting from this. 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 assessments 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

As a supplement to the Sto Group's risks and opportunities management system, we have also implemented an **internal control system (ICS)**. This covers all the principles, procedures, and measures that 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.

An internal manual containing corporate accounting guidelines in line with IFRS is regularly updated and provides the basis for drawing up the annual financial statements, 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 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 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 German Financial Reporting Enforcement Panel in Berlin/Germany and the tax audit authorities.

As well as this, we 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 company between the local Management Board, representatives of Group Accounting or central 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 implementing the growing compliance requirements. As an independent department, Internal Audit reports directly to the Executive Board of the personally liable partner and to the Chairperson 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 (2017 version) was completed at the beginning of the 2019 fiscal year. Since 2018, the Sto Group has had a Chief Compliance Officer, and a Group-wide Code of Conduct was introduced worldwide in 2019.

A standardised whistle-blower system for compliance breaches is publicly accessible via our website, www.sto.de, and not only gives whistle-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 desired. The system is open to employees, managers, customers, suppliers, and other stakeholders. 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. Our accounting process is controlled externally by our Group auditor, while central Investment Controlling, Group Accounting, and Internal Audit are responsible for performing internal audits. 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:

Risks arising from the coronavirus pandemic

By constantly internationalising our business activities, which is one of the company's key strategic aims, Sto is well differentiated in the regions in which it is present. We are hence able spread our business risk and compensate for fluctuations in individual countries to a certain extent.

In the 2020 fiscal year, the coronavirus pandemic has gripped the countries in which Sto operates one by one. This is a constantly changing situation and one that has had predominantly negative effects so far.

One risk resulting from it is that Sto's supply could be limited or interrupted by sub-suppliers' limited ability or complete inability to deliver. As raw materials, purchased goods, and packaging are diverted to other priority customers, such as those in the medical, hygiene, and food sectors, supplies may be suspended. To counter this risk as much as we can, we operate on the basis of a multiple-supplier principle and international sourcing, as well as using formulations with alternative raw materials and adopting anticipatory stockpiling.

Shortages in Sto's supplies could also result from disruptions in transporting goods to Sto, something that in turn may be caused by a sickness-related lack of drivers at shipping companies, delays to the necessary border transits both within the EU and at its outer borders, and limited fuel supplies. These risks also pertain to the supply of goods to our customers, both in Germany and outside of Germany. For this reason, at Sto we are focusing on using high-performance shipping companies and, in some cases, our own fleet of vehicles for distribution to our customers.

Another risk arises from the potential reduction in production capacity due to increased sickness levels or production ceasing entirely if employees are infected with coronavirus. Sto's production is highly automated in many of its factories and relatively few employees are required for operation, meaning that a sufficient safety distance can usually be maintained between workers without impacting the production process. The risks can be reduced by employing temporary staff to provide additional short-term capacity and by introducing shift work.

The sale of our products is exposed to risks relating to several factors, including the availability of healthy workers at our customers' sites, a potential exodus of employees from other countries leaving our customers to return to their home countries, our customers' ability to access their building sites without restriction, our trade customers' ability to carry out their work unimpeded, and our customers' orders potentially being cancelled by their own clients due to the crisis. The coronavirus pandemic has caused widespread uncertainty across the population, which may cause an increase in money-saving behaviour and therefore lead investors to delay planned new buildings or renovation projects. Even after the coronavirus pandemic has ended, investors may still be reluctant to part with their money due to sustained uncertainty and this may lead to a recession in the construction industry. Sto's broad customer base and low dependency on individual customers and projects counteract these risks, as does the ability of the Sto sales team to win new customers.

A further risk is posed by the disruption to cash flow caused by liquidity problems of our customers, which may mean that Sto increasingly needs to draw on its own liquidity or may lead to an increase in defaults on receivables. We are in constant dialogue with our customers, who are subject to ongoing credit monitoring and in some cases are covered by credit insurance policies.

Financial investments with commercial banks and in corporate bonds will also be at risk if commercial banks and issuers are no longer in the position to honour their repayment obligations at the point of maturity. By and large, the Sto Group's financial investments are with banks that have good credit ratings, and in corporate bonds with first-class ratings. Financial investments with banks are partially covered by existing deposit protection.

As the coronavirus pandemic progresses, it is possible that temporary closures will be mandated in the countries where our companies are active. This will pose a risk for the liquidity of Sto SE & Co. KGaA, even if Sto SE & Co. KGaA can continue its normal operation, since subsidiaries will have to be provided with sufficient liquidity. We are counteracting this risk through ongoing liquidity monitoring, profit-securing measures, cutbacks and postponements of pending investment measures, and investigations of government financial aid.

The syndicated loan agreement between Sto SE & Co. KGaA and a banking consortium includes financial covenants that are in line with standard market terms and are subject to target figures. If these target figures are not met, the banks ultimately have the option of terminating the credit agreement. This poses the risk that credit drawn will be declared due within the terms of the syndicated loan agreement. This risk is being mediated through ongoing key figure monitoring and simulation based on the current earnings projection, and through earnings-securing measures resulting from this.

Another risk is posed by a significant change in currency parities with the euro and the US dollar. The manufacturing Sto companies generally sell their products on their domestic market. In addition, a proportion of the products are exported to countries outside the eurozone and US dollar zone. A material change in the relevant currency parities with the euro or US dollar could mean that supplying goods to other countries becomes more expensive, negatively impacting the turnover generated from export business. A large part of the currency risks from planned export transactions for the year 2020 was already hedged at the end of 2019 by currency forwards.

The plans for securing earnings, which had already been developed as part of the annual planning for 2020, have been put into action in order to counteract potential losses from declining earnings. In light of the ever-evolving, negative general conditions, the measures defined for Sto SE & Co. KGaA and the companies of the Sto Group with regards to lowering costs and securing liquidity are being implemented and further strengthened across the Group. We have established a specific taskforce that is dedicated to assessing the situation and taking measures to minimise risks. Nevertheless, according to our current estimation, it is possible that the EBIT operating result may see losses of up to EUR 60 million when compared to the lower end of our forecast range of EUR 93 million.

As at the reference date of 31 December 2019, Sto is in a strong financial position and has a significantly positive net debt as well as an agreed syndicated loan in the amount of EUR 100 million. Sto is also investigating the requirements for the utilisation of government liquidity assistance to secure its own liquidity as far as necessary.

The situation would need to be regarded as critical if, over the longer term, legal measures put a stop to production and sales in the key markets, if raw material supply and logistics chains collapsed, or if health authorities mandated a shutdown.

Our comprehensive measures aimed at reducing individual risks are also described in subsequent sections of the risks and opportunities report.

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 the EBIT operating result 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, silicones, and water-based dispersion agents. Risks could arise from the concentration tendencies on procurement markets, as well as from political unrest, additional trade barriers, or 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, polystyrene insulation boards, and even plastic containers such as our Sto pails. In the past, trends relating to these basic raw materials were generally strongly correlated with the price of crude oil. In recent years, however, it has become increasingly clear that an independent, highly volatile trend is emerging – often influenced by global supply and demand. In our view, 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. 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 28 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, and plan to expand it gradually. 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, particularly when it comes to the price of crude oil and the impact that this has on the time it takes for energy investments to pay off. 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.

The Munich-based Qualitätsgedämmt e.V., an association which was founded by German family-owned businesses and 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 probable long-term upward trend in energy prices, which has made facade insulation an appealing prospect from a financial perspective. Political decision-makers have committed themselves to pursuing aims relating to energy savings and CO_2 reductions more vigorously, and this, coupled with tax incentives for energy-related building refurbishments, is increasing the likelihood of favourable general conditions being achieved.

Sto responds to the conflicting and, in some cases, highly exaggerated media reports with objective, fact-based communication, additional quality measures, plus a quality management system that is tailored to the specific requirements of the insulants that are supplied.

Delays in political decision-making processes with regard to state subsidy measures can pose a risk if potential developers are reluctant to invest, which would result in a temporary drop in demand. Sto is addressing this risk through steps such as an objective line of reasoning intended to raise awareness among bodies and decision-makers involved in the process.

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. General technical progress offers Sto the opportunity to derive knowledge and use this to further develop and improve products and systems.

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 past 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. Sto's comprehensive quality assurance measures ensure that our facade insulation boards made from EPS and other insulants meet our stringent quality standards, and will continue to do so in the future, and that requirements stipulated in the approvals for our external wall insulation systems are met reliably.

The European Commission decided to classify the raw material titanium dioxide – a white pigment contained in various Sto products – as hazardous, despite the fact that there is no case worldwide of any health damage due to inhalation of titanium dioxide. We, along with the affected industry associations and recognised experts, have severe doubts about whether this decision is reasonable. Nevertheless, affected products will have to be labelled with additional warnings in future, which may lead to questions and concerns for all involved in the supply chain, and ultimately result in declines in demand. For this reason, Sto is testing possible substitutes for titanium dioxide. As legal measures have not yet been exhausted, it is expected that the final classification of titanium dioxide will be decided by the European Court of Justice.

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 financial 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 of liability in our activities outside of Germany, we engage the services of external consultants during decision-making procedures where necessary, including in relation to technical aspects.

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 and transparent reduction in risks.

For the Sto Group, protecting the personal rights of customers, employees, shareholders, business partners, and suppliers is an important and self-evident objective. When the General Data Protection Regulation (GDPR) came into force on 25 May 2018, data protection became a much more pressing topic. All Sto companies subject to the scope of the GDPR have adapted to the new requirements and implemented governance structures and processes accordingly. The data protection organisation has been strengthened: for example, data protection officers have been nominated by the respective managing directors in order to identify and manage potential risks arising from the increased requirements. In addition, these officers are responsible for implementing the Group directive on data protection within their companies, and are in close, regular contact with the Sto Group's data protection officer.

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

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 significant 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 Group, which are aimed at arming Sto customers with the qualifications they need.

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 at the budget creation stage; 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 2019, 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 secures the recognition and control of financial resources for internal and external financing, and supports financial risk management. Consistent hedging strategies and clear rules for financial investments, foreign exchange transactions, and internal and external financing are in place across the Group worldwide. In the year under review, the structures and processes underwent further improvement and the financing costs were optimised. The Group-wide implementation of a central treasury management system and a payment transaction system integrated into SAP was continued in the course of a rollout project spanning several years. 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 substantial proportion of all business processes and interactions with customers and business partners at Sto relies on IT systems and components. SAP is the central system used within the Sto Group. 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 resulting risks are identified and controlled through an active information security management system (ISMS), which is also used to develop and monitor new measures. These are implemented by a team of IT security experts and are subject to regular internal audits. In 2019, several measures were identified, initiated, and implemented. Some aspects of the implementation are continuing in 2020.

Sto has adopted a consistent 'cloud-first' strategy. This means that IT systems will be purchased from cloud service providers in future, provided it makes economic and technological sense to do so. These systems must be able to demonstrate GDPR compliance and have an information security certificate that is recognised by the German Federal Office for Information Security (BSI). This means that Sto will benefit from the very high IT security standards in place at the cloud service providers.

The implemented and planned measures address the following main priorities:

Continuity:
The core systems necessary to the company's operating business, such as SAP, 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, in-house data centre was put into operation. Operationally relevant IT services are thus available in two independent and spatially separated data centres. Data critical to the company is backed up daily and stored separately. In the subsidiaries, only country-specific IT systems are operated for strategic reasons. Terminal devices such as laptops, desktops, tablets, and smartphones are continually updated as part of a lifecycle approach.

Integrity:
To prevent unauthorised access to the information systems of Sto SE & Co. KGaA and its fully integrated subsidiaries, we use state-of-the-art IT security solutions that are available on the market. They serve to protect data, terminal devices, local networks, wide-area networks and data centres. The IT policy defines our restrictive approach to issuing access authorisation, which is based on the principle of least privilege. The cloud-first strategy ensures that company-related data is stored, processed, and secured in compliance with GDPR rules. Users of IT systems are authenticated via a centralised and standardised identity and access service, which provides security functions such as multi-factor authentication, plausibility checks, application level protection, and monitoring. The significant increase in threats from phishing, ransomware, and trojans has made 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.

Availability:
The redundant configuration of all core systems and network connections ensures maximum availability for all key business processes. An automated monitoring system serves to continuously monitor system availability. Risks from hardware failures or an inability to update software components are being minimised by a gradual modernisation of all the relevant components. As part of the Retrofit project in our production environment, we are ensuring that IT systems are adequate for the current requirements of Industry 4.0. In particular, protected networks are being operated, procured, and deployed in a way that is technologically fit for the future.

Human resources risks

The expertise and enormous dedication of Sto employees are amongst the key building blocks of our 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. This makes it more difficult to find talented young professionals, and the number of people leaving the company for reasons of age will increase, resulting in 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 is to enable us to win over new professionals and managers, as well as foster the sense of loyalty felt by employees 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 various Group companies, with certification in line with international standards. More information about our environmental protection measures can be found in the section entitled 'Production and procurement'.

Risks concerning processes and added value

Events outside of our control, such as natural disasters or 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. In addition, changes to laws and regulations can have a significant impact on tax demands and liabilities, as well as 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 2020

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 largely stable political environment will prevail. Should these premises prove incorrect, however, then expectations for 2020 may deviate from the actual situation.

Additionally, the risks presented may bring about some short-term influencing factors that may have a positive and/or negative effect on Sto's development. With this in mind, it is not possible to make a reliable prediction of how EWIS sales in particular 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 continues to have risks associated with it, particularly within the eurozone. 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 2020 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.

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 income.

The rapid rate at which the coronavirus pandemic is spreading has given rise to significant uncertainty about the future development of the business. The risks and opportunities report provides an in-depth look at the risks associated with this.

Provided that the economy performs better than expected in regions where we only make plans with a great degree of caution, 2020 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.

The climate package unveiled by the German government at the end of 2019 has made energy efficiency measures in buildings within Germany tax-deductible since 1 January 2020. According to our estimates, this stimulation should begin to have a positive impact on the EWIS market from the second half of 2020.

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
Risks arising from the coronavirus pandemic	high
Dependence on weather conditions	high
Risks in procuring raw materials and external products	high
Sales risks	average
Warranty-related and legal risks	average
Overall economic and industry-specific 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, in consultation with the Supervisory Board, has 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 financial situation of the Sto Group.

F. Outlook report

Global economy

The prospects for the global economy have worsened considerably since March 2020 due to the coronavirus pandemic, which has overshadowed all other influences. A reliable forecast of the economic consequences of the pandemic could not be made at the time the Group management report was created, as there is a high level of uncertainty regarding the further spread of the virus, the measures being taken by governments to contain the disease, and the macroeconomic magnitude of the consequences.

Before the outbreak of the pandemic, the International Monetary Fund (IMF) was of the view that the global economy had somewhat stabilised. In its outlook published in January 2020, however, the economists stated that they were not anticipating a return to the growth rates of previous years. Without taking into account the impact of the coronavirus pandemic, the IMF had forecast an overall 3.3 % rise in global GDP for 2020 following 2.9 % in 2019.

Its January outlook for 2020 predicted an increase of 4.4 % in developing and emerging countries, and an overall expansion of 1.6 % in industrialised nations – once again, without the consequences of the coronavirus pandemic taken into consideration. These figures included a slightly smaller rise in the USA's growth (+2.0 %) but a more dynamic performance in the eurozone (+1.3 %) as compared to the previous year. However, the impact of the coronavirus pandemic poses the risk of the global economy entering a period of recession and thus reporting figures that are considerably lower than the growth rates originally forecast.

Prior to the pandemic's outbreak, the German government had expected to see GDP once again rise slightly by 1.1 % in 2020. On 30 March 2020, the German Council of Economic Experts published a special report that was presented to the government and includes the potential consequences of COVID-19. This states that it will be impossible for Germany to avoid entering a recession in the first half of 2020 and presents three scenarios that depict different ways in which the economy could develop in 2020 and 2021. The key differences between the scenarios relate to how long restrictions that have been put in place for health reasons are set to last, how severe these restrictions are, and how quickly the country will be able to recover once they are lifted. The baseline scenario, which current information suggests will be the most likely scenario, states that German GDP will see a reduction of -2.8 % in the current year and an increase of 3.7 % in 2021. In this case, the Council believes that the economic situation would normalise over the summer. The second scenario is based on a drop of -5.4 % in 2020 and then an increase of 4.9 % in the following year, while the third scenario sees GDP falling by -4.5 % in 2020 and demonstrating sluggish growth of just 1.0 % in 2021.

Trends for the international construction industry

The outlooks that associations in the construction sector have presented for each regional market do not include the potential impact of the coronavirus pandemic. As things stand, it is believed that the actual figures will perform significantly below the expected growth rates, particularly in 2020.

Before the outbreak of the coronavirus pandemic, the EUROCONSTRUCT network had stated in December 2019 that the **European construction industry** would continue to expand, albeit at decreasing rates of growth. Estimates from experts state that the volume of construction in the territory covered by EUROCONSTRUCT is set to increase by approximately 1 % in 2020. This includes the expectation that the new-building construction sector in particular will lose significant momentum, while the renovation market will put in a stronger performance. These estimates also hold that annual growth is likely to drop to 0.5 % in residential construction, 1.0 % in non-residential construction, and 2.2 % in civil engineering by 2022. In previous years, positive stimuli for construction activity in Europe primarily stemmed from the positive economic environment, favourable financing conditions, and a pronounced need to respond to the requirements of transport and energy infrastructure.

In **Germany**, the HDB (General association for the German construction industry) and the ZDB (German Construction Confederation) announced in January 2020 that they anticipated a nominal 5.5 % growth in turnover in the main construction sector. Without the potential consequences of the coronavirus pandemic taken into account, this forecast was presented on the basis of the residential construction sector – expected to see a 7 % increase – benefiting primarily from the employment situation continuing to perform well, incomes demonstrating growth, and favourable financing conditions persisting. A scarcity of building land in urban centres is the main restriction on construction activity. An increase of 5.5 % was expected in commercial construction, with turnover in public-sector construction likely to rise by 4 % in 2020. The Verband der deutschen Lack- und Druckfarbenindustrie e.V. (Association of the German Paint and Printing Ink Industry) had not anticipated a significant improvement in the overall situation, even before the onset of the coronavirus pandemic. In total, it had expected slight growth in turnover amounting to 0.4 % in 2020, with the architectural coatings and paints sector experiencing stagnation.

Without the impact of the coronavirus pandemic taken into account, the construction industry in the **USA** was expected to see a continued decline in growth during 2020. GTAI (Germany Trade & Invest) had expected that the number of detached home and multiple-dwelling construction projects started would grow by approximately 1 % and that the residential construction sector would experience stagnation. An ongoing reduction had been expected in every sector of non-residential construction, with hotel construction declining by a forecast 3 %, office building construction by 1 %, and commercial property by 2 %. By contrast, 2020 was expected to bring positive opportunities for business in the civil engineering sector.

In **China**, it is likely that the coronavirus pandemic will result in the pace of economic growth slowing significantly overall. The construction sector is once again set to provide support for economic performance in 2020, but is also expected to be the victim of major fallout from the pandemic. However, GTAI has stated that the internal market is not yet saturated due to a shortage of investment alternatives and inelastic demand prevailing as a result of this, and that the trend towards urbanisation is continuing unabated.

Projected performance of the Sto Group

Assuming normal weather conditions and without the impact of the coronavirus pandemic taken into account, Sto expects business development to remain positive in the 2020 fiscal year. **Group turnover** is expected to rise by 6.6 % to approximately EUR 1,490 million. Within this, it is anticipated that the segments of Western Europe and Northern/Eastern Europe will each contribute growth rates in the mid-single digit percentage range, while the America/Asia/Pacific region will see growth in turnover in the upper single-digit percentage range.

Thanks to above-average weather conditions in January and February, the 2020 fiscal year began favourably for the majority of markets that are important to Sto. While March initially demonstrated a positive trend on the whole, the impact of the coronavirus pandemic had grown increasingly significant in several of Sto's markets by the middle of the month, and in some cases had considerably hampered business activities.

The Sto companies in France, Italy, and China were especially badly hit by the effects of the pandemic during March. However, this contrasted with the situation at companies including Sto SE & Co. KGaA, which recently recorded high volumes of incoming orders and were therefore required to introduce special production shifts on Saturdays to accommodate this – an unusual circumstance for the time of year.

In total, consolidated turnover in the first three months of the year exceeded that of the previous year and fell in line with expectations.

Prior to the outbreak of the coronavirus pandemic, the consolidated earnings before interest and taxes (EBIT) for 2020 had been forecast to fall between EUR 93 million and EUR 103 million, and earnings before taxes (EBT) between EUR 90 million and EUR 100 million. Where the resulting return on sales is concerned, we had anticipated a value between 6.0 % and 6.7 %. After allowing for the application of IFRS 16, it was expected that the return on capital employed (ROCE) would be between 14.0 % and 15.5 %.

This forecast is based on the expectation that the global economy will grow and that the volume of construction will increase globally as originally suggested, thereby providing a solid foundation for positive development of the Sto Group throughout the world. However, it does not incorporate any potential effects of the coronavirus pandemic. We are also working on the basis that the euro will remain largely stable. 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. It is not currently possible to predict what impact the coronavirus pandemic will have on the business development of the Sto Group. At the time of compiling the management report, the extent of the consequences for the company was still expected to be relatively small. However, there is no reliable way of predicting how things are set to continue or what the longer-term effects will be.

The United Kingdom's exit from the EU may have a negative impact on sales figures in the country. 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. As things stand, we believe that the impact of Brexit on the economic development of the EU in 2020 will also be low.

We expect the business volume to continue growing in the area of facade systems. The objective advantages offered by energy-related facade insulation hold significant potential for sales of Sto's external wall insulation systems across the globe. This range of products meets the very highest quality standards in terms of insulating performance, ecology, cost-effectiveness, fire protection, durability, and design freedom. At the end of 2019, the German Bundesrat also agreed on a climate package containing steps that include making energy efficiency measures in buildings within Germany tax-deductible. This will boost the financial incentive to introduce insulation measures and is likely to cause a rise in renovation rates as a result. By contrast, the ongoing debate on the use of external wall insulation systems in Germany may restrict development in Germany.

We remain in a very competitive position in our other product areas too, and believe that we will see a growth in business volume in 2020. In our view, the greatest potential for growth lies in interior coatings within the interior products range.

There is currently still a great deal of uncertainty surrounding the impact that the coronavirus pandemic is set to have on Sto's future business development. At the time of compiling the management report, the extent of the consequences for the company was still expected to be relatively small. As things stand, we believe that there will be coronavirus-related shutdowns, considerable disruptions to supply chains, and a significant number of infected employees throughout the company in several of our key markets, albeit not simultaneously, resulting in sales of our products being curtailed for an extended period. However, it is nowhere near possible to reliably predict how business will continue beyond this or what the longer-term effects will be.

Without taking into account the effects of the coronavirus pandemic, we believe that the area of **procurement** will continue to experience more relaxed conditions and steady demand in 2020 due to reduced economic growth worldwide. As a net effect, price levels of key raw materials and other materials are set to remain largely unchanged when viewed together with increases in other costs relating to freight, which in some cases will be significant.

The procurement volume that the Sto Group obtains directly from China is very low, which means that the coronavirus pandemic is unlikely to lead to the Group being affected by direct supply disruptions relating to raw materials and bought-in products from China over the short to medium term. At present, it is difficult to assess the potential impact of the coronavirus pandemic on raw material supplies to our plants in China and on the ability of our suppliers outside China to obtain supplies of raw materials and bought-in products containing raw materials or primary products from China. Sto is working closely with its suppliers in the face of this challenge and is also looking at the impact of disruptions in goods transportation due to border closures outside China. Among other things, foresighted stockpiling is intended to reduce the resulting risks.

We have planned a budget of around EUR 52 million for **investments** in property, plant, and equipment, and intangible assets in 2020. Our investments will once again focus on the long-term measures that have been developed as part of our Retrofit programme for modernising and replacing the production equipment within the Group. As well as this, we are planning to invest in expanding production capacity at our site in Villach/Austria and in the construction of a new logistics building for Südwest Lacke + Farben GmbH & Co. KG in Böhl-Iggelheim/Germany, which is set to create more efficient conditions for logistics processes and the storage of finished goods and raw materials. Due to the impact of the coronavirus pandemic, we believe that it will be necessary to either cancel or postpone investment measures that have not yet been launched.

According to our planning for 2020 – which was developed before we were aware of the coronavirus pandemic – the **number of employees** is likely to rise in countries that have medium-term growth prospects, whereas specific adjustments are set to be made in regions battling difficult economic conditions. Sto intends to abide by its agreed HR strategy as a general rule, but may be forced to introduce measures for curbing staff costs over the short term.

Turning to the area of **financing**, we do not currently have any extraordinary measures planned for 2020.

Strategic direction

In 2019, we began reviewing our strategic direction and aligning it with the challenges and opportunities that Sto currently faces. The Sto Group has enjoyed long-term success throughout its corporate history, and this next step aims to sustain this success in the years to come and, importantly, improve profitability. Hence, we want to ensure that we are in the best possible position both internally and in how we perform externally.

Our strategic direction is based on an in-depth analysis that we began conducting in 2019. We will then derive specific measures from the results of this analysis. Our primary aims include defining promising growth areas for Sto in which we can make targeted investments, divide up our global sales activities in a way that is more sharply focused on specific target groups, and improve our process organisation.

Our growth-focused plans will be accompanied by measures for increasing gross profit margins in the Group. 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. As well as this, we intend to focus our efforts more keenly on product ranges and markets that offer higher margins. To this end, we are freeing up more capital and making long-term improvements to the quality of our results.

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 every requirement, 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 further consolidate this position. The factors that reinforce the success we have had in our corporate development include our extensive sales base, our customer-focused approach to logistics, our well-qualified, dedicated workforce, and the strategic reform measures we have launched. In 2020, we expect to see a growth in turnover of 6.6 % and EBIT of between EUR 93 million and EUR 103 million, without taking into account the potential effects of the coronavirus pandemic – as described in the risks and opportunities report. As things stand, however, it is not possible to make a reliable prediction of the overall impact that the pandemic will have on the 2020 fiscal year.

Stühlingen/Germany, April 2020

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

The Sto share

Sto limited preference share data

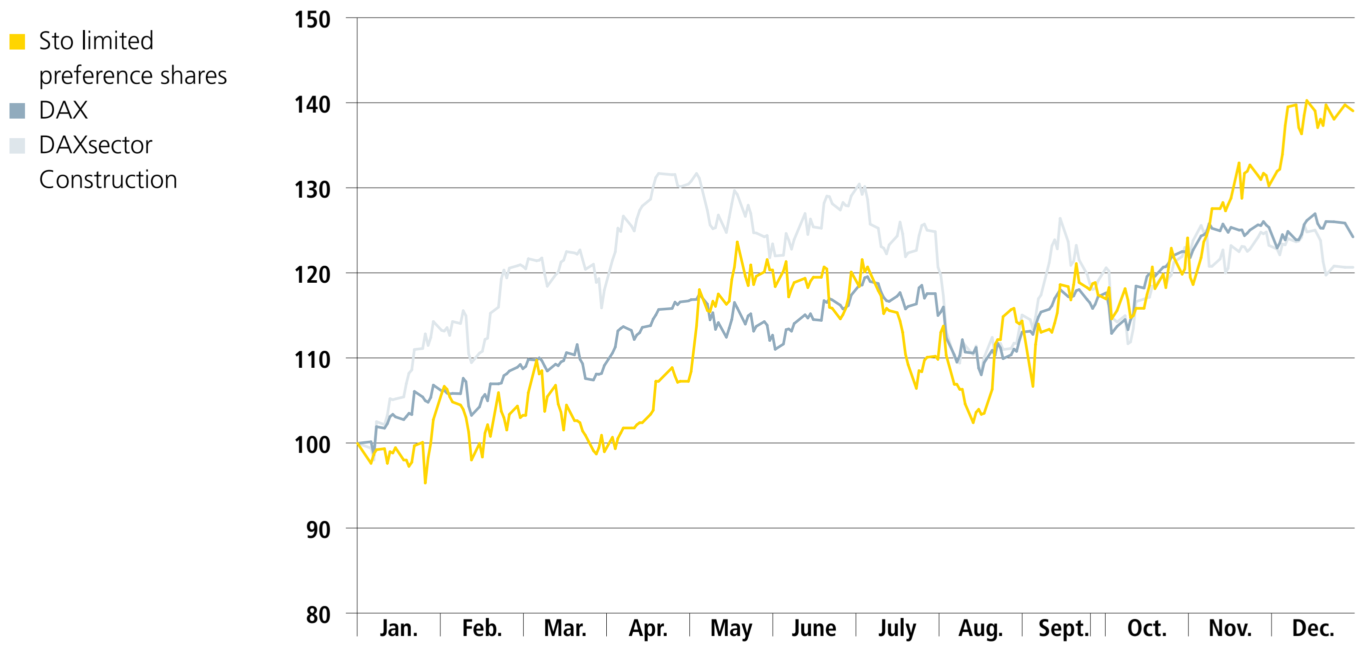
Ticker symbol	STO3
ISIN	DE0007274136
WKN	727413
Share category	Non-voting preference share
Market segment	Regulated market
Level of transparency	General Standard
Sector according to Deutsche Börse AG (German Securities Exchange)	Consumer
Subsector according to Deutsche Börse AG (German Securities Exchange)	Home Construction & Furnishings
Number of limited preference shares	2,538,000
Number of non-listed limited ordinary shares	4,320,000

2019 on the stock markets

Most of the international share markets demonstrated an upward trend in 2019. Despite numerous uncertainties, such as debt levels rising worldwide and political unrest in various countries, key American and Asian indices showed growth – as did the European EURO STOXX index, which increased by 25.7 % over the course of the year. European share markets primarily benefited from the reversal in global monetary policy as directed by the US Federal Reserve, the trade dispute between the USA and China dying down, and political risks becoming less severe due to factors such as the disorderly nature of Brexit.

Driven by this international upturn, the German DAX index also ended the year on a positive note rising by 25.5 % year-on-year following a disappointing previous year in which it had experienced losses of around 18 %. Germany's second-line stock market indices per-

Share price trend for 2019
(indexed on 28 December 2018 = 100)



formed even more strongly in 2019, with the MDAX and SDAX achieving record levels and closing with increases of 31.2 % and 31.6 %. The construction values in Germany also experienced strong growth: the Construction sector index on the Frankfurt Stock Exchange closed trading in 2019 with an increase of 21.4 %.

Sto share increases significantly
The Sto share's development was also boosted by this positive environment in 2019, with its value increasing by 42.3 % to EUR 114.00 at the year end compared to its opening price of EUR 80.10. After a hesitant start, the share reached its lowest price for 2019 – EUR 78.20 – in January, before achieving a stable rise following the publication of the 2018 annual financial statement. The Sto share rose significantly in the fourth quarter in particular and reached its highest price of EUR 115.00 on 13 December. The value then achieved EUR 114.00 at the year end.

The market capitalisation of around 2.538 million Sto limited preference shares hence significantly increased from EUR 208.1 million on 28 December 2018 to EUR 289.3 million at the end of the year under review.

Improved earnings
Sto SE & Co. KGaA not only achieved an increase in its consolidated turnover in the 2019 fiscal year, but also improved its consolidated earnings. Turnover increased by 4.9 % overall to EUR 1,398.2 million and consolidated EBIT rose by 4.9 % to EUR 85.9 million as compared to the previous year. Consolidated net profit for the year improved by 4.7 % to EUR 56.3 million. Diluted and basic earnings were EUR 9.09 per limited preference share and EUR 9.03 per limited ordinary share.

In 2019, the parent company Sto SE & Co. KGaA reported earnings before income taxes (HGB) of EUR 71.4 million and a net profit

Sto limited preference share key figures
Values per share in EUR

	2019	2018
Earnings per preference share	9.09	8.39
Cash flow from current operating activities	18.21	12.56
Equity capital	75.71	74.31
Dividend payout per limited preference share		
Dividend	0.31	0.31
Bonus	+3.78	+3.78
Share price at year end*	114.00	82.00
Year high*	115.00	128.00
Year low*	78.20	79.20
PER (31 Dec)	12.54	9.77
PER (high)	12.65	15.26
PER (low)	8.60	9.44
Capitalisation of preference shares on 31 Dec (in EUR millions)	289.3	208.1

**XETRA closing price*

for the year of EUR 51.8 million. Through its Executive Board, the personally liable partner STO Management SE will propose a dividend payout, which is unaltered compared to the previous year, of a total of EUR 26,049,060.00 to the Annual General Meeting on 10 June 2020. 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. If the negative development of the overall economic situation due to the coronavirus pandemic further deteriorates until the Annual General Meeting scheduled for 10 June 2020, especially in the markets relevant to Sto, the Annual General Meeting could, in deviation from the proposals of the management and at the request of the shareholders with the required quorum in place, resolve a dividend payout that is lower or that is limited to the statutory minimum dividend of preference shareholders, or even no dividend payout.

Based on the 2019 closing price of EUR 114.00, the proposal would result in a dividend yield of 3.6 % per preference share. Based on the closing price for 2018 of EUR 82.00, this means a yield of 5.0 %.

Trading volume in 2019

During the 2019 fiscal year, a total of 961,541 Sto SE & Co. KGaA limited preference shares were traded in the XETRA electronic system of the Frankfurt Stock Exchange, compared with 541,693 shares in the previous year.

Shareholder structure

As at 31 December 2019, 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 2019, 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 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 2019 fiscal year, the Group, which is listed on the regulated market of the German stock exchange, had 5,533 employees in 50 operating companies as well as its places of operation worldwide and achieved a consolidated turnover of EUR 1,398.2 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/Pacific** 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 essential foundations for this are sustainable, solid business management, constant progress, and a financially strong basis. The corporate vision is to be the worldwide technology leader in the sustainable design of living space tailored to human needs.

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

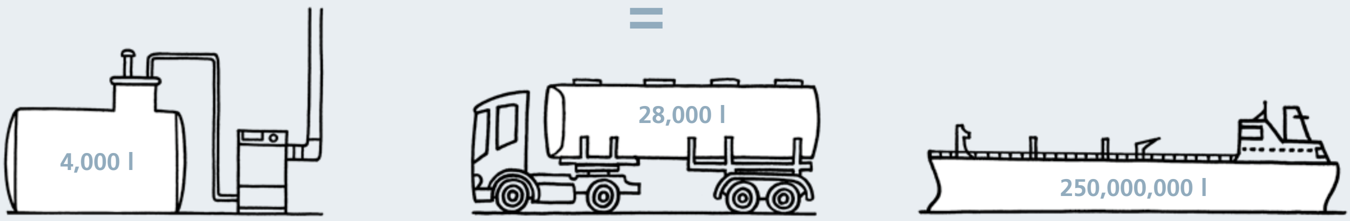
Assuming responsibility

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 build-

Thermal insulation helps to protect the environment

The energy savings from the use of Sto facade insulation systems correspond to around **110 billion litres of heating oil.**



x 27.5 million oil tanks **x 3.93 million tanker lorries** **x 440 oil tankers**

Between 1965 and 2019, facade insulation systems from Sto played a direct role in saving the barely conceivable volume of 110 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 350 million tonnes of CO_2 emissions. In 2019 alone, Sto products reduced emissions of this combustion gas by around 20 million tonnes.

ings. Since 1965, Sto insulation systems have been installed on around 640 million m² of buildings worldwide, saving an estimated 110 billion litres of heating oil up to and including 2019, with the year under review accounting for around 7 billion litres of this figure alone. The resulting reduction in CO_2 emissions totalled more than 350 million tonnes, including approx. 20 million tonnes in 2019. 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 shareholders, the state as the legislator, our customers, the interested public, and our employees. 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 2019, we focused our efforts primarily on areas including:

- The climate protection package of the Federal Republic of Germany with a Climate Protection Act and Climate Action Programme 2030 to achieve the climate targets by 2050
- Topics on compliance with climate action targets which were discussed at the 25th Climate Change Conference in Madrid in 2019
- Global weather events in 2019
- 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 National Action Plan for Business and Human Rights (NAP) of the Federal Government of Germany for the observance of human rights along global supply and value chains
- 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. The introduction of software-aided global registration and evaluation of non-financial key figures is planned for 2020.

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 align our sustainability activities with the **United Nations' 17 Sustainable Development Goals** (SDGs) adopted in 2015. These are primarily aimed at the states in the international community. But industrial companies are also expected to adopt them in their corporate strategy. In this way we want to show our contribution to sustainable development for society as a whole and prioritise our own fields of action.

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 'StoClimate', 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. An updated report for the fiscal years of 2018 and 2019 will be published in 2020. In addition, our Scandinavian subsidiary Sto Scandinavia AB has, for the first time, prepared a sustainability report for the 2019 fiscal year ('Hållbarhetsrapport 2019'), which provides information on the main sustainability activities in Norway, Sweden, Finland and Denmark.

In view of this comprehensive documentation, we have chosen to focus on a few examples of activities in this area in this report and refer to the sustainability reports of Sto Ges.m.b.H and Sto Scandinavia AB for more detailed information.

Since 2014, Sto has participated in the sustainability initiative **Chemie^{3}** 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. In 2019, we participated in the events and activities of the initiative implementing the 17 SDGs in companies. We also attended various webinars, and made use of the support offered on the topic of sustainability in the supply chain.

The individual companies of the Sto Group also participate in various regional sustainability initiatives in their respective countries. For example, 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 form the basis for our Group-wide strategic planning tool and are assigned appropriate measures.

Key sustainability factors

In addition to the Chemie^{3} 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 and/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 2019, 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. Among other things, Sto was included in the list of 'Germany's most valuable companies' by DEUTSCHLAND TEST, a brand of Focus Money magazine, in 2019. The study assesses which companies in Germany are committed to the topic of sustainability and thus make a valuable contribution to the future. Valuable in this context means assuming ecological, economic and social responsibility and living up to this responsibility in day-to-day business.

The StoColor Dryonic facade paint was rated the best facade paint in the readers' choice of the professional building portal 'haustec.de'. StoColor Dryonic received the second highest number of votes in the 'Insulation and Facade' category, coming in just behind the winners and beating the remaining eight nominees. This was the second time 'haustec.de' organised the product voting which yielded around 2,800 survey results. The evaluation shows that the biomimetic active principle, which ensures dry facades and thus protects them against algae and fungi, is highly appreciated by building experts.

The managing director of the French subsidiary, Sto SAS, signed the charter of the European Energiesprong consortium at the HLM conference in Marseille. The refurbishment concept developed in the Netherlands is about energy-saving renovation concepts for social housing, focusing on high living comfort, short renovation times, and an innovative financing model. The Energiesprong principle is based on high-quality, standardised solutions with prefabricated elements and a long-term performance guarantee and has already been implemented in more than 4,500 buildings. 2019 saw the completion of a first spectacular renovation project in France, in which the Sto facade system StoTherm Classic was used.

Based on an analysis we conducted in 2017, we identified the following as **relevant stakeholder groups** for Sto: shareholders, authorities/state, customers/consumers, service providers/suppliers, society/the public, representatives, employees, press/media, and the competition. Their respective requirements and the resulting derivation of obligations are determined and documented in the 'Stakeholder Analysis – Sustainability Check' process. 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. In 2020, the stakeholder analysis will be carried out again in order to update the groups of persons particularly relevant to Sto and to adapt corresponding measures, for example with regard to analysts and financial institutions that request non-financial information and key figures in accordance with internationally applicable standards as part of their company valuations.

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 workspaces, 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 standard, are doing important scientific and practical work. 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) in the German state of Baden-Württemberg.

Exchange with Sto employees and intensive internal communication are also of great importance and are specifically promoted at all levels. Among other things, the event series 'In a dialogue with the Executive Board' has been offered at the headquarters in Stühlingen and other decentralised locations in Germany since mid-2018. Every three months, the Sto Executive Board invites a group of employees from all areas of the company to take part in discussions and ask questions in a relaxed atmosphere. The Executive Board is there to answer these questions and gather valuable suggestions from the participants.

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**, especially with regard to environmental and health aspects of our products, 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 has been using external monitoring by recognised testing institutes for more than 30 years, 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 certification 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 interior products are also natureplus®-certified, meaning that they adhere to the very strictest criteria in respect to their composition, substance prohibitions, emissions, raw material extraction, pre-product manufacturing, production, and application.

For the Swiss market, we additionally label our interior products with the Swiss eco-label from the Stiftung Farbe (Paints Foundation). Meanwhile, Sto interior products in France are consistently labelled with the French VOC label 'Émissions dans l'air intérieur'.

In 2019 we have added our own seal of quality for the labelling of preservative-free products. In this way, we meet the growing need for building products that do not have any health risks, and offer quick orientation, especially for people who are sensitive even to small amounts of preservatives and who could have an allergic reaction. If we protect products with preservatives from premature deterioration, we only use them to the extent that is technically necessary, provide transparency on the substances used in data sheets, and label them with a seal of quality indicating that these products are also low in emissions, solvent- and plasticiser-free and have been tested for harmful substances by an accredited institute.

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 reasons why we have been providing Sustainability Data Sheets since 2014.

Sustainability Data Sheets

The voluntary self-declaration in the form of a Sustainability Data Sheets, which we specifically developed ourselves, plugs gaps that may be left by existing product information or eco-labels, and meets the increasing demand for concrete, product-specific data on ecological and health-related criteria. Spanning around four pages, Sustainability Data Sheets 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, they are available to download free of charge or can be sent directly upon request. Sustainability Data Sheets in 20 different languages were available for around 500 Sto products as at the end of 2019. A comprehensive revision of the data sheets is planned for 2020, as numerous criteria and standards to which our data refer have been changed or supplemented.

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 BREAM, LEED, and DGNB.

We use so-called model EPDs for the majority of our products. These are 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. Due to the standardised validity period of five years, numerous EPDs of the national associations expired in 2019. For the most part, these will be successively replaced by model EPDs of the European umbrella organisations to ensure pan-European deployment. This means that in 2020 the allocation of our products to currently valid EPDs will be overhauled and a gap analysis will be carried out to determine the coverage rate of our products with EPDs. From this we will derive the need for further measures to prepare EPDs and life cycle assessments.

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 after the pilot phase. At the same time, the European Commission revised the criteria for life cycle assessments in accordance with the European standard EN 15804 and verified their compliance with the PEF methodology.

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 CO_2 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 – model 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. A workshop was conducted on the application of a newly developed PEF tool. Selected product-specific LCA calculations were used as the basis for the evaluation. The results showed that the key figures (e.g. ‘Global Warming Potential’) of existing model EPDs and calculations differ only marginally from the PEF tool. They are not significantly influenced by ecological or raw material factors, but mainly by technical parameters, such as the classification of the durability of a product. Together with the associations, we therefore continue to lobby for the creation and general acceptance of model EPDs which, in our view, show a good balance between life cycle assessment accuracy and economic expenditure.

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) appropriately 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.

Legal regulations have already been announced should this goal not be achieved. A draft for a 'Law on compliance with standards in global production' has been in preparation since the end of 2019.

This trend towards legal regulations can also be seen in other countries. For example, a Dutch act on the duty of care against child labour has been adopted and will come into force in 2022. This act will require all companies doing business with the Netherlands to identify child labour in their supply chains and implement remediation plans.

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.

In the Sto Group, we combine economic success with social responsibility and environmental protection. The group is oriented towards quality and operates internationally. This is why our standards of conduct are the same worldwide.

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.

Ensuring compliance is an essential part of our daily work. We foster a culture of honesty and personal responsibility, which is supported by the legally compliant conduct of all employees. Since 2018, the Sto Group has had a Chief Compliance Officer.

A Code of Conduct was introduced for the Sto Group in 2019, which serves as a binding guideline for acting with integrity. It is binding for all employees, available in 17 languages, and valid worldwide. The Code of Conduct summarises important laws and internal company rules governing conduct in business dealings with third parties, in dealings with the public, and also for day-to-day interaction within the Group. It is intended to assist in making the right decision but cannot conclusively describe the wide variety of business activities of the employees of the Sto Group. We therefore offer further information and topic-specific support, for example in the form of trainings. In order to identify and avoid human rights violations, appropriate data and information are required. With the introduction of a whistle-blower system for compliance infringements, we have been offering such a standardised complaints mechanism since 2017. The system is easily accessible to those potentially affected. It 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'.

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 soundabsorbing acoustic panels and paints with a photocatalytic effect that break down harmful substances, 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

The Fridays for Future movement, the UN Climate Conference in Madrid, the climate package of the German government and the EU Green New Deal demonstrate that the issue of climate protection, which has always been a focal point of Sto's activities, has become a central concern of society in 2019 and a dominant topic in national and international politics.

The **German government's climate package** is a bundle of various measures, which for the first time, sets binding climate protection targets and a mechanism for annual review. It underlines the Federal Government's efforts to achieve climate neutrality for Germany by 2050. In addition to the introduction of a CO_2 pricing system, it also includes the agreement to pass a separate climate protection law, which was adopted by the Bundestag [Federal Parliament] on 15 November 2019. Buildings play a central role in achieving Germany's energy and climate targets, as they are responsible for about 35 % of final energy consumption and for about a quarter of CO_2 emissions in Germany across various sectors. The tax incentives for energy-efficient building refurbishment introduced at the end of 2019 are expected to increase demand for energy-efficient refurbishment to put the building stock on a sustainable path and achieve climate targets.

The European Commission presented the **EU Green New Deal** on 11 December 2019. With this package of measures for ecological change, Europe is to become climate-neutral by 2050. It includes initiatives in the political areas of clean energy, buildings and renovation, sustainable industry and mobility, biodiversity, de-pollution and sustainable food chain. The entire industry is to be mobilised to create a climate-neutral and cycle-oriented economy, with a particular focus on the construction sector. Among other things, this is reflected in the new action plan 'Circular Economy', which will be presented in 2020 and which will include a strategy for sustainable products. In addition, the EU Commission wants to initiate a surge in renovation together with the member states. This is to be achieved by enforcing legislation on the overall energy efficiency of buildings. A new initiative on renovations in cooperation with stakeholders is planned for 2020. In addition, an open platform is to be created to remove any obstacles to renovation.

At the **25th UN Climate Change Conference** on 15 December 2019, the almost 200 countries agreed on a joint political final declaration and pledged to intensify their climate protection targets for 2030 wherever possible. However, it was not possible to adopt rules for the international trade in carbon credits. These are intended to offer industrialised countries an opportunity to also support climate protection in other countries by generating climate protection certificates through green projects in developing countries. Sto welcomes this approach and joined the 'Development and Climate Alliance' in 2019. This alliance, founded by the German Federal Ministry for Economic Cooperation and Development (BMZ) in autumn 2018, aims to simultaneously promote development and climate protection. It explicitly encourages non-governmental commitment, especially from the private sector. The activities of all supporters are always voluntary, go beyond existing legal CO_2 reduction obligations and are carried out through participation in high-quality development and climate protection projects. In the future, the projects supported within the framework of the alliance – as well as avoidance and reduction measures – will contribute to achieving climate neutrality or even positive climate effects.

The manifold national and international climate protection efforts motivate us to continue to treat climate protection as a key focus of our sustainability activities and to intensify our measures in five strategic fields of action:

1. Climate protection in the buildings sector through the use of Sto products
2. Increase in energy efficiency in our own operations (especially via ISO 50001)
3. Generation of regenerative energy at our own locations
4. Sourcing of certified green electricity
5. Compensation measures through the purchase of climate protection certificates

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 we are meeting the legal requirements for performing energy audits in accordance with EN 16247-1. As at the end of 2019, the headquarters of Sto SE & Co. KGaA in Stühlingen/Germany, all production locations and SalesCentres in Germany as well as six subsidiaries had a certification. In 2019, the Austrian company Sto Ges.m.b.H in Villach, including its production, logistics, and distribution as well as seven sales centres, was also certified to ISO 50001 for the first time.

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 CO_2 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 as well as technical and economic aspects are also taken into account. 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, efficient travel and route planning as well as training for sales representatives on fuel-efficient driving.

Due to a very high level of efficiency of around 95 % in the assessed production facilities, it is difficult to identify and implement further measures to increase energy efficiency in the immediate business operations. Nevertheless, further progress was achieved in 2019. For example, this includes the increase in performance of around 10 % achieved during the renewal of the stacker cranes in the high-bay warehouse at the Stühlingen-Weizen location while at the same time saving energy of around 16,000 kWh/a.

By extending the scope of consideration to our energy procurement, our building stock, etc., we expect to increase the optimisation potential by a further approx. 7 % (Scope 2). However, these cost-saving measures are associated with longer-term investments, for example in the form of energy-efficient building renovations or energy-efficient new buildings such as at the Kriftel location, where a new Sales Centre that meets the KfW55 standard was inaugurated in 2019. This building is characterised, among other things, by a coordinated and complex energy concept including a gas condensing boiler with central hot water preparation, photovoltaics for electricity generation and a ventilation system. Step by step, we are working on an energy efficiency strategy on the part of the management, which is designed for ten years. In addition to technical measures in operational business (e.g. replacement of appliances and light sources), we are increasingly looking at efficiency and savings measures through changes to the building stock and optimisation of processes and production sequences. This will also form a focal point in the next energy audit.

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 of representatives of the German economy. If 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 2019, it became especially clear that the technical measures have already been almost entirely exploited in many areas, and the focus must shift to process optimisation in order to realise more energy savings.

A deliberate extension of our climate protection measures is the compensation of unavoidable greenhouse gas emissions through the purchase of certificates. The Austrian Sto Ges.m.b.H. has taken this path in the implementation of climate protection measures already since 2018. It records its CO_2 emissions which cannot be avoided through procurement, production, administration and logistics, throughout the entire company, and compensates for them by purchasing CO_2 certificates. By acquiring certificates for the emission of 10,000 tonnes of CO_2, Sto Ges.m.b.H. has become climate-neutral from 2018 to 2021. This means that its unavoidable greenhouse gas emissions are fully offset by supporting a hydroelectric project in Uganda and a solar and wind energy project in India.

Since 2019, the Scandinavian subsidiary Sto Scandinavia AB has also made its operational activities climate-neutral. Here, the CO_2 emissions generated in Denmark, Norway, Sweden, and Finland in 2018 have been balanced and offset. Certificates for the emission of 4,191 tons of CO_2 support selected projects according to the international 'Gold Standard'.

Furthermore, the preparation of a CO_2 balance sheet for the ISO-50001-certified locations in Germany was started in 2019. These emissions will be offset by the purchase of further climate protection certificates in 2020.

Climate protection on product level

We also compensate for CO_2 emissions at product level by purchasing certificates and thus make them climate-neutral. In 2019, this applied to the products StoCryl BF 700 and StoCryl V 700 from the portfolio of StoCretec GmbH. Among other things, the relevant certificates are used to support a hydropower project in Madagascar, which contributes to avoiding around 450 tonnes of CO_2. In Austria, we 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 Kaindorf, 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 CO_2 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 CO_2 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 CO_2. 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 CO_2 emissions of around 550 tonnes per year. Norway has also started to reduce the environmental effects within the logistics area. Part of the transport has been shifted from the road to ships, which leads to considerable CO_2 savings and reduces costs.

Another way to reduce emissions in the Sto Group is the composition of the car fleet. The average value of CO_2 emissions of cars available for new orders fell by around 8.7 % from 127 g/km in 2014 to 116 g/km in 2019, while fuel consumption for the passenger car fleet was reduced by 8.7 % from an average of 6.9 l/100 km to approx. 6.3 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.

In order to further promote electric mobility at Sto, the number of charging points for cars at the Stühlingen-Weizen site was increased in 2019. In addition to the charging station with two charging points at the Weizen employee car park, which has been in existence since 2014, two charging stations with a total of four charging points were added on the company premises during the year under review, as well as two charging stations with four charging points at the visitor car park.

For business trips by train, Sto employees use the BahnCard Business which guarantees mobility in long-distance trains within Germany using 100 % green electricity. To avoid travel-related emissions and costs, we also use video conference rooms in our locations worldwide as well as software solutions for location-independent online meetings.

With respect to procurement within the Sto Group, 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 save 6,145 tonnes of CO_2 in 2019 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 promptly.

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 2019, almost half (15 out of 33) 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 9001:2015 and 14001:2015, which cover a total of 26 (ISO 9001:2015) and 15 (ISO 14001:2015) production sites, no deviations from legal requirements were identified by internal audits in 2019. The operators have not reported any deviations at present. 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 pay 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.

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 2019, 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 as these products are not 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.

The political discussion on the potential health risks posed by the white pigment titanium dioxide continued in depth in 2019. Despite considerable resistance, on 4 October 2019, the European Commission decided to classify and label titanium dioxide in powder form as 'probably carcinogenic by inhalation' (category 2). This classification also applies to titanium dioxide that forms part of a powder-form mix. The Commission has also adopted mandatory warning messages for liquid and solid mixtures containing titanium dioxide. This means that almost all liquid paints and varnishes must be labelled, regardless of whether they are suitable for spray applications at all.

In our view, this decision neither seems to make sense nor does it seem to be justified, as titanium dioxide is not released in powder or dust form by Sto products. While recognised experts say that there is no case worldwide of any health hazard from inhaling titanium dioxide, the EU Commission saw an urgent need for action, giving the impression that the industry is using titanium dioxide unnecessarily or irresponsibly. Since the potential hazard of inhaling large quantities of titanium dioxide is a pure particle effect and has nothing to do with the properties of titanium dioxide as a substance, the German government also advocated addressing possible health hazards from dusts on occupational health and safety within the framework of European regulations instead of the classification of titanium dioxide as a hazardous substance. Exposure of consumers to dust-form titanium dioxide is practically excluded and we continue to consider the use of titanium dioxide in our products to be safe.

Nevertheless, labelling causes uncertainty for users and consumers, the exclusion of eco-labels for products containing titanium dioxide and open questions on the classification of waste and the treatment of dust-form construction waste containing more than one percent powdered titanium dioxide (e.g. building rubble) under waste regulations. However, there are doubts about the legality of the Commission's decision due to various infringements of existing EU law, so that the dispute over the classification of titanium dioxide 2020 is likely to continue at the European Court.

For exteriors, Sto has also been offering StoColor Photosan for many years. This innovative facade coating 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 2019. We regard this as a major strategic development task in the construction industry.

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 other countries 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.

In 2019, the European Union adopted a directive that, among other things, will ban certain disposable plastic products by 2021. Waste avoidance, recycling and circular economy are also the focus of political discussions at a national level: The Federal Ministry for the Environment wants to introduce a duty of care for goods in the Circular Economy Act. This means that in the future, returned goods or goods that are still usable should only be destroyed if this is necessary for safety or health reasons. In 2019, we set up a group working on 'Sustainable Packaging Management'. The group devotes a considerable amount of effort to these issues and looks for solutions to reduce, recycle or replace packaging with more ecological materials.

We attach special importance to developments in dismantling and recycling methods in the area of external wall insulation systems with polystyrene. In 2019, 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 2021.

Two research projects were continued in 2019 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 in 2018. 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 is funded by the Federal Ministry of Education and Research (BMBF) and will publish its results in 2020.

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 whistle-blowers 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 whistle-blower system is open to employees, managers, customers, suppliers, and other stakeholders alike. It is administered by an independent, external 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 2019, 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 currents grants are to be used primarily for extension buildings in order to improve the working conditions for teachers and to increase the burglar resistance of the facility.

As an ecological project, the trainees at the Weizen location designed the area around the Sto pond and created a barefoot path with Sto products.

As part of a project in northeastern Morocco, which we have been supporting since 2012, a clinic building was inaugurated in spring 2019. The non-profit clinic in Oujda is specialised in the treatment of children with a cleft lip, jaw or palate. The construction of the new building was made possible thanks to the dedication of the London-based humanitarian architecture charity Article 25 and the extensive support provided by the Sto Group which had taken on planning as well as delivery of a large number of building materials.

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 2019, over 272 of Sto's decommissioned IT and mobile devices, mainly PCs, notebooks, and flat screens, made a contribution to environmental protection and inclusion. The cooperation between Sto and AfB prevented a total of 1.4 tons of material, 22,136 kg of iron equivalents, 15,719 kg of CO_2 equivalents as well as 48,787 kWh of energy. 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 2019, the IT company employed more than 420 people at 19 locations across Europe, around 43 % 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.

The annual trainee project took place at the Sto location in Weizen in 2019. The 60 trainees carried out an ecological project benefitting the employees and took over the redesign of the pond on the factory premises. Among other things, an educational barefoot path was built where Sto products can be experienced in a completely different way. Furthermore, the area was designed with bee-friendly plants, flowers and trees.

Other Sto companies also place great emphasis on social commitment and embrace it in many different ways. Every year, numerous smaller fundraising events take place to support non-profit associations, social institutions, people in need, or environmental protection.

In Austria, for example, the helpinghands@sto team launched an initiative three years ago to support individuals, families or institutions in emergency situations and provide financial assistance.

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 made 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, for example, demonstrate the Lotus effect, the StoColor Dryonic product and document the monitoring of the energy consumption of our new office building using state-of-the-art technology. In this way, the colleagues aim to motivate others to take up a profession 'in the green sector' and learn from nature.

Sto Stiftung

The Sto Foundation – future through education

'Wissen hilft' (Knowledge helps): This is the credo of the Sto Foundation that has been supporting charitable projects on a national and international level for 15 years. The focus is on young professionals in the industries that are particularly important to Sto: the painting and plastering trades, architecture and civil engineering. The prerequisites for funding are top performance and talent of the young people on the one hand, and the need for economic support during the training on the other. Since the establishment of the Foundation in 2005, five and a half million euros have been provided for a total of 491 projects.

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 in equal shares to a total amount of EUR 300,000 per year. This demonstrates how connected and committed they are to the company and the Foundation. The responsible parties had a total annual budget of EUR 900,000 at their disposal for 2019 to finance national and international funding measures; 59 projects received funding – six more than in the previous year.

These included established formats such as the education pyramid for young journeymen and -women in the painting and varnishing trades, the promotion of technical training and further study courses. An image film by the seven German vocational schools shows how attractive and varied a career in the skilled trades can be. Since 2012, the Sto Foundation has been supporting talented, hard-working trainees with equipment and specialist literature under the motto ‘You’ve got what it takes – now show us!’ More than 1,000 young men and women in Germany and Austria have already been equipped with the coveted green toolbox. Since 2018, the toolbox has also been awarded in South Tyrol.

On the other hand, new projects are constantly being added. In 2019, the foundation’s currently most important funding project had a special radiance with more than 100 media outlets in Germany and other countries reporting on it: a German-Israeli team of trainees participated in the renovation of the Max Liebling House. The building is part of the ‘White City’ in Tel Aviv and was rebuilt and reconstructed in 2019 on the occasion of the 100th BAUHAUS anniversary under the motto ‘Open for Renovation’. Three teams of five trainee plasterers from the vocational college and the vocational training centre in Leonberg/Germany each worked on the facade of the Max-Liebling House for one week, repairing cracks and touching up the render. Seven trainee painters from a number of German vocational colleges then gave the building a fresh coat of paint. Each team was completed by five young Israeli craftsmen from the ‘Israel Antiquities Authority’ and a class of architecture students from Bezalel University in Jerusalem. Following the workshop, the German trainees took the opportunity to gather impressions of Israel’s past and present and to engage in an exchange with their peers. The objectives of the project were the transfer of knowledge and education as well as the gain in intercultural experience of the participants.

Students of architecture, interior design, and construction are also confronted with very unknown realities at international summer schools which are also supported by the Sto Foundation. As part of self-build projects around the world, students develop an awareness of different cultural and social matters as well as of aspects of sustainable planning and building. For example, in a township east of Cape Town in South Africa, a new nursery was built together with architecture students from the University of Stuttgart/Germany. Other summer schools, for example in Germany, create space for encounters, interaction and consultation. The ‘Dorfladen+’ was created by architecture students from Darmstadt/Germany. It is located in Golzow, Brandenburg/Germany, and shows how well a seemingly simple idea can support social and economic cooperation in structurally weak regions.

Four teams of German trainees worked together with Israeli trainees and students on the renovation of the Bauhaus monument ‘Max Liebling House’ in Tel Aviv.

International summer schools help understand the different cultural, social, and energy-related interests when designing and constructing a building. Architecture students of the Technical University of Darmstadt showed how this works with their ‘Dorfladen+’ in the structurally weak town of Golzow in Brandenburg.

In addition, the Sto Foundation has been sponsoring professorships at universities and colleges for many years, thus providing valuable impetus for the contemporary academic training of future architects. In 2019, a new doctoral position was created for architectural psychology at the Technical University of Berlin/ Germany, which will be subsidised by the Sto Foundation for three years.

As a doctoral student, Gudrun Rauwolf (right) has been conducting research in the field of architectural psychology at the Technical University of Berlin since September 2019. Prof. Dr.-Ing. Jörg H. Gleiter, Head of the Department of Architectural Theory (left), and Prof. Peter Cheret, Member of the Board of Trustees for Architecture at the Sto Foundation (centre) provide support.

The ‘November Series’ brings together internationally successful, renowned architects every year. In their lectures they deal with relevant questions and problems of architecture in the present and the future. The 14th edition took place in Venice for the first time, the venue of the Architecture Biennale since 1980.

During the Green Building Solution 2019 in Vienna, young architecture students from 28 countries learned how to handle an EWI system under the expert guidance of a team of German craftsmen.

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 2019

	Notes	**2019** **EUR**	2018 EUR K
1. Revenue	(1)	1,398,227,335.52	1,332,370
2. Changes in product inventories		–1,618,413.44	–199
3. Other internally generated assets capitalised	(2)	125,475.36	146
Total revenues		**1,396,734,397.44**	**1,332,316**
4. Other operating income*	(3)	19,063,442.13	17,697
5. Cost of material	(4)	–631,645,932.89	–615,931
6. Personnel expenditure	(5)	–372,211,469.85	–352,262
7. Other operating expenses*	(6)	–269,572,404.77	–265,336
8. Impairment (net) of financial assets	(7)	–4,158,888.16	–3,288
EBITDA (earnings before interest, taxes, depreciation and amortisation)		**138,209,143.90**	**113,196**
9. Depreciation and amortisation of Intangible assets as well as Property, plant and equipment	(8)	–52,325,234.77	–31,299
EBIT (earnings before interest and taxes)		**85,883,909.13**	**81,898**
10. Earnings from financial assets accounted for using the equity method	(9)	–512,590.36	118
11. Interest and similar income	(10)	1,131,463.92	726
12. Interest and similar expenditure	(10)	–3,405,139.02	–2,575
EBT (earnings before taxes)		**83,097,643.67**	**80,166**
13. Taxes on income and earnings	(11)	–26,755,573.84	–26,356
EAT (earnings after taxes)		**56,342,069.83**	**53,810**
of which:			
Share of minority interests		–1,845,001.36	144
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA		58,187,071.19	53,666
Earnings per share basic/diluted in EUR			
Limited ordinary share	(12)	9.03	8.33
Limited preference share	(12)	9.09	8.39

* Adjustment of previous year due to the separate presentation of the netted impairment of financial assets in accordance with IAS 1.82 (ba).

Sto SE & Co. KGaA, Stühlingen/Germany
Consolidated statement of comprehensive income for 2019

	2019 **EUR**	2018 EUR K
EAT (earnings after taxes)	**56,342,069.83**	**53,810**
Currency translation:		
Currency translation differences	1,190,315.13	–799
Earnings to be reclassified in the statement of profit and loss in future periods	**1,190,315.13**	**–799**
Revaluation of post-employment benefit obligations		
Gains/losses from the revaluation of defined benefit plans	–21,393,781.71	2,271
Deferred taxes	5,930,266.59	–492
Earnings not to be reclassified in the statement of profit and loss in future periods*	**–15,463,515.12**	**1,779**
Other earnings after taxes	**–14,273,199.99**	**980**
Total comprehensive earnings after taxes	**42,068,869.84**	**54,790**
of which:		
Share of minority interests	–1,800,586.95	187
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA	43,869,456.79	54,603

*For further explanations concerning equity, see Note (22). For further explanations on the revaluation of post-employment benefit obligations, see Note (24).

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated statement of financial position as at 31 December 2019

Assets	Notes	31 Dec 2019 EUR	31 Dec 2018 EUR K
A. Non-current assets			
I. Intangible assets	(13)	64,489,007.99	47,768
II. Property, plant, and equipment	(14)	262,444,529.14	254,848
III. Rights of use	(15)	63,628,567.17	–
IV. Financial assets accounted for using the equity method	(16)	10,625,620.27	11,138
Fixed assets		**401,187,724.57**	**313,754**
V. Non-current trade receivables	(18)	1,236,256.64	1,069
VI. Non-current financial assets	(19)	5,183,757.89	500
VII. Other non-current assets	(20)	715,749.83	335
VIII. Deferred tax assets	(11)	29,807,227.01	20,541
Other non-current assets		**36,942,991.37**	**22,445**
Total non-current assets		**438,130,715.94**	**336,199**
B. Current assets			
I. Inventories	(17)	101,252,669.12	97,863
II. Current trade receivables	(18)	137,740,165.16	134,702
III. Current income tax receivables		1,886,726.64	2,577
IV. Current financial assets	(19)	57,579,889.96	83,257
V. Other current assets	(20)	30,894,705.90	24,531
VI. Cash and cash equivalents	(21)	128,606,693.16	105,295
Total current assets		**457,960,849.94**	**448,225**
Total assets		**896,091,565.88**	**784,424**

Equity and Liabilities	Notes	31 Dec 2019 EUR	31 Dec 2018 EUR K
A. Equity			
I. Subscribed capital	(22)	17,556,480.00	17,556
II. Capital reserves	(22)	57,803,590.41	57,804
III. Revenue reserves and other reserves	(22)	410,779,289.09	394,547
Share attributable to the shareholders of Sto SE & Co. KGaA		**486,139,359.50**	**469,907**
IV. Share of minority interests	(23)	392,826.43	7,638
Total equity		**486,532,185.93**	**477,545**
B. Non-current provisions and liabilities			
I. Provisions for post-employment benefits and similar liabilities	(24)	123,816,035.99	99,267
II. Other non-current provisions	(25)	17,940,737.98	14,555
III. Non-current borrowings	(26)	3,681,633.83	3,344
IV. Non-current lease liabilities	(27)	47,216,966.34	–
V. Non-current trade payables	(28)	151,000.00	151
VI. Non-current financial liabilities	(29)	269,000.00	283
VII. Other non-current liabilities	(30)	10,059.02	10
VIII. Deferred tax liabilities	(11)	1,892,651.91	2,099
Total non-current provisions and liabilities		**194,978,085.07**	**119,709**
C. Current provisions and liabilities			
I. Other current provisions	(25)	48,164,957.52	45,469
II. Current borrowings	(26)	5,142,272.60	11,459
III. Current lease liabilities	(27)	18,513,902.59	–
IV. Current trade payables	(28)	48,891,744.00	47,155
V. Current income tax liabilities		10,417,122.62	6,135
VI. Current financial liabilities	(29)	34,436,611.51	32,582
VII. Other current liabilities	(30)	49,014,684.04	44,370
Total current provisions and liabilities		**214,581,294.88**	**187,170**
Total debt capital		**409,559,379.95**	**306,879**
Total equity and liabilities		**896,091,565.88**	**784,424**

Sto SE & Co. KGaA, Stühlingen/Germany
Statement of changes in equity as at 31 December 2019

in TEUR	Equity attributable to the shares				
	Subscribed capital	Capital reserve	Revenue reserves	Currency translation reserve	Reserve for pensions
Notes	(22)	(22)	(22)	(22)	(22/24)
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 at 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
Transactions with owners	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**
As at 31 December 2018	**17,556**	**57,804**	**441,499**	**3,880**	**–27,777**
Effects from the first-time application of IFRS 16 as at 1 January 2019	0	0	–1,770	0	0
Equity as at 1 January 2019 after first-time application effect	**17,556**	**57,804**	**439,728**	**3,880**	**–27,777**
As at 1 January 2019	**17,556**	**57,804**	**439,728**	**3,880**	**–27,777**
EAT (earnings after taxes)	0	0	58,187	0	0
Other earnings (after taxes)	0	0	0	1,103	–15,421
Total comprehensive earnings	**0**	**0**	**58,187**	**1,103**	**–15,421**
Dividend payout	0	0	–26,049	0	0
Transactions with owners	0	0	182	0	0
Minority shares from corporate acquisition	0	0	0	0	0
As at 31 December 2019	**17,556**	**57,804**	**472,048**	**4,983**	**–43,198**

For further details on equity, see Note (22) et seq.

of the parent company		Share of minority interests	Total Equity
Treasury stock	Total		
(22)		(23)	
–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**
–23,055	**469,907**	**7,639**	**477,545**
0	–1,770	–21	–1,791
–23,055	**468,136**	**7,618**	**475,754**
–23,055	**468,136**	**7,618**	**475,754**
0	58,187	–1,845	56,342
0	–14,318	45	–14,273
0	**43,869**	**–1,800**	**42,069**
0	–26,049	–41	–26,090
0	182	–6,483	–6,300
0	0	1,099	1,099
–23,055	**486,140**	**393**	**486,532**

Sto SE & Co. KGaA, Stühlingen/Germany
Consolidated cash flow statement for 2019

in EUR K	Notes	2019	2018
Cash flow from operating activities			
EAT (earnings after taxes)		**56,342**	**53,810**
Reconciliation of EAT (earnings after taxes) and cash flow from operating activities			
Taxes on income and earnings	(11)	26,756	26,356
Net financial income/expense	(9/10)	2,786	1,731
EBIT (earnings before interest and taxes)		**85,883**	**81,897**
Depreciation of fixed assets	(8)	53,325	31,299
Earnings from disposal of fixed assets		1,824	458
Income taxes paid		–24,537	–24,642
Change in provisions		8,564	–1,046
Change in net current assets		–7,105	–7,282
Cash flow from operating activities		**116,955**	**80,684**
Cash flow from investment activities			
Investments in Property, plant and equipment, and Intangible assets	(13/14)	–35,349	–31,966
Payments for the acquisition of consolidated companies and other business units (less acquired cash and cash equivalents)		–18,880	0
Payments received from other disposal of intangible assets and plant, property and equipment		1,280	540
Interest payments received		601	522
Disbursements for financial investments		–27,916	–37,926
Deposits from financial investments		48,679	32,964
Cash flow from investment activities		**–31,585**	**–35,866**
Cash flow from financing activities			
Payments to minority shareholders		–6,300	0
Disbursements for the repayment portion of the lease liabilities	(27)	–19,289	0
Deposits of non-current borrowings	(26/32)	0	2,500
Payments for non-current borrowings	(26/32)	–8,798	–61
Payments received for current borrowings	(26/32)	3,016	3,512
Payments for current borrowings	(26/32)	–4,233	–3,043
Dividend payout	(12)	–26,090	–26,386
Payments of interest		–1,199	–714
Cash flow from financing activities		**–62,892**	**–24,192**
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		835	246
Cash and cash equivalents at the beginning of the period	**(21)**	**105,294**	**84,422**
Change in cash and cash equivalents		**23,313**	**20,872**
Cash and cash equivalents at the end of the period*	**(21)**	**128,607**	**105,294**

The cash flow statement is explained in Note (32).

* 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 2019

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 6 April 2020 by the personally liable partner STO Management SE and will be forwarded to the Supervisory Board of Sto SE & Co. KGaA on 8 April 2020 for approval at the Supervisory Board meeting on 16 April 2020.

2. Basis of preparation
Sto SE & Co. KGaA has prepared its consolidated annual financial statement of the Sto Group for the year 2019 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 in accordance with Section 315e of the HGB were also applied.

All standards and interpretations subject to compulsory application in fiscal 2019 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 2019, are an exception.

Standards/ Interpretations	Title	Applicable	Effects
Amendments to IAS 19	Change, curtailment or settlement of plan	1 January 2019	Insignificant
Amendments to IAS 28	Non-current interests in associates and joint ventures	1 January 2019	Insignificant
Amendments 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

The Group has applied IFRS 16 Leases in the 2019 fiscal year, as its application is mandatory for fiscal years beginning on or after 1 January 2019.

IFRS 16 introduces new or modified requirements regarding accounting and leases. Significant accounting changes have been made for lessees by no longer distinguishing between operating and finance leases and by requiring the recognition of a right of use and a lease liability at the inception of all leases except short-term leases and small-ticket leases. Details on these new requirements are described under Note 6. Presentation of the major accounting and valuation policies.

The impact of the first-time application of IFRS 16 on the consolidated annual financial statement is as follows:
The first-time application of IFRS 16 followed the transitional regulations based on the modified retrospective approach. The comparative information regarding the corresponding periods of previous years was not adjusted.

At the date of transition, the Group makes use of the exemption option to apply IFRS 16 only to leases that were already classified as leases under IAS 17 and IFRIC 4. During the transition to IFRS 16, assets for rights of use to leased items amounting to EUR 66,4432 K and lease liabilities of EUR 68,824 K were recorded on 1 January 2019. The difference in the amounts results from the fact that the standard was applied in a modified retrospective manner. This difference was recognised in equity with no impact on profit and loss on the date of first-time application.

First-time application effects of IFRS 16 on equity

in EUR K	1 January 2019
Equity as at 31 December 2018 (before the introduction of IFRS 16)	**477,545**
Changes in rights of use	66,432
Changes in non-current lease liabilities	–52,004
Changes in current lease liabilities	–16,820
Deferred taxes on first-time application effects	601
Equity as at 1 January 2019 (after the introduction of IFRS 16)	**475,754**

The reconciliation of the operating lease obligations as of 31 December 2018 to the opening balance of the lease obligations as of 1 January 2019 is as follows:

Reconciliation of the lease liabilities in accordance with IFRS 16

in EUR K	1 January 2019
Liabilities from operating leases as at 31 December 2018	59,143
Appropriate extension and termination options	14,986
Short-term leases	–987
Small-ticket leases	–191
Obligations from non-leasing components	–3,558
Discounting	–569
Lease liabilities accounted for in accordance with IFRS 16	**68,824**
Finance lease liabilities as at 31 December 2018	415
Total lease liabilities	**69,239**

The lease liabilities were discounted as of 1 January 2019 using the incremental borrowing rate of interest. The incremental borrowing rates of interest were determined centrally by the Group. The weighted average interest rate was 0.8 %.

It was possible to determine the terms of leases with extension or call options retrospectively.

The direct costs underlying the leases were not included in the initial evaluation of the rights of use.

The rights of use are reported in the separate balance sheet item 'Rights of use'. The rights of use from finance leases in accordance with IAS 17 in the amount of EUR 407 K, which had still been reported under Property, plant and equipment until 31 December 2018, were reclassified to the balance sheet item 'Rights of use'.

Lease liabilities are reported in the separate balance sheet items 'Current lease liabilities' and 'Non-current lease liabilities'. Lease liabilities from finance leases in accordance with IAS 17 in the amount of EUR 415 K had still been reported under current or non-current financial liabilities until 31 December 2018. Of this amount, EUR 187 K were reclassified to the balance sheet item 'Current lease liabilities' and EUR 228 K to the balance sheet item 'Non-current lease liabilities' according to their maturities.

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 implementation of IFRIC 23 has no substantial effects on the assets, financial and income situation of the Group.

The amendments to IAS 19 relate to the accounting of plan adjustments, curtailments or settlements made during a reporting period, and 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 calculation must be based on the actuarial assumptions valid at the time of the event. The amendments to IAS 19 must be applied to events that occur at or after the beginning of the first fiscal year beginning on or after 1 January 2019. Early adoption is permitted.

The implementation of IFRIC 19 has no substantial effects on the assets, financial and income situation of the Group.

In addition, there were no material changes to the Group's income, financial and assets situation at the time of first-time application on 1 January 2019.

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 and 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 time of application in the Group is always the time when a regulation first becomes mandatory.

Standards/ Interpretations	Title	Applicable	Effects
	Amendments to the references to the framework concept in IFRS standards	1 January 2020	Insignificant
Amendments to IAS 1	Classification of liabilities as current and non-current	NA	Insignificant
Changes to IFRS 3	Definition of a business	1 January 2020	Insignificant
Amendments to IAS 1 and IAS 8	Definition of materiality	1 January 2020	Insignificant
IFRS 17	Insurance contracts	1 January 2021	Insignificant

On 22 October 2018, the IASB published the amendments to IFRS 3: Definition of a business. The amendments introduce an optional concentration test, which allows a simplified assessment of whether a business or only a group of assets is acquired. The amendments also come with a revised definition of a business.

The concentration test is to simplify the assessment of whether a transaction is a business operation. It is not a business operation if the test result is positive, i.e. if the entire fair value largely concentrates on a single, identifiable asset or a group of similarly identifiable assets. While no further assessment is necessary if the result is positive, if the result is negative or if a company chooses not to apply the concentration test, the assessment must be based on the definition of a business operation. The decision whether to apply the concentration test can be made separately for each transaction.

As a result of the amendments to IFRS 3, the acquired entity must no longer be able to generate services, but it is sufficient if it has the ability to contribute to the generation of output. The definition of output was also adjusted. For example, it is no longer sufficient if the output is exhausted in reduced costs or other economic advantages. An output as defined by IFRS 3 is the result of the use of resources and processes by which goods or services are provided, or investment income (such as interest and dividends), or other income from ordinary activities is generated.

The amendments must be applied for fiscal years beginning from 1 January 2020. The effects on the assets, financial and income situation the Group are insignificant.

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 affects the decisions of primary users of general-purpose financial statements.

The amendments must be applied for fiscal years beginning from 1 January 2020. The effects on the assets, financial and income situation the Group are insignificant.

On 18 May 2017, the IASB published IFRS 17 which will replace the regulations previously stipulated in IFRS 4. In particular, it addresses issues relating to the insurance risk resulting from a damage that has occurred, the determination of discount rates using a top-down approach, commissions and reinstatement premiums for reinsurance contracts issued, experience-based adjustments to premiums relating to current or past services, cash flows that are outside the contract limit at initial recognition, recovery of acquisition costs, premium waivers, group insurance, and industry pools managed by an association.

The amendments must be applied for fiscal years beginning from 1 January 2021. The effects on the assets, financial and income situation the Group are insignificant.

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

4. Companies consolidated

The consolidated annual financial statement includes Sto SE & Co. KGaA, the subsidiaries in and outside of Germany, joint ventures, and associated companies.

Due to the clear allocation, no significant assessments or assumptions were necessary when assessing the companies consolidated.

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.

Via a subsidiary of Sto SE & Co. KGaA, 100 % of the limited partnership shares of Liaver GmbH & Co. KG, Ilmenau/Germany were acquired. 100 % of the shares and voting rights of Liaver Beteiligungen GmbH, Ilmenau/Germany, were acquired via a transfer of shares by the seller. Both came into economic effect as of 1 January 2019 which means that control was obtained in the sense of inclusion in the consolidated financial statements. All conditions precedent of the sales contract were met at that time.

Liaver is one of the few German manufacturers of expanded glass granulate made from recycled glass. Furthermore, the company has specialised in the use of this material in various areas of application. Highly sound-absorbing and non-combustible fibre-free acoustic products are marketed under the product name Reapor. Since 2018, the company has also been manufacturing shipbuilding boards. These boards are offered under the product name 'Liatec'. With this acquisition, the Group secures access to expanded glass granulate as a raw material and supplements its own product range with innovative products.

The fair values of identifiable assets and liabilities at the time of acquisition are as follows:

in EUR K	Fair value as at the time of acquisition
Intangible assets	424
Property, plant, and equipment	7,916
Inventories	1,189
Trade receivables	414
Other receivables and financial assets	436
Cash and cash equivalents	88
Total assets	**10,467**
Provisions	275
Trade payables	1,097
Borrowings	4,410
Other liabilities	234
Deferred tax liabilities	0
Total liabilities	**6,016**
Total identifiable net assets at fair value	**4,451**

in EUR K	Fair value as at the time of acquisition
Minority shares evaluated at the value of the net assets	0
Acquired shares evaluated at the value of the identifiable net assets	**4,451**
Goodwill from corporate acquisition	1,437
Transferred consideration	**5,888**

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	–166
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	88
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	–5,888
Actual cash outflow due to corporate acquisition	**–5,966**

The goodwill from the company acquisition is based on expected synergies, growth opportunities and the expertise of the employees.

In terms of taxes, goodwill also arose in the amount of EUR 1,437 K which will lead to deferred taxes in future periods due to tax depreciation.

The net amount of the receivables corresponds to the fair value thereof. This includes value adjustments amounting to EUR 206 K, which represent the total expected irrecoverable cash flow.

Turnover in the fiscal year, respectively since acquisition, amounted to EUR 7,411 K with earnings after taxes of EUR -587 K.

Via a subsidiary, Sto SE & Co. KGaA acquired 50.15 % of equity shares and voting rights of Skyrise Prefab Building Solutions Inc., Pickering/Canada on 10 May 2019, thereby gaining control in the sense of inclusion in the consolidated annual financial statements.

Skyrise is a member of the independent Sto Panel Network, which has partners in North and South America. The members of this network produce and deliver industrially prefabricated, large-size facade panels that are based on the Sto Panel Technology. As the initiator of the network, Sto recognised the need for industrially prefabricated facade components at an early stage. In particular, the steel skeleton construction of industrial and multi-storey buildings in North America is predestined to be equipped with such components. Through this acquisition, the Group acquires extensive expertise in panel construction, particularly in its production, marketing, and installation, complements its surface and coating expertise and increases its competence as a solution provider.

The fair values of identifiable assets and liabilities at the time of acquisition are as follows:

in EUR K	Fair value as at the time of acquisition
Intangible assets	53
Property, plant, and equipment	744
Inventories	197
Trade receivables	824
Other receivables and financial assets	87
Deferred tax assets	0
Cash and cash equivalents	2,675
Total assets	**4,580**
Provisions	0
Trade payables	1,057
Borrowings	125

in EUR K	Fair value as at the time of acquisition
Other liabilities	1,193
Deferred tax liabilities	0
Total liabilities	**2,375**
Total identifiable net assets at fair value	**2,205**
Minority shares evaluated at the value of the net assets	1,099
Acquired shares evaluated at the value of the identifiable net assets	**1,106**
Goodwill from corporate acquisition	5,553
Transferred consideration	**6,659**

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	–121
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	2,920
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	–6,659
Actual cash outflow due to corporate acquisition	**–3,860**

The goodwill from the company acquisition is based on expected synergies, growth opportunities on the American market as well as the expertise, experience and skills of the employees. It is not deductible for tax purposes.

The net amount of the receivables corresponds to the fair value thereof. This includes value adjustments amounting to EUR 66 K, which represent the total expected irrecoverable cash flow.

In the fiscal year beginning on 1 January 2019, a turnover of EUR 3,577 K with earnings after taxes of EUR -3,722 K was achieved. Since the acquisition, a turnover of EUR 2,620 K with earnings after taxes of EUR -2,820 K was achieved.

On 1 August 2019, 100 % of the equity shares and voting rights of Unitex Australia Pty Ltd, Dandenong South/Australia were acquired, thereby gaining control in the sense of inclusion in the consolidated annual financial statements. Via a subsidiary, Sto SE & Co. KGaA first acquired 100 % of the business shares of Unitex Australia Pty Ltd, and, by means of an asset deal, the entire business operation of Unitex Granular Marble Pty Ltd, Dandenong South/Australia. All Unitex activities were then merged into the company Unitex Australia Pty Ltd.

The Unitex group of companies was founded in 1982 near Melbourne as an independent company and is still owner-managed today. The product portfolio essentially comprises plasters, renders, reinforcing compounds and decorative profiles for interior and exterior applications in and on buildings. Production was mainly carried out at the Dandenong South site. The acquisition gives the Group direct access to the Australian market, especially the conurbations of Melbourne, Sydney and Adelaide. The existing product range is to be successively supplemented and expanded in line with demand.

The fair values of identifiable assets and liabilities at the time of acquisition are as follows:

in EUR K	Fair value as at the time of acquisition
Intangible assets	7,480
Property, plant, and equipment	295
Inventories	658
Trade receivables	1,405

in EUR K	Fair value as at the time of acquisition
Other receivables and financial assets	42
Deferred tax assets	112
Cash and cash equivalents	77
Total assets	**10,069**
Provisions	0
Trade payables	1,367
Borrowings	1,890
Other liabilities	879
Deferred tax liabilities	0
Total liabilities	**4,136**
Total identifiable net assets at fair value	**5,933**
Minority shares evaluated at the value of the net assets	0
Acquired shares evaluated at the value of the identifiable net assets	**5,933**
Goodwill from corporate acquisition	3,240
Transferred consideration	**9,173**

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	–320
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	77
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	–9,173
Actual cash outflow due to corporate acquisition	**–9,416**

The goodwill from the company acquisition is based on expected synergies, growth opportunities on the Australian market as well as the expertise, experience and skills of the employees. It is not deductible for tax purposes.

The net amount of the receivables corresponds to the fair value thereof. This includes value adjustments amounting to EUR 29 K, which cover the entire expected irrecoverable cash flow.

In the fiscal year beginning on 1 July 2019, a turnover of EUR 6,445 K with earnings after taxes of EUR 102 K was achieved. Since acquisition, a turnover of EUR 6,292 K with earnings after taxes of EUR 80 K was achieved in the past fiscal year.

On 1 January 2020, Sto SE & Co. KGaA acquired 50.1 % of the equity shares and voting rights of VIACOR Polymer GmbH, Rottenburg/Germany, thereby gaining control in the sense of inclusion in the consolidated annual financial statements. The total purchase price includes a capital increase accruing to the company, a payment to the seller, and a component dependent on the future development of earnings, which will lead to a cash outflow in 2023 if the corresponding earnings are achieved.

Viacor is a manufacturer in the field of industrial floors and sports floor coatings under the Porplastic brand. The company impresses with its high level of development expertise and a varied portfolio of polyurethane-based products. The acquisition will expand the Group's product portfolio in the area of high-quality products for floor coatings, and will generate synergies through cooperation in the areas of development and production. The Sto and Viacor product brands will continue to operate independently of each other in the market, covering different areas of application.

The fair values of identifiable assets and liabilities at the time of acquisition are as follows:

in EUR K	Fair value as at the time of acquisition
Intangible assets	367
Property, plant, and equipment	2,177
Inventories	2,014
Trade receivables	2,634
Other receivables and financial assets	379
Deferred tax assets	0
Cash and cash equivalents	2,556
Total assets	**10,127**
Provisions	136
Trade payables	1,924
Borrowings	4,744
Other liabilities	543
Deferred tax liabilities	0
Total liabilities	**7,347**
Total identifiable net assets at fair value	**2,780**
Minority shares evaluated at the value of the net assets	1,387
Acquired shares evaluated at the value of the identifiable net assets	**1,393**
Goodwill from corporate acquisition	2,595
Transferred consideration	**3,988**

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	–126
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity 2020)	2,556
Outflow of cash and cash equivalents (contained in the cash flows from investment activity 2020)	–3,500
Expected outflow of cash and cash equivalents (contained in the cash flows from investment activity 2023)	–488
Actual cash outflow due to corporate acquisition	**–1,558**

The goodwill from the company acquisition is based on expected synergies as well as growth opportunities through the expansion of the product portfolio. It is not deductible for tax purposes.

The net amount of the receivables corresponds to the fair value thereof. This includes value adjustments amounting to EUR 928 K, which cover the entire expected irrecoverable cash flow.

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 German VeroStone GmbH was renamed Sto BTV GmbH in January 2020.

The companies consolidated are disclosed in Note (41) 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
- Sto BTN GmbH, Stühlingen/Germany
- Verotec GmbH, Lauingen/Germany
- Sto BTV GmbH, Stühlingen/Germany
- Gefro Verwaltungs-GmbH & Co. KG, Stühlingen/Germany
- Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany
- Ströher Produktions GmbH & Co. KG, Dillenburg/Germany
- Liaver GmbH & Co. KG, Ilmenau/Germany

5. Consolidation principles

The assets and liabilities of the companies in and outside of Germany 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 joint ventures or associated companies accounted for using the equity method are valuated in accordance with 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 was 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, the 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 (cash and cash equivalents, receivables and liabilities, etc.) 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 were 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, and mainly in the currency of the respective country.

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:

		Closing rate on		Average annual rate	
EUR 1 =		**31 Dec 2019**	31 Dec 2018	**2019**	2018
AED	United Arab Emirates	4.1209	4.2039	4.1085	4.3270
AUD	Australia	1.5995	–	1.6109	–
BRL	Brazil	4.5157	4.4440	4.4134	4.3085
CAD	Canada	1.4598	1.5605	1.4855	1.5294
CHF	Switzerland	1.0854	1.1269	1.1124	1.1550
CLP	Chile	843.6127	794.3524	792.4677	758.3645
CNY	People's Republic of China	7.8205	7.8751	7.7355	7.8081
COP	Columbia	3,681.5147	3,717.0885	3,686.6285	3,502.5432
CZK	Czech Republic	25.4100	25.7250	25.6700	25.6470
DKK	Denmark	7.4715	7.4673	7.4661	7.4532
GBP	Great Britain	0.8508	0.8945	0.8778	0.8847
HUF	Hungary	330.5300	320.9800	325.3000	318.8900
MXN	Mexico	21.2202	22.4921	21.5565	22.7054
MYR	Malaysia	4.5953	4.7317	4.6374	4.7634
NOK	Norway	9.8638	9.9483	9.8511	9.5975
PAB	Panama	1.1219	1.1446	1.1186	1.1780
PLN	Poland	4.2585	4.3000	4.2976	4.2615
RUB	Russia	69.3406	79.4605	72.4553	74.0416
SEK	Sweden	10.4468	10.2548	10.5891	10.2583
SGD	Singapore	1.5111	1.5591	1.5273	1.5926
TRY	Turkey	6.6843	6.0588	6.3578	5.7077
USD	USA	1.1234	1.1450	1.1195	1.1810

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 valuates 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 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 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
A lease is a contract that grants the right to use an asset for an agreed period of time in return for payment. in accordance with IAS 17, a lease is defined as an agreement in which the lessor transfers to the lessee the right to use an asset for a specified period of time in return for one or more payments.

In accordance with IAS 17, economic ownership of leased assets was attributed to the lessee if the lessee carried the material opportunities and risks incidental to ownership of the leased asset. In this case, they were capitalised at the time of the start of use either at fair value or at the present value of the minimum lease payments if this was lower than the fair value. A lease liability was carried in the same amount. Subsequent assessment was carried out at amortised costs of acquisition using the effective interest method.

With the introduction of IFRS 16, since 1 January 2019, the Group has generally recognised assets for rights of use of leased assets and liabilities for all leases at present values for payment obligations entered into. The lease liabilities include the following lease payments:

- Fixed payments, less lease incentives payable by the lessor,
- Variable payments that are connected to an index or interest rate
- Expected residual value payments from residual value guarantees,
- The exercise price of a call option if the exercise was deemed sufficiently certain.

Lease payments are discounted at the interest rate implicit in the lease if this can be determined. Otherwise, they are discounted at the incremental borrowing rate of interest. In determining the incremental borrowing rates of interest, reference interest rates for a period of up to 30 years from the yields of German and US government bonds were used. Countries that belong to neither the European nor the US currency area were allocated to the two currency zones approximately on the basis of the country-specific yields of government bonds. The reference interest rates were supplemented by a risk premium.

The interest expense is recognised through profit and loss in net financial income/expense over the term of the lease.

The rights of use are valued at acquisition costs and are composed as follows:

- lease liability,
- lease payments made on or before provision less lease incentives received, and
- initial direct costs.

Subsequent measurement is at amortised costs. The right of use is depreciated on a straight-line basis over the term of the lease or – if shorter – over the economic life of the leased asset.

In the case of leases with a term of no more than twelve months or leases with low-value assets up to EUR 5 K, the Group applies the exemptions of IFRS 16.6 and recognises the lease payments of these contracts as expenses under other operating expenses.

In the case of contracts which include both lease and non-lease components, the Group has decided not to apply the practical expedient of IFRS 16.15 and separates the lease components from the non-lease components.

Intangible assets

Goodwill is only amortised 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 the impairment is greater than the value of the goodwill, the excess amount is distributed across the remaining assets of the CGU provided that the respective fair value or an asset is lower than the carrying amount.

A 5-year plan as at 31 December 2019 for the fiscal years of 2020 to 2024 of the respective CGUs taking into account the expectation of a positive development in demand for thermal insulation and the planning of maintenance investments is the starting point for the valuation, based on the best possible consideration of all information available internally and externally.

For the CGUs, growth rates between 1.0 % and 2.0 % (previous year: 1.0%) were assumed for the period beyond the planning horizon, as these rates adequately reflect the increasing uncertainty over time.

For the CGUs Sto, Skyrise, Beissier S.A.S, Ströher, and Unitex, 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 related to empirical values regarding the 5-year plan, in particular with regard to steady turnover growth in the single-digit percentage range, or double-digit percentage growth in the case of Skyrise, a constant gross profit, and a 1-2 % growth rate for the period beyond the planning horizon.

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 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 WACC before taxes was between 5.5 % and 9.1 % (previous year: 7.8 % to 12.1 %).

The following pre-tax interest rates were used for CGUs which are key CGUs in the sense of goodwill: Sto 7.1 % (previous year: 9.3 %), Skyrise 6.4 % (previous year: NA), Beissier S.A.S. 8.0 % (previous year: 10.9 %), Ströher 7.1 % (previous year: 9.3 %), Unitex 7.5 % (previous year: NA).

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

The essential goodwill items are listed in Note (13).

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 acquisition costs comprise 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 comprise the expenditure incurred in utilising goods and services for such a production or manufacture. This includes the directly attributable costs and 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 are interest and other costs incurred by a company in connection with taking on debt capital.

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.

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

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

If an impairment no longer exists or has decreased, a reversal of the impairment loss is recognised as income. 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 accounted for at the beginning 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. An impairment is recognised in profit and loss as the difference between the recoverable amount and the carrying amount of the share.

Trade receivables and other financial assets
Trade receivables and other financial assets are accounted for at amortised acquisition costs. Furthermore, individual impairments, and general impairments are made in accordance with IFRS 9 to take sufficient account of default risks.

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 allows for taking the expected impairment over the entire term into account. The method can be applied to financial assets that are valuated at amortised costs or at fair value with no impact on profit and loss.

The probabilities of default of trade receivables were determined using historical default rates for defined periods of overdue payments and subsequently recognised as an impairment of the portfolio, depending on the period of overdue payments, with an effect on expenses. The default risk for trade receivables increases significantly if they are more than one year overdue. The default risks are subject to a yearly test and are adjusted as needed. Furthermore, individual impairments were made if there were indications pointing to a specific impairment of single trade receivables. Defaults on receivables led to a direct derecognition of the receivables in question.

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

The credit rating by Creditreform was used to determine the default probability and the impairment of other financial assets.

All receivables and other financial assets were tested for existing impairment and default risks.

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.

Inventories were assessed 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 impairment of securities as well as cash and cash equivalents was determined using the cost of hedging by means of credit default swaps with a maturity of twelve months.

Financial instruments
in accordance with 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, and that does not necessarily have to be in writing.

IFRS 9 defines the following different categories for financial assets:
- Financial instruments measured at fair value through profit and loss
  (Fair Value Through Profit and Loss = FVTPL)
- Financial instruments measured at fair value with no impact on profit and loss
  (Fair Value through Other Comprehensive Income = FVOCI)
- Financial assets at amortised costs of acquisition
  (Financial Assets at Amortised Cost = FAAC)

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

- Financial liabilities 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 and loss include financial assets held for trading, derivatives as well as financial assets for which the fair value option was selected upon initial recognition.

Financial assets are classified as held for trading if the business model concerned is designed to sell the financial assets in the near future. Subsequently, these financial instruments are examined to determine whether the intention to sell still exists. Gains or losses in 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 and loss under the fair value option.

Primary financial instruments are recognised at the settlement date.

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

Financial instruments measured at fair value with no effect on profit and loss comprise financial assets for which the business model is designed to hold and sell them to generate cash flows and for which the cash flows of debt capital instruments consist exclusively of interest and principal payments.

Financial instruments in this category are measured at fair value and changes in value are first recognised in reserves with no impact on profit and loss. 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 accrued gains or losses remain in reserves without reclassification.

Financial assets at amortised costs of acquisition

Financial assets measured at amortised acquisition costs are debt capital instruments for which the business model is designed to hold assets to generate cash flows and for which the cash flows consist exclusively of interest and principal payments and the fair value option is not exercised.

After initial recognition, these financial assets are measured at amortised costs of acquisition using the effective interest method. Gains and losses are recognised in the profit the period in which a financial asset is derecognised or impaired, and through the amortisation process.

Financial assets are assigned to this valuation category 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, an increased probability of default is assumed in certain cases if internal or external information indicates that it is unlikely that the contractually outstanding amounts will be paid in full after taking all loan collateral into account. In this case, the financial asset will be impaired.

Receivables and liabilities relating to the same counterparty are netted.

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 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 recognised at fair value taking into consideration transaction costs and subsequently measured using the effective interest method less impairments, 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 in the form of currency forwards for hedging currency risks in order to hedge the risk arising from fluctuations in the cash flow of a recognised asset, a recognised liability, or a highly probable future transaction.

Derivative financial instruments are recognised at fair value at the time the contract is concluded and measured at fair value through profit and loss in subsequent periods, with reference to current forward exchange rates for contracts with similar maturity structures. Depending on the development of the fair value, an asset or a liability is recognised in connection with an expense or income.

In the fiscal year of 2019, there were no hedges satisfying the strict hedge accounting criteria.

Treasury stock

Sto SE & Co. KGaA's treasury stock were 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 from the changes of assumptions 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 that 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.

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, which also includes expected cost increases. The discount is based on risk-free interest rates.

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.

Provisions are reviewed and adjusted at each balance sheet date.

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 taxable amounts and the consolidated balance sheet.

Deferred tax assets on tax loss carryforwards are to be recognised if use can be expected. They are not set up if a temporary difference arises from goodwill or from the initial recognition of other assets and liabilities 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.

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 taxpayer 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 as at the date of realisation as well as on the basis of applicable at the that point in time.

Deferred taxes are recorded as income or expense in the statement of profit and loss unless they relate to items recognised in equity with 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. Payment 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 time period in which the services are rendered. Payment 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. These are service obligations 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 when the service has been rendered in full.

The Group is responsible for providing the statutory warranty for remedying defects. Provisions are made for expenses expected to be incurred as a result. Furthermore, in rare cases, the Group grants warranties that extend beyond the statutory period. This is a separate performance obligation of the Group for which the sales revenues were not recognised as contract liabilities due to insignificance and were 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 or services 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 probable that there will be no significant change in the revenues and if the uncertainty associated with the variable consideration is low.

In determining transaction prices, 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, according to the principle of individual valuation, without revenue being recognised for them.

Payments to be 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 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 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 are recognised according to the degree of completion (percentage-of-completion method). The income and expenses are recognised on a pro rata basis according to the costs incurred up to the balance sheet date in relation to the total incurred 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 obligate the making of payments, and indemnify the guarantee holder for a loss arising from a debtor who did not meet his payment obligations in accordance with the conditions of a financial instrument.

Financial guarantees are treated as insurance contracts pursuant to IFRS 4 as contingent liabilities until a claim becomes probable. Only then is an obligation 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 segment reporting in accordance with IFRS 8, in which the operating business segments were divided into Western Europe and Other in line with internal corporate governance and the internal reporting that follows this governance.

The non-current and current financial assets included financial instruments that met the business model and cash flow conditions. These assets 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 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 accounting methods, 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.

  Deferred tax liabilities amounted to EUR 1,893 K (previous year: EUR 2,099 K) and deferred tax assets amounted to EUR 29,807 K (previous year: EUR 20,541 K). Income tax liabilities amounted to EUR 10,417 K (previous year: EUR 6,135 K) and income tax receivables amounted to EUR 1,887 K (previous year: EUR 2,577 K).

- **Non-current and current provisions**
  The calculation of warranty provisions is 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 of defined benefit plans on termination of employment and the present value of pension obligations are determined by actuarial calculations. 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.

  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 the experience specific to the company as well as future expectations.

  The present value of the performance-oriented liabilities in the amount of EUR 162,582 K (previous year: EUR 134,377 K) were netted against the fair value of the plan asset in the amount of EUR 38,766 K (previous year: EUR 35,110 K). Post-employment benefit provisions hence amounted to EUR 123,816 K (previous year: EUR 99,267 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 liability of EUR 804 K (previous year: receivable of EUR 235 K) resulted from the financial instruments measured at fair value.

- **Receivables**
  Individual impairments, and impairments in accordance with IFRS 9 for receivables are made in order to take account of expected losses. Impairments of receivables are assessed on a case-to-case basis and are also based on maturity in connection with the experience regarding defaults in the past, as well as changes in payment behaviour.

  Trade receivables totalled EUR 138,976 K (previous year: EUR 135,770 K).

- **Provisions**
  Provisions for warranties are set up if the occurrence of a liability is probable. For instance, the assessment of the degree of probability and the extent is based on experience, external experts, and current information available.

  The carrying amounts of the current and non-current warranty provisions amounted to EUR 41,668 K and EUR 12,083 K respectively (previous year: EUR 38,758 K and EUR 9,056 K respectively).

At the time of preparing the consolidated financial statements the assumptions and estimates did not include any significant risks that would have required significant adjustments of the assets and liabilities recognised in the consolidated balance sheet in the following fiscal year.

Consolidated segment reporting as at 31 December 2019

Information on geographic segments by sales markets in EUR K	Western Europe		Other			
			Northern/Eastern Europe		America/Asia/Pacific	
	2019	2018	2019	2018	2019	2018
External revenues	1,070,924	1,024,410	156,510	156,671	170,794	151,289
Inter-segment revenues	42,334	40,880	1,660	1,738	23	41
Segment turnover	**1,113,258**	**1,065,290**	**158,170**	**158,409**	**170,817**	**151,330**
EBITDA	124,695	102,139	8,341	4,554	5,269	6,677
Depreciation/amortisation*	39,826	25,132	6,797	2,687	5,702	3,479
EBIT (earnings before interest and taxes)	**84,869**	**77,007**	**1,544**	**1,867**	**–433**	**3,198**
Interest income	1,168	902	130	232	560	381
Interest expenses	3,608	2,978	296	322	228	64
EBT (earnings before taxes)	**82,429**	**74,930**	**1,378**	**1,777**	**–101**	**3,515**
Segment assets	**651,751**	**597,444**	**100,493**	**84,222**	**112,153**	**79,640**
Investments	**27,291**	**26,800**	**1,954**	**1,973**	**6,103**	**3,299**
Employees as at the balance sheet date	**4,164**	**4,094**	**648**	**636**	**721**	**603**

Notes on product groups in EUR K	Facade systems		Facade coatings		Interiors	
	2019	2018	2019	2018	2019	2018
External revenues	677,083	634,866	304,588	302,307	197,772	190,728

Segment reporting is explained in Note (33).

* Depreciation/amortisation in 2019 includes EUR 27 K (previous year: EUR 14 K) of impairment expenses. Of that amount, EUR 20 K (previous year: EUR 7 K) are attributable to Western Europe, EUR 7 K (previous year: EUR 7 K) to North/Eastern Europe.

Reconciliation/ consolidation booking entries		Group	
2019	2018	2019	2018
0	0	1,398,227	1,332,370
–44,018	–42,659	0	0
–44,018	**–42,659**	**1,398,227**	**1,332,370**
–95	–174	138,210	113,196
0	0	52,325	31,299
–95	**–174**	**85,885**	**81,898**
–726	–788	1,131	726
–726	–788	3,405	2,575
–608	**–56**	**83,097**	**80,166**
31,694	**23,118**	**896,092**	**784,424**
0	**0**	**35,349**	**32,072**
0	**0**	**5,533**	**5,333**

Other product groups		Group	
2019	2018	2019	2018
218,785	204,469	1,398,227	1,332,370

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	2019	2018
Income from the reversal of provisions and accured liabilities	7,784	6,912
Income from changes in exchange rates	3,403	3,913
Proceeds from derecognised receivables	770	416
Income from the disposal of assets	339	423
Income from recharged expenses to third parties	261	115
Funding from the public sector	98	76
Other operating income	6,408	5,842
Total other operating income*	**19,063**	17,697

* Adjustment of previous year due to the separate presentation of the netted impairment of financial assets in accordance with IAS 1.82 (ba), see Note (7).

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.

(4) Cost of material

in EUR K	2019	2018
Raw materials, processing aids, and operating materials	291,113	280,745
Goods purchased	327,077	322,323
Total expenses for raw materials, processing aids, operating materials, and goods purchased	**618,190**	603,068
Temporary staff	4,583	3,375
Commission production	8,873	9,488
Total expenses for services purchased	**13,456**	12,863
Total expenses for materials	**631,646**	615,931

Expenses for commission production were mainly attributable to StoCretec Flooring AS in the amount of EUR 5,150 K (previous year: EUR 5,337 K) and to Sto Epitöanyag Kft. in the amount of EUR 1,442 K (previous year: EUR 1,761 K).

(5) Personnel expenditure

in EUR K	2019	2018
Wages and salaries	304,419	286,685
Social security contributions	40,606	38,852
Expenses for social security contributions, and for support	27,186	26,725
Total personnel expenses	**372,211**	352,262

Expenditure on post-employment benefits primarily comprises additions to the post-employment benefit provisions as stated in Note (24).

In the year under review, research and development costs of approx. EUR 13.7 million (previous year: approx. EUR 13.5 million) were recognised with an impact on profit and loss.

Annual average headcount

Amount	2019	2018
Employees	5,303	5,164
Trainees	218	197
Total no. of employees	**5,521**	5,361

(6) Other operating expenses

in EUR K	2019	2018
Selling and marketing costs	138,446	129,923
Administration costs	53,646	49,552
Rental and lease payments including overheads	11,789	29,591
Operating costs	34,002	29,574
Losses from the derecognition of financial assets*	2,115	1,082
Other staff costs	7,429	7,151
Expenses due to changes in exchange rates	5,091	4,630
Losses from the disposal of non-current assets	2,163	881
Other expenses	14,891	12,952
Other operating expenses*	**269,572**	265,336

* Adjustment of previous year due to the separate presentation of the netted impairment of financial assets in accordance with IAS 1.82 (ba), see Note (7).

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

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) Impairment (net) of financial assets

in EUR K	2019	2018
Expenses for impairments of financial assets	–7,784	–8,517
Income from the reversal of impairments of financial assets	3,625	5,229
Impairment (net) of financial assets	**–4,159**	–3,288

(8) Depreciation/amortisation

The amortisation of Intangible assets, Property, plant, and equipment, and rights of use are analysed in the respective parts of these Notes.

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

Earnings from financial investments accounted for using the equity method amounts to EUR -513 K (previous year: EUR 118 K) in the year under review.

(10) Net interest income

in EUR K	2019	2018
Other interest and similar income	1,131	726
Interest and similar expenses	–789	–760
Interest expense for post-employment benefit obligations	–1,819	–1,590
Compounding interest of other non-current provisions and liabilities	–193	–214
Interest expense for leases	–604	–11
Total net interest income	**–2,274**	–1,849

(11) Taxes on income and earnings

Breakdown of tax expense

in EUR K	2019	2018
Actual tax expense in Germany	19,885	19,310
Actual tax expense outside of Germany	9,794	8,280
Actual tax expense	**29,679**	27,590
of which off-period tax expense	323	984
Expense/income from reversal of tax liabilities (off-period)	–140	–5
Actual taxes on income and earnings	**29,539**	27,585
Deferred tax income/expense in Germany	–1,777	–1,133
Deferred tax income/expense outside of Germany	–1,006	–96
Deferred tax income/expense	**–2,783**	–1,229
Income tax expense reported	**26,756**	26,356

In the 2019 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 28.9 % (previous year: 28.6 %).

The local income tax rates for companies outside of Germany ranged between 0 % and 34.0 % (previous year: 0 % to 34.0 %). Deferred taxes were measured using the tax rates valid or enacted as of the balance sheet date.

Tax loss carryforwards were valued at EUR 40,532 K (previous year: EUR 25,210 K). Tax loss carryforwards of EUR 24,248 K (previous year: EUR 18,317 K) are available for an indefinite period, while EUR 5,368 K (previous year: EUR 4,321 K) may only be utilised within five years, as well as EUR 3,100 K (previous year: EUR 2,572 K) only within ten years, and EUR 7,816 K (previous year: EUR 0 K) only within 20 years.

Of the tax loss carryforwards, a sum of EUR 24,623 K (previous year: EUR 14,751 K) is assumed to not be available for the time being. Of these, EUR 8,338 K (previous year: EUR 7,858 K) are available for an indefinite period, while EUR 5,369 K (previous year: EUR 4,321 K) may only be utilised within five years, as well as EUR 3,100 K (previous year: EUR 2,572 K) only within ten years, and EUR 7,816 K (previous year: EUR 0 K) only within 20 years.

Of the tax loss carryforwards rated available, EUR 10,785 K (previous year: EUR 7,470 K) were attributable to companies whose earnings for the year of 2019 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.

No deferred taxes were recognised for temporary differences of EUR 5,528 K on the profits retained by subsidiaries (previous year: EUR 5,709 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 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
Intangible assets	397	206	1,452	1,568
Property, plant, and equipment	894	1,631	4,497	4,919
Rights of use	607	0	14,590	0
Financial assets accounted for using the equity method	45	0	0	0
Non-current trade receivables	120	0	120	0
Non-current financial assets	145	515	408	209
Other non-current assets	0	0	173	0
Inventories	2,101	1,818	168	204
Current trade receivables	1,657	1,532	472	1,011
Current financial assets	49	81	124	1
Other current assets	175	4	11	352
Cash and cash equivalents	78	167	4	491
Special tax items	0	0	217	0
Provisions for post-employment benefits and similar liabilities	22,904	16,175	40	71
Other non-current provisions	258	346	0	15
Non-current borrowings	130	31	84	0
Non-current lease liabilities	10,683	0	0	0
Other non-current liabilities	0	54	0	0
Other current provisions	1,212	1,450	419	633
Current borrowings	189	53	1	0
Current lease liabilities	3,947	0	0	0
Trade payables	3	69	10	28
Other current liabilities	1,720	1,419	51	0
Loss carryforwards	3,441	2,393	0	0
Gross amount	**50,755**	**27,944**	**22,841**	**9,502**
Balancing	20,948	7,403	20,948	7,403
Balance sheet recognition	**29,807**	**20,541**	**1,893**	**2,099**

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 taxpayer.

Change in deferred taxes

in EUR K	Consideration in		
	Statement of profit and loss	Equity	**Total**
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
Rights of use	0	0	0
Financial assets accounted for using the equity method	0	0	0
Non-current trade receivables	0	0	0
Non-current financial assets	–305	115	–190
Other non-current assets	0	0	0
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
Special tax items	0	0	0
Provisions for post-employment benefits and similar liabilities	525	–492	33
Other non-current provisions	–160	0	–160
Non-current borrowings	11	0	11
Non-current lease liabilities	0	0	0
Other non-current liabilities	–17	0	–17
Other current provisions	493	0	493
Current borrowings	–111	0	–111
Current lease liabilities	0	0	0
Trade payables	–40	0	–40
Other current liabilities	308	0	308
Loss carryforwards	543	0	543
Tax reimbursements not yet utilised	–113	0	–113
Effects from first-time consolidation and deconsolidation	0	0	0
Currency translation effects	–154	167	13
Deferred taxes as at 31 December 2018	**9,325**	**9,117**	**18,442**

Change in deferred taxes

in EUR K	Consideration in		
	Statement of profit and loss	Equity	**Total**
Deferred taxes as at 1 January 2019	**9,325**	**9,117**	**18,442**
Intangible assets	308	0	308
Property, plant, and equipment	–302	0	–302
Rights of use	5,147	–19,079	–13,932
Financial assets accounted for using the equity method	45	0	45
Non-current trade receivables	–8	0	–8
Non-current financial assets	–568	0	–568
Other non-current assets	–151	0	–151
Inventories	321	0	321
Current trade receivables	674	0	674
Current financial assets	–156	0	–156
Other current assets	494	0	494
Cash and cash equivalents	400	0	400
Special tax items	–217	0	–217
Provisions for post-employment benefits and similar liabilities	751	5,953	6,704
Other non-current provisions	–74	0	–74
Non-current borrowings	15	0	15
Non-current lease liabilities	–4,344	14,873	10,529
Other non-current liabilities	–54	0	–54
Other current provisions	–24	0	–24
Current borrowings	134	0	134
Current lease liabilities	–872	4,810	3,938
Trade payables	–44	0	–44
Other current liabilities	239	0	239
Loss carryforwards	1,070	0	1,070
Tax reimbursements not yet utilised	0	0	0
Effects from first-time consolidation and deconsolidation	0	0	0
Currency translation effects	1	130	131
Deferred taxes as at 31 December 2019	**12,110**	**15,804**	**27,914**

Reconciliation of expected and reported income tax expense

in EUR K	2019	2018
Earnings before income taxes	83,098	80,166
Expected income tax expense (tax rate: 28.9 %; previous year: 28.6 %)	**24,015**	22,927
Reconciliation: Tax-free income and permanent differences	3,064	3,005
Changes in tax rate	–69	35
Deviations of local tax rates from Group tax rate	–1,523	–807
Deferred tax income on tax loss carryforwards capitalised for the first time	–302	–251
Tax reduction for tax loss carryforwards not yet capitalised	–21	–183
Effects of non-recognition of tax loss carryforwards	1,396	664
Off-period taxes	168	978
Other effects	28	–12
Income tax expense reported	**26,756**	26,356
Effective tax rate (%)	32.2	32.9

(12) 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 2019 and 31 December 2018, there were no potential shares. Hence, undiluted earnings per share correspond to diluted earnings per share.

Amount	Ordinary shares		Preference shares	
	2019	2018	**2019**	2018
Weighted average number of shares outstanding – basic/diluted	**3,888,000**	3,888,000	**2,538,000**	2,538,000

in EUR	2019	2018
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA	58,187,071	53,666,013
basic/diluted earnings – of which:		
Limited ordinary shares	35,113,487	32,378,057
Limited preference shares	23,073,584	21,287,956

in EUR	2019	2018
Earnings per share – basic/diluted		
Limited ordinary share	9.03	8.33
Limited preference share	9.09	8.39

In the fiscal year of 2019, the following dividend was paid out from the earnings of 2018: EUR 4.03 (previous year: EUR 4.03) 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 3.78), as well as EUR 4.09 (previous year: EUR 4.09) 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 3.78).

In the fiscal year of 2019, the payout to the ordinary shareholders hence amounted to EUR 15,669 K (previous year: EUR 15,669 K) and the payout to the preference shareholders amounted to EUR 10,380 K (previous year: EUR 10,380 K). The total payout amount was EUR 26,049 K (previous year: EUR 26,049 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 at amortised costs of acquisition
- Financial instruments with a value recognition in accordance with IFRS 16 (previous year: 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	**2019**	2018
Assets		
Financial assets at fair value through profit and loss (FVTPL)	108	132
Financial assets at amortised cost (FAAC)	–5,283	–4,154
Liabilities		
Financial liabilities at amortised cost (FLAC)	–357	–489
Financial liabilities at fair value through profit and loss (FLTPL)	–1,719	35

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.

Total interest income and expense from financial instruments not recognised at fair value through profit and loss

in EUR K	2019	2018
Interest income	1,099	534
Interest expenses	1,269	654
Net interest income	**–170**	–120

Notes on the consolidated statement of financial position

(13) Intangible assets

Changes in 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
Change to companies consolidated	0	0	0	0
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
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**

Development of intangible assets from 1 January until 31 December 2019

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	**Total**
Cost of acquisition/production				
1 January 2019	**40,039**	**42,569**	**663**	**83,271**
Additions	1,335	0	1,343	2,678
Change to companies consolidated	5,850	10,230	0	16,080
Disposals	399	0	27	426
Transfers	523	0	–449	74
Exchange rate differences	209	234	0	443
31 December 2019	**47,557**	**53,033**	**1,530**	**102,120**
Cumulative depreciation and impairment losses				
1 January 2019	**31,256**	**4,247**	**0**	**35,503**
Depreciation for the year	2,559	0	0	2,559
Disposals	387	0	0	387
Transfers	–19	0	0	–19
Exchange rate differences	–25	0	0	–25
31 December 2019	**33,384**	**4,247**	**0**	**37,631**
Net carrying amount as at 31 December 2018	**8,783**	**38,322**	**663**	**47,768**
Net carrying amount as at 31 December 2019	**14,173**	**48,786**	**1,530**	**64,489**

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 48,786 K (previous year: EUR 38,322 K), breaks down as follows:

Cash Generating Units in EUR K	**31 Dec 2019**	31 Dec 2018
Sto SE & Co. KGaA	15,760	15,760
Skyrise Prefab Building Solutions Inc., Pickering/Canada	5,754	–
Beissier S.A.S., La Chapelle La Reine/France	3,635	3,635
Ströher GmbH, Dillenburg/Germany	3,570	3,570
Unitex Australia Pty Ltd, Dandenong South/Australia	3,269	–
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
Liaver GmbH & Co. KG, Ilmenau/Germany	1,437	–
Sto Isoned B.V., Tiel/Netherlands	1,189	1,189
Sto Norge AS, Oslo/Norway	1,005	1,001
Miscellaneous under EUR 1,000 K	3,542	3,542
Total goodwill	**48,786**	38,322

With the exception of Sto SE & Co. KGaA and Ströher GmbH, the cash-generating units 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.

(14) Property, plant, and equipment

Changes in 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
Change to companies consolidated	0	0	0	0	0
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

Development of property, plant, and equipment from 1 January to 31 December 2019

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 2019	**357,158**	**217,153**	**198,568**	**11,315**	**784,194**
Additions	2,889	6,444	14,619	8,719	32,671
Change to companies consolidated	3,635	4,901	419	0	8,955
Disposals	1,953	5,378	8,523	40	15,894
Transfers	5,005	3,535	739	–10,461	–1,182
Exchange rate differences	678	378	532	10	1,598
31 December 2019	**367,412**	**227,033**	**206,354**	**9,543**	**810,342**
Cumulative depreciation and impairment losses					
1 January 2019	**197,197**	**171,214**	**160,622**	**313**	**529,346**
Depreciation for the year	9,221	10,202	11,235	0	30,658
Impairment losses	0	0	0	27	27
Disposals	810	4,191	7,718	0	12,719
Transfers	–19	–269	–394	0	–682
Exchange rate differences	547	311	406	3	1,267
31 December 2019	**206,136**	**177,267**	**164,151**	**343**	**547,897**
Net carrying amount as at 31 December 2018	**159,961**	**45,939**	**37,946**	**11,002**	**254,848**
Net carrying amount as at 31 December 2019	**161,276**	**49,766**	**42,203**	**9,200**	**262,445**

Property, plant and equipment in the amount of EUR 29,357 K (previous year: EUR 27,088 K) are encumbered with land charges which serve to secure payables to banks. The value amounted to EUR 1,530 K (previous year: EUR 89 K).

Impairment of property, plant, and equipment amounted to EUR 27 K (previous year: EUR 14 K) and related to a building under construction and a machine under construction whose market prices had dropped.

(15) Rights of use

Development of rights of use from 1 January to 31 December 2019

in EUR K	Industrial property rights and licences including software	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plant, operating and business equipment	Total
Cost of acquisition/production					
31 December 2018	**0**	**0**	**0**	**0**	**0**
First-time application effects from IFRS 16 as at 1 January 2019	411	53,387	0	12,634	66,432
As at 1 January 2019	**411**	**53,387**	**0**	**12,634**	**66,432**
1 January 2019	**411**	**53,387**	**0**	**12,634**	**66,432**
Additions	0	7,744	692	5,813	14,249
Change to companies consolidated	0	1,915	0	192	2,107
Disposals	0	198	81	1,405	1,684
Transfers	0	0	741	367	1,108
Exchange rate differences	0	429	0	56	485
31 December 2019	**411**	**63,277**	**1,352**	**17,657**	**82,697**
Cumulative depreciation and impairment losses					
1 January 2019	**0**	**0**	**0**	**0**	**0**
Depreciation for the year	82	12,201	188	6,610	19,081
Impairment losses	0	0	0	0	0
Disposals	0	42	81	651	774
Transfers	0	0	513	188	701
Exchange rate differences	0	43	0	17	60
31 December 2019	**82**	**12,202**	**620**	**6,164**	**19,068**
Net carrying amount as at 31 December 2018	**0**	**0**	**0**	**0**	**0**
Net carrying amount as at 31 December 2019	**329**	**51,075**	**732**	**11,493**	**63,629**

The Group primarily leases properties and vehicles. In terms of properties, the Group mainly rents Sales Centres and office buildings.

Information on the corresponding lease liabilities and further explanations can be found in Notes (10) and (27).

(16) Financial assets accounted for using the equity method

As at 31 December 2019, the carrying amount of shares accounted for using the equity method stands at EUR 10,626 K (previous year: in EUR 11,138 K).

The investments accounted for using the equity method generated a negative result amounting to EUR 513 K (previous year: EUR +118 K), as well as cumulative losses amounting to EUR 160 K (previous year: EUR 320 K).

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.

(17) Inventories

Inventories are measured at the lower of acquisition/production cost and the net realisable amount. The impairment included therein amounted to EUR 9,865 K (previous year: EUR 8,667 K). The impairments are mainly based on overstocking.

in EUR K	31 Dec 2019	31 Dec 2018
Raw materials, processing aids, and operating materials	22,983	23,170
Work in progress	6,764	8,242
Finished products and goods	70,586	65,019
Payments made on account	920	1,432
Total inventories	**101,253**	97,863

Inventory with a carrying amount of EUR 2,376 K (previous year: EUR 2,120 K) serve to secure liabilities to banks. The value amounted to EUR 347 K (previous year: EUR 505 K).

(18) Non-current and current trade receivables

The fair values of trade receivables equal their carrying amounts. Impairments of EUR 23,283 K (previous year: EUR 20,572 K) were taken into account.

Trade receivables with a carrying amount of EUR 1,736 K (previous year: EUR 1,771 K) serve to secure liabilities to banks. The value amounted to EUR 216 K (previous year: EUR 264 K).

in EUR K	current	non-current	Carrying amount as at 31 Dec 2019	current	non-current	Carrying amount as at 31 Dec 2018
from						
Third parties	137,738	1,236	138,974	134,700	1,068	135,768
Companies accounted for using the equity method	2	0	2	2	0	2
Total trade receivables	**137,740**	**1,236**	**138,976**	**134,702**	**1,068**	**135,770**

(19) Non-current and current financial assets

Financial assets due from third parties included financial investments due for settlement in more than three months as well as impairments amounting to EUR 127 K (previous year: EUR 370 K). Receivables from suppliers also included in the financial assets amounted to EUR 4,538 K (previous year: EUR 3,935 K).

As in the previous year, the positive fair value of derivative financial instruments resulted from currency hedging transactions that are explained in more detail under Note (34).

in EUR K	current	non-current	Carrying amount as at 31 Dec 2019	current	non-current	Carrying amount as at 31 Dec 2018
Financial assets from third parties	57,345	4,535	61,880	82,163	501	82,664
Other receivables and financial assets from companies accounted for using the equity method	234	649	883	652	0	652
Positive fair value of derivative financial instruments	1	0	1	442	0	442
Total financial assets	**57,580**	**5,184**	**62,764**	**83,257**	**501**	**83,758**

(20) Other non-current and current assets

Other receivables due from third parties include current insurance refund claims from sales risks in the amount of EUR 18,491 K (previous year: EUR 12,758 K).

Other tax reimbursement claims include VAT reimbursement claims of EUR 3,404 K (previous year: EUR 3,157 K).

No adjustments were made to Other assets in the period under review and in the previous year.

in EUR K	current	non-current	Carrying amount as at 31 Dec 2019	current	non-current	Carrying amount as at 31 Dec 2018
Other receivables from third parties	19,929	19	19,948	14,415	11	14,426
Other tax reimbursement claims	3,718	0	3,718	3,326	0	3,326
Prepaid expenses	6,696	697	7,392	6,203	324	6,527
Other payments made on account	552	0	552	587	0	587
Total other assets	**30,895**	**716**	**31,610**	**24,531**	**335**	**24,866**

(21) Cash and cash equivalents

in EUR K	31 Dec 2019	31 Dec 2018
Credit balances with banks	127,942	104,473
Cheques, cash in hand	665	821
Total cash and cash equivalents	**128,607**	105,294

Cash and cash equivalents include impairments due to IFRS 9 in the amount of EUR 235 K (previous year: EUR 455 K).

(22) Equity
Changes in equity and minority interests are analysed in the statement of changes in equity.

Subscribed capital
On 31 December 2019 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 2019 fiscal year correspond to the previous year.

The limited preference shares include a guaranteed minimum dividend of EUR 0.13 and bore a dividend that was EUR 0.06 higher than that of the limited ordinary shares. If the net income of one or more fiscal years is not sufficient for an advance dividend payout of at least EUR 0.13, the missing amounts will be paid in arrears without interest from the net income of the following fiscal years before payout of a dividend.

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.

Stotmeister Beteiligungs GmbH, Stühlingen/Germany, holds all but four of the limited ordinary shares of Sto SE & Co. KGaA not in the ownership of Sto SE & Co. KGaA as well as 100 % of the shares of STO Management SE, Stühlingen/Germany. The personally liable partner, STO Management SE, Stühlingen/Germany, does not have a share in the capital of Sto SE & Co. KGaA.

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 profits 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 subsidiaries in a foreign currency.

- 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 2019, 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. 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 2019 fiscal year correspond to the previous year.

Proposed dividend

In accordance with Sections 278, 58 (4) of the Law on share companies (Aktiengesetz, AktG), the dividend distributed is based on the unappropriated surplus recorded in the financial statements prepared in accordance with German commercial law. Hence, a net income of EUR 52,236 K (previous year: EUR 41,486 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 26,000 K (previous year: EUR 15,000 K) as revenue reserves and to carry the remaining amount of EUR 187 K (previous year: EUR 437 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 2019**	31 Dec 2018*	Change in %
Equity attributable to the shareholders of Sto SE & Co. KGaA	**486,139**	**469,907**	**3.5 %**
Current borrowings	5,142	11,459	–55.1 %
Non-current borrowings	3,682	3,345	10.1 %
Less cash and cash equivalents	128,607	105,294	22.1 %
Net assets	**119,783**	**90,490**	**32.4 %**
% of equity	24.6 %	19.3 %	
Equity ratio	54.3 %	60.9 %	
Return on Capital Employed (ROCE)	**14.0 %**	**15.6 %**	

* before effects from IFRS 16

In the fiscal year of 2019, the equity attributable to the shareholders of Sto SE & Co. KGaA rose by 3.5 % 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.

(23) Share of minority interests

The shares of equity on the part of minority interests in the past fiscal year were attributable to shareholders of UAB TECH-COAT, Klaipèda/Lithuania, Sto Italia Srl, Empoli/Italy as well as Skyrise Prefab Building Solution Inc., Pickering/Canada. In the previous year, this was attributable to shareholders of the Ströher Group, Dillenburg/Germany, UAB TECH-COAT, Klaipèda/Lithuania as well as Sto Italia Srl, Empoli/Italy. All non-controlling interests are insignificant for the Group.

(24) Post-employment benefits and similar liabilities

Provisions for post-employment benefits are recognised in accordance with entitlement arising under the company pension scheme. The provided benefits 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 which reflect discounted future payments based on provisions and for which the post-employment benefit provisions are calculated using the projected unit credit method in accordance with IAS 19. For defined benefit obligation plans, 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, and actuarial calculations are applied.

Actuarial gains or losses arise from deviations in the actual development (e.g. income and pension increases, changes in interest rates) from the assumptions, and from changes in the assumptions. All actuarial gains and losses are recognised in equity with no impact on profit and loss. Actuarial gains and losses reported within equity are presented in the table on post-employment benefits provisions. The sensitivity analysis shows the impact of deviations in the assumptions.

Benefit obligations assumed by the German companies primarily existed for old-age, invalidity, widow's and orphan's pensions. A prerequisite for receiving benefits was that upon occurrence of the event the employee either had had a minimum period of service of 10 years after the age of 25, or had been in an employment relationship with Sto or had had 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 addition, the Group had defined contribution plans, whose current contribution payments (excluding contributions to the statutory pension funds) were reported as post-employment benefit expenses. For these plans, the Company paid contributions into public or private pension funds in accordance with statutory or contractual obligations. Upon payment of the contributions, the company had no further benefit obligations.

Expenses from defined contribution plans amounted to EUR 1,100 K (previous year: EUR 1,070 K). Contributions to statutory pension funds came to EUR 21,438 K (previous year: EUR 20,974 K).

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.

Summary of the post-employment benefit provisions

in EUR K	2019	2018
Pension plan of the Euro companies	–113,588	–89,409
Pension plan of Sto AG, Switzerland	–10,228	–9,858
Total	**–123,816**	–99,267

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 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**

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 2019	**–98,757**	**9,348**	**–89,409**
Current service cost	–3,207	0	–3,207
Interest expense/income	–1,905	181	–1,724
Expenses for post-employment benefit obligations recognised through profit and loss	**–5,112**	**181**	**–4,931**
Pension benefits paid	**2,231**	**0**	**2,231**
Actuarial gains and losses from changes in demographic assumptions	–834	0	–834
Actuarial gains and losses from changes in financial assumptions	–22,002	1,416	–20,586
Experience-based adjustments	–298	0	–298
Profit/loss from reassessment recognised in other earnings	**–23,134**	**1,416**	**–21,718**
Employer contributions	**0**	**239**	**239**
As at 31 December 2019	**–124,772**	**11,184**	**–113,588**

Current service costs are included in staff costs; interest expenses on the obligation is reported under interest expenses, Note (10).

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 130 K (previous year: EUR 124 K).

The calculation of post-employment benefit provisions was based on the following assumptions.

	Germany		Outside of Germany	
	2019	2018	**2019**	2018
Discount rate as at 31 December in %	0.95	1.95	0.95	1.95
Future pension increases in %	1.56	1.50	2.40	2.40
Age of retirement in years	65	65	62-65	62-65

Since 31 December 2018, the 'Richttafel 2018 G' (Reference Table 2018 G) by Prof. Dr Klaus Heubeck has been used as the biometric basis for calculations for German companies.

The running period of the performance-oriented obligation of the Euro companies averaged at 20.58 years (previous year: 18.85 years).

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**

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 2019	**–35,620**	**25,762**	**–9,858**
Currency differences	**–1,382**	**1,005**	**–377**
Current service cost	–1,204	0	–1,204
Interest expense/income	–343	248	–95
Expenses for post-employment benefit obligations recognised through profit and loss	**–1,547**	**248**	**–1,299**
Pension benefits paid	**3,444**	**–3,444**	**0**
Actuarial gains and losses from changes in demographic assumptions	3,022	0	3,022
Actuarial gains and losses from changes in financial assumptions	–2,944	116	–2,828
Experience-based adjustments	116	0	116
Profit/loss from reassessment recognised in other earnings	**194**	**116**	**310**
Employer contributions	**0**	**996**	**996**
Employee contributions	**–2,899**	**2,899**	**0**
As at 31 December 2019	**–41,254**	**31,026**	**–10,228**

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 1,036 K (previous year: EUR 970 K).

The calculation of post-employment benefit provisions of Sto AG, Switzerland, was based on the following assumptions:

	Switzerland	
	2019	2018
Discount rate as at 31 December in %	0.10	0.95
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 14.80 years at the end of the reporting period (previous year: 16.90 years).

The following shows a quantitative sensitivity analysis of the most important assumptions as at 31 December 2019:

in EUR K	Effects on the performance-based obligation of the **Euro countries**	
	31 Dec 2019	31 Dec 2018
Discount rate		
Decline by 0.5 %	13,585	10,357
Increase by 0.5 %	–12,765	–8,208
Pensions		
Decline by 1.0 %	–17,718	–12,331
Increase by 1.0 %	14,051	10,794
Life expectancy		
Decrease by 1 year	–5,483	–2,594
Increase by 1 year	4,300	3,391
Retirement age		
Decrease by 1 year	1,765	1,924
Increase by 1 year	–3,289	–1,522

in EUR K	Effects on the performance-based obligation of **Sto AG Switzerland**	
	31 Dec 2019	31 Dec 2018
Discount rate		
Decline by 0.5 %	3,030	3,303
Increase by 0.5 %	–2,658	–2,876
Salary adjustments		
Decline by 0.5 %	–248	–290
Increase by 0.5 %	244	286
Life expectancy		
Decrease by 1 year	–575	–620
Increase by 1 year	554	594

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 as at 31 December 2019.

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 2019**	Expected disbursements as at 31 Dec 2018
Within the next 12 months	4,376	4,088
Between 1 and 5 years	21,957	18,151
Between 5 and 10 years	31,670	29,331
Expected disbursements within the next 10 years	**58,003**	51,570

(25) Non-current and current provisions

in EUR K	Human resources division	Production division	Sales division	Other provisions	**Total**
As at 1 January 2018	**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
Change to companies consolidated	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**
Currency differences	7	0	–243	–4	–240
Consumption	–1,547	–46	–19,080	–1,342	–22,015
Additions/formation	2,462	108	30,355	1,869	35,296
Change to companies consolidated	0	0	90	185	275
Compounding of interest	87	13	93	0	193
Reversal	–1,469	0	–5,265	–191	–6,925
As at 31 December 2019	**7,705**	**1,262**	**53,909**	**3,230**	**66,106**
of which current	**3,296**	**410**	**41,826**	**2,633**	**48,165**
of which non-current	**4,409**	**852**	**12,083**	**597**	**17,941**

Provisions in the staff area were 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, that were set up for individual cases, compensation claims of commercial representatives as well as provisions for litigation risks.

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.

(26) Non-current and current borrowings

in EUR K	current	non-current	Carrying amount as at 31 Dec 2019
Liabilities to banks	4,142	3,682	7,824
Other borrowings	1,000	0	1,000
Total borrowings	**5,142**	**3,682**	**8,824**

in EUR K	current	non-current	Carrying amount as at 31 Dec 2018
Liabilities to banks	10,270	3,117	13,387
Liabilities under finance leases	187	228	415
Other borrowings	1,002	0	1,002
Total borrowings	**11,459**	**3,345**	**14,804**

(27) Non-current and current lease liabilities

With the first-time application of IFRS 16 as of 1 January 2019, additional liabilities from leases were recognised, whereas in the previous year only liabilities from financial leases were recognised in accordance with IAS 17.

in EUR K	current	non-current	Carrying amount as at 31 Dec 2019	current	non-current	Carrying amount as at 31 Dec 2018
Liabilities from leases	18,514	47,217	65,731	–	–	–

The current and future payments from lease liabilities can be seen in the following tables:

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 of lease liabilities	**187**	**228**	**0**	**415**

in EUR K	2019	up to 1 year	1–5 years	5–10 years	31 Dec 2019
Lease payments	19,893	19,058	42,111	6,267	67,436
Interest portions	604	544	996	165	1,705
Carrying amount/present value of lease liabilities	**19,289**	**18,514**	**41,116**	**6,102**	**65,731**
Payments for short-term leases	1,649	1,016	0	0	1,016
Payments for small-ticket leases	772	238	12	0	250

Total lease payments in the current year amounted to EUR 22,314 K.

Potential future cash outflows from leases were not included in the lease liability as it was not sufficiently certain that the leasing contracts would be renewed.

Cash outflows from leases possible in the future are shown in the following table:

in EUR K	Total cash outflows
From extension and termination options	6,832
From contracts with residual value guarantees	111
From contracts not yet active	1,873

Current earnings include the following additional expenses relating to leases:

in EUR K	**2019**	2018
Expense for short-term leases	1,649	–
Expense for small-ticket leases	772	–
Expenses for variable lease payments	83	–
Amortisation of rights of use	19,081	–

Information on the rights of use and further explanations can be found in Notes (10) and (15).

(28) Non-current and current trade payables

in EUR K	current	non-current	**Carrying amount as at 31 Dec 2019**	current	non-current	**Carrying amount as at 31 Dec 2018**
from						
Third parties	48,787	151	48,938	47,013	151	47,164
Companies accounted for using the equity method	105	0	105	142	0	142
Total trade payables	**48,892**	**151**	**49,043**	**47,155**	**151**	**47,306**

The fair values of trade payables correspond to the carrying amounts.

(29) Non-current and current financial liabilities

in EUR K	current	non-current	Carrying amount as at 31 Dec 2019	current	non-current	Carrying amount as at 31 Dec 2018
Negative fair values of derivative financial instruments	800	9	809	256	0	256
Other liabilities						
towards customers	17,849	0	17,849	15,114	0	15,114
towards employees	1,034	0	1,034	1,099	0	1,099
Other	14,753	260	15,013	16,112	283	16,395
Total financial liabilities	**34,436**	**269**	**34,705**	**32,581**	**283**	**32,864**

As in the previous year, the negative fair value of derivative financial instruments resulted from currency hedging transactions explained in Note (34) in more detail.

(30) Non-current and current other liabilities

in EUR K	current	non-current	Carrying amount as at 31 Dec 2019	current	non-current	Carrying amount as at 31 Dec 2018
Advance payment received on orders	2,358	0	2,358	1,045	0	1,045
Other liabilities						
from other taxes	9,938	0	9,938	9,397	0	9,397
social security liabilities	3,424	0	3,424	2,833	0	2,833
towards employees	27,075	0	27,075	25,191	0	25,191
Other	6,220	10	6,230	5,904	10	5,914
Total other liabilities	**49,015**	**10**	**49,025**	**44,370**	**10**	**44,380**

(31) Further notes on financial instruments in accordance with IFRS 7

Reconciliation of balance sheet items with financial instrument categories

in EUR K	Valuation category in accordance with IFRS 9	**Carrying amount**	Financial instruments				
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet in accordance with IAS 17	Not within the scope of IFRS 7/Hedge accounting
		31 Dec 2018	Carrying amount	Fair value			
Assets							
Trade receivables	FAAC	135,770	135,770	135,770	0	0	0
Financial assets							
- Other investments	FVTPL	49	0	0	49	0	0
- Derivative assets without hedge relationship	FVTPL	442	0	0	442	0	0
- Other financial assets	FAAC	6,301	6,301	6,301	0	0	0
- Financial assets – Associated companies	FAAC	652	652	652	0	0	0
- Financial investments	FAAC	76,314	76,314	76,368	0	0	0
Total financial assets		83,758	83,267	83,321	491	0	0
Cash and cash equivalents	FAAC	105,294	105,294	105,294	0	0	0
Liabilities							
Borrowings							
- Other borrowings	FLAC	13,974	13,974	13,974	0	0	0
- Liabilities from leases	NA	415	0	0	0	415	0
Total borrowings		14,389	13,974	13,974	0	415	0
Trade payables	FLAC	47,306	47,306	47,306	0	0	0
Financial liabilities							
- Derivative liabilities without hedge relationship	FLTPL	256	0	0	256	0	0
- Other financial liabilities	FLAC	32,608	32,608	32,608	0	0	0
Total financial liabilities		32,864	32,608	32,608	256	0	0

in EUR K	Valuation category in accordance with IFRS 9	**Carrying amount**	Financial instruments				
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet in accordance with IAS 16	Not within the scope of IFRS 7/Hedge accounting
		31 Dec 2019	Carrying amount	Fair value			
Assets							
Trade receivables	FAAC	138,976	138,976	138,976	0	0	0
Financial assets							
- Other investments	FVTPL	4	0	0	4	0	0
- Derivative assets without hedge relationship	FVTPL	1	0	0	1	0	0
- Other financial assets	FAAC	10,178	10,178	10,178	0	0	0
- Other Financial assets – Associated companies	FAAC	883	883	883	0	0	0
- Financial investments	FAAC	51,697	51,697	51,405	0	0	0
Total financial assets		62,763	62,758	62,466	5	0	0
Cash and cash equivalents	FAAC	128,607	128,607	128,607	0	0	0
Liabilities							
Borrowings	FLAC	8,824	8,824	8,981	0	0	0
Lease liabilities	NA	65,731	0	0	0	65,731	0
Trade payables	FLAC	49,043	49,043	49,043	0	0	0
Financial liabilities							
- Derivative liabilities without hedge relationship	FLTPL	809	0	0	809	0	0
- Other financial liabilities	FLAC	33,896	33,896	33,896	0	0	0
Total financial liabilities		34,705	33,896	33,896	809	0	0

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 2019	31 Dec 2018
Financial assets measured at fair value through profit and loss (FVTPL)	5	491
Financial assets measured at amortised cost (FAAC)	330,342	324,332
Financial assets measured at fair value through other comprehensive income (FVOCI)	0	0
Financial liabilities measured at amortised cost (FLAC)	91,763	94,303
Financial liabilities measured at fair value through profit and loss (FLTPL)	809	256

Balance sheet items measured at fair value

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**

in EUR K	31 Dec 2019	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
- Derivatives with no hedge relationship	1	0	1	0
Available-for-sale financial assets				
- Derivatives with a hedge relationship	0	0	0	0
Financial assets measured at fair value	**1**	**0**	**1**	**0**
Financial liabilities measured at fair value through profit and loss				
- Derivatives with no hedge relationship	809	0	809	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	**809**	**0**	**809**	**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 2019 resulted in net expenses of EUR 808 K (previous year: income of EUR 185 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 impairments of financial instruments measured at amortised acquisition costs (trade receivables, other receivables and financial assets):

in EUR K	Trade receivables	Financial assets FAAC
As at 1 January 2018	**21,896**	**374**
Exchange rate differences	–185	0
Additions	8,062	455
Consumption	–3,950	0
Reversals	–5,224	–4
Change to companies consolidated	0	0
As at 31 December 2018	**20,572**	**825**

in EUR K	Trade receivables	Financial assets FAAC
As at 1 January 2019	**20,572**	**825**
Exchange rate differences	23	3
Additions	7,763	21
Consumption	–2,188	–26
Reversals	–3,154	–470
Change to companies consolidated	267	9
As at 31 December 2019	**23,283**	**362**

Impairments in the reporting period

IFRS 9 Provisions on 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 coefficient	2%	3%	6%	12%	15%	20%	26%	85%	95%	
Provisions for risk	1,375	393	286	204	203	318	294	682	1,936	**5,691**

IFRS 9 Provisions on trade receivables as at 31 December 2019:

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	66,926	14,839	5,364	2,172	1,551	1,489	1,587	783	1,506	**96,217**
Risk coefficient	2%	3%	6%	12%	15%	20%	26%	85%	95%	
Provisions for risk	1,339	445	322	261	233	298	413	666	1,431	**5,408**

IFRS 9 Provisions on financial assets as at 31 December 2018:

in EUR K	Basis for valuation	Discount in %	Provisions 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

IFRS 9 Provisions on financial assets as at 31 December 2019:

in EUR K	Basis for valuation	Discount in %	Provisions for risk
Financial investments, and cash and cash equivalents (FAAC)	180,629	0.18 %	325
Other financial assets – associated companies (FAAC)	884	0.16 %	1
Other financial assets – Third parties (FAAC)	10,205	0.26 %	27

Total impairment loss, including individual impairments, as at 31 December 2018:

in EUR K	Impairments of the period	of which recovery measures
Trade receivables	8,062	8,062
Financial assets (FAAC)	455	455

Total impairment loss, including individual impairments, as at 31 December 2019:

in EUR K	Impairments of the period	of which recovery measures
Trade receivables	7,763	7,763
Financial assets (FAAC)	21	21

In the case of trade receivables, items that are overdue are the key indicator of impairment or the assumption of non-realisability. If trade receivables become increasingly overdue, it is assumed that there will also be an increasing lack of realisability in accordance with IFRS 9.

Written-off trade receivables subject to enforcement measures continue to be regularly reviewed for the possibility of recovery.

The following table shows the carrying amounts and fair values of the financial instruments as at 31 December 2019, excluding financial instruments which typically barely differ between carrying amount and fair values.

in EUR K	Carrying amount as at 31 Dec 2019	Fair value as at 31 Dec 2019	Fair-value level
Financial assets			
Non-current			
Investments	4	4	Level 2
Loans	656	656	Level 2
Other financial assets	4,524	4,524	Level 2
Total non-current financial assets	**5,184**	**5,184**	
Current			
Financial investments	51,697	51,405	Level 2
Loans	63	63	Level 2
Forward exchange contracts	1	1	Level 2
Other financial assets	5,818	5,818	Level 2
Total current financial assets	**57,579**	**57,287**	
Total financial assets	**62,763**	**62,471**	
Financial liabilities			
Non-current			
Borrowings	3,682	3,668	Level 2
Other financial liabilities	260	260	Level 2
Forward exchange contracts	9	9	Level 2
Total non-current financial liabilities	**3,951**	**3,937**	
Current			
Borrowings	5,142	5,142	Level 2
Forward exchange contracts	800	800	Level 2
Other financial liabilities	33,636	33,636	Level 2
Total current financial liabilities	**39,578**	**39,578**	
Total financial liabilities	**43,529**	**43,515**	

The carrying amounts of cash and cash equivalents, trade 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 current account credits to banks. The fair values were determined using the present-value method based on interest rates appropriate to maturities and creditworthiness.

Other disclosures

(32) 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 after taxes (EAT), the cash flow is indirectly derived from operating activities. Earnings after taxes (EAT) are adjusted for taxes on income and earnings as well as for 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, payments to minority shareholders, interest payments, payments for the repayment portion of the lease liabilities, 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.

(33) 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. These were divided into the operating segments of Western Europe and Other, with the segment Other including business in the regions of Northern/Eastern Europe and America/Asia/Pacific in line with internal reporting. The business segment of Western Europe comprises business in the regions of the Euro zone (without Finland. Lithuania, and Slovakia), Switzerland, as well as the United Kingdom.

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.

Internal reporting is carried out in accordance with IFRS.

The segment results were reported in the levels EBITDA, EBIT and EBT. The elimination of earnings between the segments as well as earnings from investments of companies accounted for using the equity method in the amount of EUR -513 K (previous year: EUR 118 K) were recorded in EBT in the consolidation column.

Depreciation/amortisation relate to Property, plant and equipment, Intangible assets, and Rights of use. Investments relate to Property, plant and equipment, and Intangible assets.

Segment assets mainly comprise Property, plant and equipment, Intangible assets, Rights of use, 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 1,887 K (previous year: EUR 2,577 K), and Deferred tax receivables in the amount of EUR 29,807 K (previous year: EUR 20,541 K) are listed in the 'Reconciliation/consolidation booking entries' column under 'Segment assets'. No material 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	2018			
	Germany	France	Others	**Total**
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**

in EUR K	2019			
	Germany	France	Others	**Total**
External revenues	611,306	141,264	645,657	**1,398,227**
Intangible assets, Property, plant and equipment, and Rights of use	212,483	32,650	145,430	**390,563**

(34) 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, not including cash outflows from leases shown in Note (27).

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**

in EUR K	Cash outflows			31 Dec 2019
	up to 1 year	1–5 years	5–10 years	
Borrowings	5,238	3,809	0	9,047
Trade payables	48,892	151	0	49,043
Other financial liabilities	33,636	260	0	33,896
Derivatives	47,394	2,349	0	49,743
Total cash outflows	**135,160**	**6,569**	**0**	**141,729**

There are contingencies in the amount of EUR 663 K (previous year: EUR 795 K) for which no liability is currently expected to arise (Note 35).

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 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**

in EUR K	Cash inflows/outflows as at 31 Dec 2019			Total
	up to 1 year	1–5 years	5–10 years	
Inflow	46,595	2,340	0	48,935
Outflow	47,394	2,349	0	49,743
Balance	**–799**	**–9**	**0**	**–808**

The following overview shows the changes in the liabilities from financing activities.

in EUR K	**1 January 2018**	Cash flows	New leases	Other	**31 December 2018**
Current interest-bearing loans	9,486	757	0	1,029	11,272
Non-current interest-bearing loans	1,707	2,439	0	–1,030	3,116
Total interest-bearing loans	**11,193**	**3,196**	**0**	**–1**	**14,388**
Current lease liabilities	271	–288	27	177	187
Non-current lease liabilities	325	0	80	–177	228
Total lease liabilities	**596**	**–288**	**107**	**0**	**415**
Total liabilities from financing activities	**11,789**	**2,908**	**107**	**–1**	**14,803**

in EUR K	1 January 2019	First-time application effect	Change to companies consolidated	Cash flows	New leases	Reclassifi-cation of maturity	Currency effects	31 December 2019
Current interest-bearing loans	11,272	0	2,670	–9,429	0	630	–1	5,142
Non-current interest-bearing loans	3,116	0	1,740	–585	0	–630	41	3,682
Total interest-bearing loans	**14,388**	**0**	**4,410**	**–10,014**	**0**	**0**	**40**	**8,824**
Current lease liabilities	187	16,820	125	–19,289	2,086	18,512	73	18,514
Non-current lease liabilities	228	52,004	1,890	0	11,253	–18,512	354	47,217
Total lease liabilities	**415**	**68,824**	**2,015**	**–19,289**	**13,339**	**0**	**427**	**65,731**
Total liabilities from financing activities	**14,803**	**68,824**	**6,425**	**–29,303**	**13,339**	**0**	**467**	**74,555**

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 impairments. 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	of which individually impaired	of which not due, and impaired in accordance with IFRS 9	of which overdue and impaired 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	0	105,294	0	105,294
Total financial instruments measured at amortised cost of acquisition	**5,786**	**278,941**	**39,605**	**324,332**

in EUR K	of which individually impaired	of which not due, and impaired in accordance with IFRS 9	of which overdue and impaired in accordance with IFRS 9	**Carrying amount 31 Dec 2019**
Financial assets	0	62,759	0	62,759
Trade receivables	7,159	97,801	34,016	138,976
Cash	0	128,607	0	128,607
Total financial instruments measured at amortised cost of acquisition	**7,159**	**289,167**	**34,016**	**330,342**

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 5,312 K (previous year: EUR 6,754 K) was held in the financial year for overdue and impaired trade receivables.

This mainly relates to pledged land and bank guarantees received, which can only be used in case of late payments.

The gross carrying amount of receivables which were individually impaired stood at EUR 21,977 K (previous year: EUR 20,642 K) in the reporting period. The gross carrying amount of receivables which are subject to impairment in accordance with IFRS 9 stood at EUR 140,297 K (previous year: EUR 135,701 K).

The gross carrying amount of the financial assets measured at amortised cost (FAAC) with individual impairments stood at EUR 9 K (previous year: EUR 50 K).

The financial assets measured at fair value are neither overdue nor impaired.

In the case of financial instruments that are not due and that are impaired in accordance with IFRS 9, there were no signs of possible default as at the 2019 balance sheet date.

Maturity analysis of overdue financial instruments impaired in accordance with IFRS 9:

in EUR K	overdue				
	up to 30 days	30 days to 60 days	60 days to 90 days	more than 90 days	**31 Dec 2018**
Financial assets	3	1,741	1,351	2,242	5,337
Trade receivables	17,704	5,837	2,245	8,482	34,268
Total overdue and impaired financial instruments in accordance with IFRS 9	**17,707**	**7,578**	**3,596**	**10,723**	**39,605**

Maturity analysis of overdue financial instruments impaired in accordance with IFRS 9:

in EUR K	overdue				
	up to 30 days	30 days to 60 days	60 days to 90 days	more than 90 days	**31 Dec 2019**
Financial assets	0	0	0	0	0
Trade receivables	18,247	7,336	2,374	6,060	34,016
Total overdue and impaired financial instruments in accordance with IFRS 9	**18,247**	**7,336**	**2,374**	**6,060**	**34,016**

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 CZK/EUR, HUF/EUR, RUB/EUR, SGD/EUR, USD/EUR, NOK/EUR, SEK/EUR, PLN/EUR, CAD/EUR, CHF/EUR, GBP/EUR, DKK/EUR, AUD/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 subsidiaries outside of Germany 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 the assets and liabilities in the non-functional currency pair CNY/EUR. If the Chinese renminbi had been 10 % lower/higher against the euro, pre-tax earnings would have been up by EUR 95 K (previous year: EUR 90 K higher), or down by EUR 78 K (previous year: EUR 74 K lower).

Interest rate risk
Interest rate risks in accordance with 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 2019 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 2019.

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 2019**		31 Dec 2018	
	Nominal volume	**Total market value**	Nominal volume	Market value total
Forward exchange transactions/options	49,862	–808	38,872	185
Total derivative financial instruments	**49,862**	**–808**	38,872	185

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 increase in the nominal volume in a functional currency in case of foreign currency forwards is based on an increased hedging volume of payments outside the functional currency.

As a rule, the residual maturity of the currency derivatives lies within a year.

(35) Contingencies

in EUR K	**2019**	2018
Guarantees from the Sto Group to third parties	662	794
Reserve liability to cooperatives	1	1
Total contingencies	**663**	795

In the case of default guarantees, no liability is currently expected to arise.

(36) 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.

(37) Other financial obligations

in EUR K	31 Dec 2018	Maturity within one year	Maturity between 1-5 years	Maturity 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**

in EUR K	31 Dec 2019	Maturity within one year	Maturity between 1-5 years	Maturity after 5 years
Liabilities from maintenance contracts	8,227	3,428	4,309	490
Acceptance obligations	29,573	23,605	5,942	26
Other obligations	7,119	4,881	2,238	0
Total other financial obligations	**44,919**	**31,914**	**12,489**	**516**

Of the acceptance obligations, an amount of EUR 9,252 K (previous year: EUR 6,639 K) relates to items of tangible fixed assets. Furthermore, acceptance obligations relating to inventories as well as other acceptance obligations exist.

(38) 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 2019:

in EUR K	2019	2018
Audits of financial statements	390	370
Other certification or valuation activities	5	4
Other services	82	0
Auditors’ fees in total	**478**	374

(39) Events after the balance sheet date
With effect from 1 January 2020, Sto SE & Co. KGaA has acquired 50.1 % of VIACOR Polymer GmbH, Rottenburg am Neckar/Germany. This renowned manufacturer of industrial flooring and coatings for sports flooring expands what Sto has to offer under the StoCretec brand and will be consolidated within the Sto Group starting from the current year. Between the end of the 2019 fiscal year and the point at which this report was signed off, there were no other events with a significant impact on the income, financial, and asset situation of the Sto Group.

However, it is difficult to predict how the coronavirus pandemic is set to continue and what impact it will have on the global economy. This is a situation that involves considerable risks. As things stand, however, it is not possible to make a reliable prediction of the overall impact that the pandemic will have on the 2020 fiscal year.

(40) 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.

As at 31 December 2019, 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	
		2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Inotec GmbH, Waldshut-Tiengen/Germany	47.5 %	55	48	3,876	2,987	658	655	105	71
JONAS Farbenwerke GmbH & Co. KG	49.8 %	344	343	0	0	701	343	0	0
STO Management SE		742	859	4,310	4,080	82	90	2,155	1,965
Stotmeister Beteiligungs GmbH		43	0	0	0	50	0	0	0
Other		0	0	28	10	0	0	0	10

(41) List of subsidiaries and investments as at 31 December 2019

Fully consolidated companies in Germany **Name, registered office**	**Capital share in %**
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
Sto BTV GmbH, Stühlingen/Germany (formerly VeroStone GmbH, Eichstätt/Germany)	100
Innolation GmbH, Lauingen/Germany	100
Sto SMEE Beteiligungs GmbH, Stühlingen/Germany	100
Ströher GmbH, Dillenburg/Germany	100
Ströher Fliesen GmbH, Dillenburg/Germany	100
Ströher Produktions GmbH & Co. KG, Dillenburg/Germany	100
GEPADI Fliesen GmbH, Dillenburg/Germany	100
Sto BT GmbH, Stühlingen/Germany	100
Sto BTN GmbH, Stühlingen/Germany	100
Sto Building Solutions GmbH, Stühlingen/Germany	100
Liaver GmbH & Co. KG, Ilmenau/Germany	100
Liaver Beteiligungen GmbH, Spardorf/Germany	100
Sto BTR GmbH, Stühlingen/Germany	100
Sto Panel Holding GmbH, Stühlingen/Germany	100
Sto BTK GmbH, Stühlingen/Germany	100

For changes in the current year, please refer to ‘General disclosures’ Note 4 ‘Companies consolidated’.

Fully consolidated companies outside of Germany Name, registered office	Capital share in %
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., Errenteria/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	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., Bratislava/Slovakia	100
OOO Sto, Moscow/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
Skyrise Prefab Building Solutions Inc., Pickering/Canada	59.8
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., Itaquaquecetuba/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
Unitex Australia Pty Ltd, Dandenong South/Australia	100

For changes in the current year, please refer to 'General disclosures' Note 4 'Companies consolidated'.

Companies accounted for using the equity method Name, registered office	Capital share in %
Inotec GmbH, Waldshut-Tiengen/Germany	47.5
JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany	49.8
JONAS GmbH, Wülfrath/Germany	49.8

No restrictions apply with regard to the liquidation of assets or the payment of debts for a fully consolidated company within the Sto Group.

(42) German Corporate Governance Code

On 19 December 2019, 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 the version of February 2017 in accordance with Section 161 of the Law on share companies (AktG) and, on 20 December 2019, made it available to shareholders on the Internet page of Sto SE & Co. KGaA in the category ‘Unternehmen’ (Company), in the section ‘Investor Relations’ under ‘Entsprechenserklärung nach § 161 AktG’ (Declaration of compliance in accordance with Section 161 of the Law on share companies).

(43) Remuneration of the Executive Board and the Supervisory Board

The remuneration paid to the members of the Executive Board in the fiscal year of 2019 complies with the statutory provisions contained in the Law on share companies (AktG). Current due payments to the Executive Board totalled EUR 2,896 K (previous year: EUR 2,689 K). The long-term-incentive payments, which are also due in the short term, amounted to EUR 206 K (previous year: EUR 88 K). Current and non-current payments amounted to a total of EUR 3,102 K* (previous year: EUR 2,777 K). Expenses for future payments after termination of the employment relationship (current service cost) amounted to EUR 329 K (previous year: EUR 330 K). Executive Board remunerations thus total EUR 3,431 K (previous year: EUR 3,107 K).

As at 31 December 2019, the non-current financial liabilities for the current members of the Executive Board amounted to EUR 105 K (previous year: EUR 128 K). As at 31 December 2019, post-employment benefit provisions for former members of the Executive Board were valued at EUR 2,231 K (previous year: EUR 2,062 K) due to offsetting against plan assets. Remuneration paid to former members of the Executive Board and the Supervisory Board came to EUR 571 K (previous year: EUR 443 K).

The remunerations of the Supervisory Board of Sto SE & Co. KGaA and the compensation of expenditure in this regard, which must be paid to the Supervisory Board of STO Management SE as stipulated in Section 6 Paragraph 3 of the regulations of Sto SE & Co. KGaA, amounted to EUR 663 K (previous year: EUR 636 K) for the 2019 fiscal year.

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 2019 (personally liable partner of Sto SE & Co. KGaA):

Rainer Hüttenberger
Spokesman of the Executive Board responsible for Sales Sto Brand International, Business Unit Organisation, Corporate Strategic Development, and M&A
Stein a. Rhein/Switzerland, Dipl.-Betriebswirt (FH)
Member of the BOD of Sto Corp., Atlanta/USA
Chairperson of the BOD of Shanghai Sto Ltd, Shanghai/China
Chairperson of the BOD of Sto Scandinavia AB, Linköping/Sweden
Chairperson of the BOD of Sto Danmark A/S, Hvidovre/Denmark
Chairperson 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, Marketing Communication 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
Chairperson 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 Dürrheim/Germany, Dipl.-Betriebswirt (BA)
Member of the BOD of StoCretec Flooring AS, Moss/Norway
Member of the BOD of Sto Scandinavia AB, Linköping/Sweden (until 18 June 2019)
Member of the BOD of Sto Norge AS, Oslo/Norway (until 31 October 2019)
Member of the BOD of Sto Finexter OY, Vantaa/Finland (until 10 June 2019)
Member of the BOD of Sto Danmark A/S, Hvidovre/Denmark (until 29 May 2019)
Member of the BOD of Sto Ltd, Paisley/Great Britain (until 6 August 2019)

Members of the Supervisory Board of Sto SE & Co. KGaA in the fiscal year of 2019:

Dr Max-Burkhard Zwosta
Chairperson of the Supervisory Board
Wittnau/Germany, Chartered Accountant and Tax Consultant
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
Chairperson of the Supervisory Board of Brauerei Ganter GmbH & Co. KG, Freiburg i.Br./Germany
Chairperson of the Supervisory Board of Ganter Grundstücks GmbH, Freiburg i.Br./Germany
Chairperson of the Advisory Board of Brauerei Ganter Real Estate Nr. 1 GmbH & Co KG, Freiburg i.Br./Germany
Chairperson of the Supervisory Board of Freicon Holding AG, Freiburg i.Br./Germany
Chairperson of the Advisory Board of alfer aluminium Gesellschaft mbH, Wutöschingen/Germany
Chairperson of the Advisory Board of Walter Maisch Familien Holding GmbH & Co. KG, Gaggenau/Germany
Member of the Supervisory Board of Testo SE & Co. KGaA, Titisee-Neustadt/Germany
Member of the Supervisory Board of Testo Management SE, Titisee-Neustadt/Germany
Member of the Advisory Board of EGT AG, Triberg/Germany

Lothar Hinz
Deputy Chairperson of the Supervisory Board, and Employee representative (suspended from office since 1 October 2019)
Reutlingen/Germany
Chairperson of the Group Works Council and Chairperson of the Works Council for the Baden-Württemberg sales region, Sto SE & Co. KGaA, and StoCretec GmbH (until 30 September 2019)

Maria H. Andersson
Munich/Germany
Family Officer/Single Family Office, Munich/Germany
Partner at Mackewicz & Partner Investment Advisers, Munich/Germany
Managing director of GIWA Verwaltungs GmbH, Munich/Germany
Managing director of GIWA Immobilien GmbH, 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, Corporate consultant, economist
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
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
Member of the Supervisory Board of Goldhofer Aktiengesellschaft, Memmingen/Germany (since 1 April 2019)

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

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 Chairperson of the Supervisory Board of Calcon Deutschland AG, Munich/Germany (until 18 February 2020)
Member of the Advisory Board of agn Niederberghausen + Partner, Ibbenbühren/Germany (since 28 November 2019)

Peter Zürn
Bretzfeld-Weißlensburg/Germany
Member of the Management of the Würth Group, Künzelsau/Germany (until 31 December 2019)
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
Chairperson of the Administrative Board of InovaChem Engineering AG, Wetzikon/Switzerland
Chairperson of the Administrative Board of Würth á Islandi ehf., Garðabær/Iceland
Chairperson 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, Bad Münder/Germany
Head of the Wilhelm-Gefeller Education and Conference Centre of the IG BCE, Bad Münder/Germany

Members of the Supervisory Board of STO Management SE in the fiscal year 2019 (personally liable partner of Sto SE & Co. KGaA):

Jochen Stotmeister
Chairperson of the Supervisory Board
Grafenhausen/Germany

Dr Max-Burkhard Zwosta
Deputy Chairperson of the Supervisory Board
Wittnau/Germany

Maria H. Andersson
Munich/Germany

Dr Renate Neumann-Schäfer
Überlingen/Germany

Gerd Stotmeister
Allensbach/Germany

Peter Zürn
Bretzfeld-Weißlensburg/Germany

Stühlingen/Germany, 6 April 2020

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 profit and loss and the consolidated statement of comprehensive income for the fiscal year from 1 January until 31 December 2019, the consolidated statement of financial position as at 31 December 2019, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from 1 January until 31 December 2019, 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 2019. In accordance with German legal requirements, we have not audited the content of the combined declaration on management of the company in accordance with Sections 289f and 315d of the German Commercial Code (HGB), which is part of the Group management report, published on the website indicated in the section 'Declaration on management of the company/Non-financial statement' 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 German Commercial Code (HGB), and gives a true and fair view of the assets and financial situation of the Group as at 31 December 2019 as well as of its income situation for the fiscal year from 1 January until 31 December 2019, 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 combined declaration on management of the company.

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 2019. 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 income 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 (25).

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 combined declaration on management of the company and the combined non-financial consolidated statements, as well as the components provided for the Annual Report, of which we had received the final 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 the 'Financial calendar with publisher's details'. It does not contain the consolidated annual financial statement of the Sto Group, the information from the Group management report that is included in the content-related audit, and the related audit certificate.
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, financial and income 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, financial and income 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 19 June 2019. We were commissioned by the Supervisory Board on 28 June 2019. 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 issues and general 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, 7 April 2020

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, financial and income situation 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, 6 April 2020

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

Rainer Hüttenberger
(Spokesman)

Michael Keller

Jan Nissen

Rolf Wöhrle

Financial calendar 2020

Electronic publication of the 2019 annual financial statements	27 April 2020
Interim report on the first half of 2020	14 May 2020
Annual General Meeting in 2020	10 June 2020
Report on the first half of 2020	28 August 2020
Interim report on the second half of 2020	19 November 2020
Electronic publication of the 2020 annual financial statements	29 April 2021

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:

Sto SE & Co. KGaA
F-S department
Ehrenbachstraße 1
D-79780 Stühlingen

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.

Publisher's details

Published by	Sto SE & Co. KGaA, Stühlingen/Germany
Concept and design	BoschDruck Solutions GmbH
Text	Redaktionsbüro tik GmbH
Printing	BoschDruck Solutions GmbH

Photographic credits

Cover image: Guido Erbring, Cologne/Germany
Page 2, 18, 37: Martin Baitinger, Böblingen/Germany
Page 6: Bernd Schumacher, Freiburg/Germany
Page 19, 20, 39, 40, 67, 87: Sto SE & Co. KGaA
Page 69: UN Global Compact
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Page 89, left: Claudius Pflug, Berlin/Germany / Sto Foundation
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Art. no. 09673-119 Rev. no. 01/05.20 Printed in Germany