

Sto SE & Co. KGaA, Stühlingen

Consolidated interim management report for the second half of 2014 in accordance with Section 37x of the German Securities Trading Act (WpHG)

At a glance:

- Sto's consolidated turnover up by 4% to EUR 927.9 million in the first three quarters of 2014
- Significant slowdown in performance following very strong start to the year as a result of favourable weather conditions
- Slight year-on-year fall in EBIT and net income as at end of September
- Global workforce increases by 4% to 5,075 employees
- Forecast for 2014 adjusted: consolidated turnover to increase by around 2% for year as a whole, EBIT expected to total EUR 81 to 91 million

Market environment

The performance of the international construction industry varied considerably this year to date. For example, the US construction industry picked up from the middle of 2014 after disappointing demand in the first half of the year. Although the Chinese construction sector continued to grow, it could not maintain the momentum of recent years. The performance of the construction industry in Western Europe remained extremely muted, especially in the third quarter of 2014, which was primarily attributable to the tough economic and financial climate.

The German construction industry started the second half of 2014 with significant drops in demand. The Federal Statistical Office reported that incoming orders in July and August

were down by 5% in each month compared with the same period in 2013. Demand shrank by 0.4% in the first eight months of the year, with incoming orders in the building construction segment falling by 0.1%. Despite this, overall turnover for the construction industry was still up by 7.5% on the year as at the end of August due to the unusually mild temperatures in the winter months.

At the same time, the environment became increasingly perilous for the German EWIS industry. The market had to absorb considerable losses in the meantime, despite the fact that the sales potential for facades with improved energy performance due to the extensive number of older buildings is as great as ever. The main reason for the drop in demand is the considerable growth in uncertainty felt by building investors and private building owners, which has been triggered first and foremost by media coverage, in some cases very provocative, surrounding the ecological impact of facade systems, fire safety issues, cost effectiveness and building culture. As well as this, the issue of financing and tax incentives for energy-efficiency upgrade measures in future has remained unresolved for some time. Due to the resulting attitude taken by customers to hold off on investment for the time being, the EWIS industry as a whole is not able to fully tap into the available market potential.

Sto's consolidated turnover grows both at home and abroad

Following a very strong start to 2014, business at Sto SE & Co. KGaA experienced a surprisingly significant slowdown and continued to fall short of our expectations over the course of the year. This slowdown, which was already observable to some extent in the second quarter, visibly intensified in a similar manner to the performance of the construction industry in the third quarter, which increasingly eroded the high growth recorded in the winter months. Overall, consolidated turnover from January to September 2014 amounted to EUR 927.9 million, which amounts to a 4.0% rise compared with the prior-year figure.

Foreign turnover in the Sto Group rose by 4.4% to EUR 502.1 million in the first nine months of 2014, with demand varying from segment to segment. Demand in the Western Europe segment remained significantly down on the year in the third quarter of 2014:

German-speaking regions and France were the main areas to record losses. The Northern/Eastern Europe segment continued to record slight growth in the summer months, although this became increasingly small. By contrast, the America/Asia segment benefited from a clear rise in turnover. The international share of consolidated business volume between January and September amounted to 54.1% (previous year: 53.9%).

In Germany, consolidated turnover increased by 3.6% as at the end of September 2014 to EUR 425.8 million, which is solely attributable to sharp growth in the first quarter. The overall weak construction industry and unfavourable economic conditions led to a decline in demand as the year continued.

In the first nine months of 2014, consolidation and exchange rate effects had a net negative impact on Sto's consolidated turnover totalling around EUR 4 million. The depreciation of the euro against the US dollar, the Chinese renminbi and the Scandinavian currencies was especially noticeable.

Business performance remained highly subdued overall in October 2014 despite largely favourable weather conditions.

EBIT slightly down on the year

EBIT in the first nine months of 2014 was particularly affected by high sales price and cost pressure. Material costs therefore rose slightly disproportionately to total operating revenue, resulting in the gross profit ratio shrinking fractionally on the year. In addition, marketing costs were incurred during the reporting period for an information campaign designed to bring the discussion concerning the use of EWIS back to the facts. All in all, EBIT and net income after three quarters were slightly down on the year.

Financial position remains sound

The Sto Group's financial position was still on a very solid footing as at 30 September 2014. Changes to individual balance sheet items compared to 30 June 2014 and the end of 2013 were within normal business limits.

Higher investment

In the first nine months of 2014, Sto invested EUR 21.0 million across the Group in property, plant and equipment and intangible assets (previous year: EUR 15.9 million). Major projects included the construction of an additional factory in France, measures to improve the efficiency of StoVerotec production lines and the construction of a new office building in Stühlingen.

Growth in workforce

The Sto Group workforce totalled 5,075 as at 30 September 2014 compared with 4,882 on the same day of the previous year (+4.0%). While the workforce in Germany grew only slightly by 51 people to 2,658 employees (+2.0%), staffing outside Germany rose by a total of 6.2% (142 employees): the foreign workforce comprised 2,417 employees as at the reporting date (previous year: 2,275). We made targeted new appointments in regions with high growth potential such as the America/Asia segment. International employees made up 47.6% of the total Group workforce as at 30 September 2014 compared with 46.6% on the same day of the previous year.

Federal Cartel Office investigates producers of EPS insulation materials

The Federal Cartel Office is currently conducting an industry-wide investigation into anti-competitive price-fixing by producers of EPS insulation materials since 1998.

The Sto Group itself has only been a producer of EPS insulation materials since 2010, first via StoVerotec GmbH (now Verotec GmbH) in 2010 before production was transferred exclusively to Innolation GmbH from 2011. Production is for intragroup supply purposes only. As prices for EPS materials were/are set between the producing companies StoVerotec GmbH and Innolation GmbH (from 2011) and other companies in the Sto Group only, there are reasonable grounds to assume that the Federal Cartel Office's investigation will not touch upon Sto Group companies.

Adjusted forecast for 2014 as a whole

As a result of this year's performance to date, the turnover and earnings forecast has been revised downwards for 2014 as a whole. Based on current information, we expect Sto Group turnover in 2014 to increase by approximately 2% to around EUR 1,190 million (previously: approximately 5% to around EUR 1,225 million), which is mainly due to the weaker performance of the Western Europe segment. We now expect business volume growth to be in the lower single-digit percentage range (previously: mid-level single-digit percentage range). As always, it is difficult to predict the weather, which could yet impact very negatively on business performance in the final weeks of 2014.

EBIT is expected to reach EUR 81 to 91 million (previously: EUR 90 to 100 million). In addition to the impact of high price and cost pressure, earnings will be affected by the lower rise in turnover in particular. EBT is likely to total between EUR 80 and 90 million (previously: EUR 88 to 98 million) in 2014, while the operating margin is expected to reach 6.7% to 7.6% (previously: 7.2 % to 8.0 %).

Stühlingen, November 2014
The Executive Board

Key figures (in EUR million)

Sto Group (IFRS)	9M 2013	9M 2014	Difference
Turnover	892.0	927.9	+4.0%
- of which in Germany	411.0	425.8	+3.6%
- of which in other countries	481.0	502.1	+4.4%
Investment (overall)	15.9	21.0	+32.1%
No. of employees as at 30/09	4,882	5,075	+4.0%
- of which in Germany	2,607	2,658	+2.0%
- of which in other countries	2,275	2,417	+6.2%