



Sto at a glance

Sto Group	2009	2010	2011	2012	2013*	2014	Changes in % 14/13
Turnover	924.6	986.0	1,106.8	1,141.7	1,166.0	1,208.7	3.7 %
Germany	450.6	489.2	529.4	524.7	534.7	549.2	2.7 %
Non-Germany	474.0	496.8	577.4	617.0	631.3	659.5	4.5 %
Investments (without financial assets)	20.3	18.2	27.6	36.3	32.4	39.1	20.7 %
Depreciation/amortisation (without financial assets)	24.5	25.2	29.7	25.9	29.0	29.9	3.1 %
EBITDA	106.8	110.8	134.2	121.1	128.9	126.9	-1.6 %
EBIT	82.3	85.6	104.5	95.3	99.9	97.0	-2.9 %
EBT	79.2	84.2	103.5	94.6	99.0	96.2	-2.8 %
EAT (earnings after taxes)	55.9	58.5	70.3	65.4	68.4	66.0	-3.5 %
Result per limited ordinary share (EUR)	8.65	9.03	10.89	10.11	10.68	10.29	-3.6 %
Result per limited preference share (EUR)	8.71	9.09	10.95	10.17	10.74	10.35	-3.6 %
Cash flow from current operating activities per share (EUR)	113.2	93.0	92.7	71.8	80.9	93.9	16.1 %
Total assets	568.6	620.1	669.7	684.2	703.6	751.3	6.8 %
Equity capital in % of total assets	325.3	375.3	426.0	448.8	481.4	506.5	5.2 %
Employees (year end)	4,145	4,249	4,695	4,689	4,791	4,979	3.9 %
of which in Germany	2,313	2,358	2,495	2,482	2,586	2,623	1.4 %
of which non-Germany	1,832	1,891	2,200	2,207	2,205	2,356	6.8 %

Sto SE & Co. KGaA (until 26 March 2014 Sto AG)	2009	2010	2011	2012	2013	2014	Changes in % 14/13
Turnover	508.7	540.5	586.8	587.9	589.1	604.2	2.6 %
Export ratio in %	18.2	16.7	17.5	17.4	16.8	17.4	
Investments in property, plant and equipment	6.4	9.2	11.9	17.3	12.3	11.6	-5.7 %
in financial assets	1.0	1.4	16.3	3.9	6.1	6.4	4.9 %
Depreciation/amortisation (without financial assets)	12.7	12.7	12.2	12.2	12.8	13.4	4.7 %
Earnings on ordinary activities	80.8	72.1	83.3	78.2	88.8	79.1	-10.9 %
Net profit for the year	65.6	51.1	65.4	62.9	71.7	62.8	-12.4 %
Cash flow from current operating activities	86.9	84.8	70.6	63.6	75.3	70.7	-6.1 %
Dividend/bonus per limited ordinary share (EUR)	0.25/2.06	0.25/3.06	0.25/4.56	0.25/4.56	0.25/4.56	0.25/25.14	
per limited preference share (EUR)	0.31/2.06	0.31/3.06	0.31/4.56	0.31/4.56	0.31/4.56	0.31/25.14	
Total assets	447.0	458.0	492.0	497.2	526.0	560.6	6.6 %
Equity capital in % of total assets	272.0	285.5	329.5	361.4	402.0	433.9	7.9 %
Employees (year end)	1,947	1,997	2,057	2,100	2,118	2,134	0.8 %

(figures in EUR million)

* Some details differ from the details in the consolidated annual statement for the fiscal year of 2013 as certain adjustments were implemented.
For more details see the appendix – General part 7.

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

Sto SE & Co. KGaA | 2014 Annual Report

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Picture caption for title page:

From Stühlingen out into the world: every day, the Sto Logistics Centre loads lorries with products for coating buildings. The building came into operation in 1993. To effectively manage the increase in volume and the extension of product ranges since the opening, Sto required additional warehouse space and three new loading bays. Sto SE & Co. KGaA responded by building new logistics and office space accommodated in a 4,500 m² extension which came into use at the start of 2014. The extension was designed by the architects Wilford Schupp Architekten based in Stuttgart, Germany.

Foreword



Jochen Stotmeister, Chairman of the Executive Board

Dear Shareholders,

2014 was a year of highs and lows for Sto SE & Co. KGaA. My father Fritz Stotmeister, who 60 years ago in 1955 laid the cornerstone for our Group today, often summed up a situation by saying: "It all depends on what you make of it". With this philosophy in mind, we found pragmatic solutions to the challenges we faced during the previous fiscal year and leveraged the opportunities presented to us.

We witnessed an extremely positive start to the year: the first quarter profited from the unusually favourable weather conditions in many of the countries we operate in and generated an exceptional growth in turnover. Events in the next seven months thus had an even more sobering effect as business took a sudden downturn. Particularly in German-speaking regions and other Western European countries, we felt the effect of the extremely difficult general conditions and results stayed below our expectations until the end of October. We responded at the beginning of November with a minor downward adjustment of the forecast

for turnover and results for the year as a whole. The year finished on a more respectable note thanks again to favourable weather conditions triggering an increase in turnover. Supported also by positive currency translation effects, we managed to ultimately exceed our lowered target levels.

On balance, in 2014 the Sto Group generated a turnover of EUR 1,208.7 million, 3.7 % above the previous year's value. Consolidated earnings before interest and taxes (EBIT) totalled EUR 97.0 million, achieving a place in the EUR 90 to 100 million bracket forecast at the beginning of the year, but still remained as announced below the previous year's value of EUR 99.9 million. The net profit for the year totalled EUR 66.0 million.

On the basis of the solid earnings, financial, and asset situation of the parent company Sto SE & Co. KGaA, the Executive Board of the personally liable partner STO Management SE will be proposing a one-time dividend distribution of EUR 163,308,420.00 at the annual general meeting on 16 June 2015. This means that limited preference shareholders are expected to receive an ordinary dividend of EUR 0.31 and a one-off bonus of EUR 25.14 per share and limited ordinary shareholders an ordinary dividend of EUR 0.25 and also a one-off bonus of EUR 25.14 per share. This one-off bonus will be offered by the company to firstly show its appreciation to the external and family shareholders and to thank them for the loyalty they have shown since the company went public in 1992. Secondly, in the fiscal year in which we launched the new management team structure, we want to adjust the equity and financial resources of Sto SE & Co. KGaA to be in line with the standard expected of an industrial company while also maintaining a comfortable level. This will retain the balance between stability and risk for our shareholders.

If we look beyond the business facts and figures, 2014 presented a very mixed picture.

Although we managed to successfully conclude milestone projects such as the conversion of Sto AG into Sto SE & Co. KGaA as decided in 2013, we still had to address new and other only too familiar matters.

EWIS debate unsettles building owners

The longstanding debate surrounding the issue of thermal insulation again dominated discussions and reached a new level of emotional intensity in 2014. The entire industrial sector including the market leader Sto was at times heavily and unfairly criticized. Most of the criticism was directed at the knock-on ecological impact of facade systems, fire protection issues, the cost-effectiveness, and building culture. However, instead of offering solid arguments, the debate unfortunately stirred up feelings of fear and doubt. This led to increasing caution among house builders and investors.

We take the fears and points of criticism expressed extremely seriously. Our policy is to rebut them with objective arguments. We believe that this approach is essential if the right and best decisions are to be made: listening to both sides of the argument, weighing up all aspects, and basing decisions on facts. A first step in this direction was to establish the "Qualitätsgedämmt e.V." association, which we launched in 2014 together with other family-owned companies from the EWIS sector. Our common goal is to provide objective information on thermal insulation in order to promote energy efficiency in the building sector. In June 2014, we launched the awareness campaign "Dämmen lohnt sich" (Insulation pays off). The campaign was promoted with an informative website and nationwide advertising throughout Germany – with the German TV personality Ulrich Wickert appearing on TV and advertisements in the major tabloids as well as on the Internet.

The overall mood has shifted slightly in recent weeks – we are reading more arguments in favour of thermal insulation and expert

opinions are being heard. Although we are well aware that the debate will continue to stir up discussion in the industrial sector through the course of this year, we are convinced that the advantages of energy-efficient facade insulation will outweigh the drawbacks. There is plenty of sales potential thanks to the high number of older buildings – and not just in Europe. America and Asia are also recognising the importance of energy efficiency and eco-friendliness in building constructions. The political agenda in Germany also stands by climate protection and the government promotes the reduction of the global carbon footprint – a point that is often neglected in the discussion. It still remains unanswered as to how initiatives to overhaul energy efficiency are to be incentivised in future by financial or tax-deductible means.

How have we responded to the declining sales in the EWIS sector? Firstly, we used the discussion to launch a quality campaign, as by showcasing the value of our products and the level of expertise within the Sto Group, we can expel uncertainties using solid and objective arguments. This is underpinned by the confidence and trust that Sto has cultivated over the last six decades. Secondly we also plan to broaden our focus in future. This applies to the Group's regional position by continuing our geographic expansion outside Europe as well as to our service and product portfolio which we are constantly expanding. This enables us to tap into new sales potential while at the same time reducing our dependence on the German market and the EWIS segment.

New management structure secures continuity

Reshaping the management structure was a relatively more straightforward affair, which we successfully implemented in 2014. The measures we have initiated have not only secured a successful handover from one generation to the next, they have enabled Sto to pursue its

national and international growth rate. My departure from the company in June 2015 will not affect the company's independence or direction – this applies to both our partners as well as to Sto employees.

When we went public with Sto AG in 1992, there were many critics who feared that family interests could take precedence over those of the company. Our continuously solid progress as a listed company has convinced our critics that the company Sto is not there to serve the family, but rather the Stotmeister family is of service to the company. This is why we wish to preserve Sto's character as a family company in the future, even if there will soon be only one family member remaining on the new Executive Board – my brother Gerd Stotmeister.

From July 2015 onwards, Rainer Hüttenberger will both act as the speaker for the Executive Board of the personally liable partner STO Management SE and head the marketing and brand sales and distribution of Sto International. As the new member of the board, Michael Keller will oversee brand sales for Sto in Germany, distribution, and central services. Within the Executive Board with equally distributed powers, Rolf Wöhrle will continue to be responsible for finance and Gerd Stotmeister for technology. Following my departure from the Executive Board, I will seek a seat on the Supervisory Board of STO Management SE and Sto SE & Co. KGaA. The Executive Board and the Supervisory Board of the personally liable partner STO Management SE took the decision to submit this proposal at the annual general meeting in June 2015. In a year when Sto celebrates its 60th anniversary, 2015 heralds both a new era while also seeing the company continue its proven and successful approach.

Higher productivity secures long-term objectives

Now that the Group has established its new management team, we must press ahead

with increasing the productivity in 2015 if we want to achieve our long-term objectives. As you know, our aim is to generate by 2020 a Group-wide turnover volume of EUR 2 billion and a return on sales of 10 %. The average compound annual growth rate (CAGR) and our profit results are significantly below what is required if we are to achieve our objective. We need to turn this trend around.

Excellent base underpins growth rate

We are exceptionally well equipped with a solid foundation to steer the company through these challenges to shape a positive future for Sto. Our optimism is based on a number of factors.

Firstly, the Sto product range is extremely comprehensive and diverse. In our core business of facade systems, we can provide alternative insulation materials for numerous possible applications. We can also offer ventilated rainscreen cladding systems manufactured by our subsidiary Verotec GmbH. Our facade coatings segment is also full of potential, and its sales increased significantly in 2014. We also recorded a increase in turnover last year with our interior products and the business fields of floor coatings and concrete restoration, and we expect further growth. Ground-breaking developments enable us to continually strengthen our range in all of these product groups and we are planning a series of new innovations for the coming years.

Sto's innovative strength is a decisive factor in the development of our second distribution channel which we hope to consolidate in the long-term. With an outstanding product portfolio, we are an attractive partner for wholesalers and specialist retailers and can underpin our status as the industry's technology leader. It is no coincidence that at the heart of our corporate strategy are intense research and development activities, as well as the development of alternative distribution channels, and we are intensely pursuing these.

Another reason for our optimistic outlook is the successful internationalisation mentioned earlier, which also belongs to the strategic objectives of the Sto Group. In Europe and especially in America and Asia, there is a great deal of dormant sales potential waiting to be tapped into by Sto.

Provided that reasonable and profitable options arise, we want to support this forecasted organic growth by investing in targeted acquisitions. We have repeatedly shown that we can successfully manage major takeovers and integrate them profitably into the Sto network. If adequate opportunities arise, we will seize our chances with regard to acquisitions.

In 2015, Sto SE & Co. KGaA is anticipating an increase of around 5 % in the Group's full year turnover to approximately EUR 1,270 million. As things stand, consolidated earnings before interest and taxes (EBIT) is likely to fall to between EUR 92 million and EUR 102 million.

We have repeatedly demonstrated in the past that we can identify chances and potential for the Sto Group and translate them into positive effects. I am confident that this will continue to be the case in the safe hands of Rainer Hüttenberger, Rolf Wöhrle, my brother Gerd Stotmeister, and Michael Keller. I would like to wish every success to you and all Sto employees, who have once again shown exemplary service and commitment during the previous fiscal year despite difficult conditions and have contributed to the positive development of the Group, and thank you for the excellent cooperation.

Sincerely,



Jochen Stotmeister

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

Report of the Supervisory Board



Dr Max-Burkhard Zwosta, Chairman

Members of the Supervisory Board

Fritz Stotmeister,
Öhningen/Germany | Honorary Chairman

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

Holger Michel*, Dresden/Germany,
Trade union secretary IG BCE | Deputy chairman

Gertrud Eisele,
Rottweil/Germany, Publisher

Helmut Hilzinger,
Willstätt/Germany, Manag-
ing Shareholder of Hilzinger
GmbH

**Prof. Dr.-Ing.
Klaus Sedlbauer,**
Rottach-Egern/Germany,
Chair of Building Physics at the
Technical University of Munich
and Head of the Fraunhofer
Institute for Building Physics

Charles Stettler,
Stäfa/Switzerland, banker/
freelance member of the
Administrative Board

Peter Zürn,
Westernhausen/Germany,
Member of the Management
of the Würth Group

Uwe Bruchmüller*,
Thalheim/Germany, Managing
Director of TVF Waste Solu-
tions GmbH

Wolfgang Dell*,
Hattersheim/Germany, respon-
sible for Installation Engineer-
ing Maintenance, Sto SE & Co.
KGaA

Lothar Hinz*,
Reutlingen/Germany, Chair-
person of the Group Employee
Representative Council and

Chairperson of the Employee
Representative Council for
the Baden-Württemberg sales
region of Sto SE & Co. KGaA

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

Jan Nissen*,
Trossingen/Germany, Head of
Materials Management within
the Sto Group

** Employee representatives*

Dear Shareholders,

The activities of the Supervisory Board in the fiscal year 2014 were marked first of all by its holding office first as the Supervisory Board of Sto AG and then as the Supervisory Board of Sto SE & Co. KGaA with the self-same individuals and institutions, following the conversion of Sto AG into Sto SE & Co. KGaA which took effect on 26 March 2014 with the entry in the trade register of the district court of Freiburg. The members of the Supervisory Board of both Sto AG and Sto SE & Co. KGaA are listed above this report.

The Supervisory Board points out the entry of the conversion in the trade register prompted a long-term shift in the activities of the Supervisory Board. Due to its new legal form, the Supervisory Board has refocused its activities to those of a Supervisory Board of a Kommanditgesellschaft auf Aktien (corresponds approximately to a limited partnership) as of 26 March 2014. The following report of the Supervisory Board thus focuses both on the activities of the Supervisory Board up to the entry of the conversion on 26 March 2014 which belonged to those of an Aktiengesellschaft (corresponds approximately to a public limited company), and on the activities following the conversion into Sto SE & Co. KGaA.

The last Supervisory Board meeting of Sto AG was held on 4 February 2014. It dealt at length with issues relating to the decision to convert that was taken at the Sto AG annual general meeting on 12 June 2013. Up until the conversion, the Executive Board kept the Supervisory Board of Sto AG regularly informed in writing and in personal meetings of the current business development, risk situation, and particularly of important events. The Supervisory Board has fulfilled its audit and monitoring obligations. The business transactions submitted for approval to the Supervisory Board in accordance with the legal and statutory provisions were reviewed and discussed with the Executive Board.

During fiscal year 2014, the Supervisory Board of Sto SE & Co. KGaA held six meetings, on 8 April 2014, 25 April 2014, 23 July 2014, 30 October 2014, 18 December 2014, and on 19 December 2014. In the course of these meetings, the Supervisory Board addressed the legal consequences of the conversion, the 2013 annual financial statement and consolidated annual statement as well as the general business situation, planning, and strategic further development of the Sto Group. Although the consent for approval no longer applies, the Supervisory Board was kept promptly informed of the business progress, risk situation, important events, and business transactions of the personally liable partner of STO Management SE by its Executive Board in the same degree of intensity as presented above. The Chief Executive Officer of STO Management SE and the Chairman of the Supervisory Board maintained constant, verbal contact throughout the year. The Supervisory Board thus comprehensively fulfilled its auditing and consultancy obligations.

In the Supervisory Board meeting held on 25 April 2014 in the presence of the auditor, the Supervisory Board thoroughly reviewed and discussed the annual financial statement of Sto SE & Co. KGaA, the consolidated annual financial statement of Sto SE & Co. KGaA for the 2013 fiscal year, and the relevant management reports based on the findings of the Audit Committee and obtained the necessary information on all issues from the auditor. The Supervisory Board approved the 2013 annual financial statement of Sto SE & Co. KGaA and the 2013 consolidated annual financial statement of Sto SE & Co. KGaA, both of which were granted unqualified audit opinions by the auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart on 14 April 2014, and accordingly proposed the approval and consent of the relevant financial statements at the annual general meeting of Sto SE & Co. KGaA held on 17 June 2014.

In the Supervisory Board meeting held on 23 July 2014, the Supervisory Board discussed in detail the composition of the Executive Board of STO Management SE intended by STO Management SE from 1 July 2015 onwards, which, following the departure of the current Chief Executive Officer Jochen Stotmeister, will comprise an Executive Board with equally distributed powers and comprise Mr Rainer Hüttenberger (speaker), Gerd Stotmeister, Rolf Wöhrle, and Michael Keller. The Supervisory Board welcomes this structure.

The Supervisory Board has formed the following committees; an Audit Committee, an Investment Committee, and an Organization Committee. In contrast to the structure of Sto AG, a Personnel Committee has not been formed as the Management Board is represented by the STO Management SE as a personally liable partner and the organisation structures appointed therein. The existing committees concentrated heavily on the situation of Sto SE & Co. KGaA and the Sto Group and reported their findings to the Supervisory Board.

In the Supervisory Board meeting on 18 December 2014, the Supervisory Board focused on the issue of Corporate Governance, in particular the German Corporate Governance Code and the specific legal form of the Declaration of Conformity in accordance with Sections 278, 161 of the German Companies Act (AktG). The Declaration of Conformity can be found at www.sto.de under Unternehmen (Company)/ Investor Relations/Entsprechenserklärung 2014.

At the annual general meeting on 17 June 2014, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, were appointed auditors of Sto SE & Co. KGaA and the Sto Group for fiscal 2014 and were assigned with the task of auditing. The auditors assured the Supervisory Board in writing that there were no circumstances that could impair their independence as auditors of the annual financial statements.

Ernst & Young GmbH audited the annual financial statements of Sto SE & Co. KGaA, prepared by the personally liable partner STO Management SE, the management report, the consolidated annual financial statement, and Group management report for the 2014 fiscal year as well as the dependent company report, prepared by the Executive Board of the personally liable partner STO Management SE in accordance with Sections 312, 278 of the German Companies Act (AktG). The auditors did not raise any objections and provided them with an unqualified Audit Certificate. The auditor also examined the early risk detection system in accordance with Section 91 of the German Companies Act (AktG) and the accounting-related internal control system, and judged them both to be fit for purpose. 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 financial statements, the dependent company report, and the audit reports were distributed to all members of the Supervisory Board in a timely manner, they were each reviewed and discussed in detail by these persons and by the Audit Committee in its meeting on 23 April 2015 and by the Supervisory Board in the Supervisory Board meeting on 24 April 2015. Auditor representatives took part in the Audit Committee meeting and the Supervisory Board meeting held on 23 and 24 April 2015 and reported on the key results of the audit and were available to provide further explanations.

Based on the audit conducted by the Audit Committee and its own audit, the Supervisory Board approved, with its resolution on 24 April 2015, the 2014 annual financial statement of

Sto SE & Co. KGaA, the 2014 consolidated annual financial statement of Sto SE & Co. KGaA, and the dependent company report, providing each of them with an unqualified Audit Certificate and accordingly proposed the approval and consent of the financial statements at the annual general meeting of Sto SE & Co. KGaA to be held on 16 June 2015.

The Supervisory Board also agreed to the proposal of the personally liable partner STO Management SE to resolve a one-time dividend distribution of EUR 163,308,420.00 at the annual general meeting on 16 June 2015. This means that limited preference shareholders are expected to receive an ordinary dividend of EUR 0.31 and a one-off bonus of EUR 25.14 per share and limited ordinary shareholders an ordinary dividend of EUR 0.25 and a one-off bonus of EUR 25.14 per share.

The Supervisory Board thanks all employees of Sto SE & Co. KGaA and the Executive Board of the managing STO Management SE for their services and their outstanding and successful commitment to Sto SE & Co. KGaA, STO Management SE, and all associates.

Stühlingen, April 2015



Dr Max-Burkhard Zwosta

Chairman of the Supervisory Board

Corporate Governance Report/Declaration on management of the company

Corporate Governance at Sto

The personally liable partner STO Management SE and the Supervisory Board of Sto SE & Co. KGaA are committed – as is the Executive Board of Sto AG – to responsible, transparent, and long-term management of the company (Corporate Governance). This is based on adherence to statutory regulations and ethical standards, a sound financial policy, and a strategy based on sustainability. The regulations, recommendations and proposals contained in the German Corporate Governance Code (hereinafter referred to as “Code”) are to a large extent an integral part of our actual Sto culture.

Departures from the Code only arise regarding issues that concern the specific requirements of a medium-sized family business. In these cases, correspondingly adapted arrangements are applied. Departures from the recommendations of the Code in its current version of 24 June 2014 and the respective reasons for doing so are explained in the Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG). The current version at any given time is available for download from the Internet. Previous declarations can be viewed here as well.

Below is our report on corporate governance at Sto in accordance with No. 3.10 of the Code. As the Corporate Governance Report is to be published together with the declaration on management of the company, both reports are summarised in this document. This document can also be found in the “Investor Relations” area on the Sto website at www.sto.de.

Shareholders and the Annual General Meeting

At the end of 2014, Sto SE & Co. KGaA's share capital amounted to EUR 17.556 million. It was divided into 4.32 million for registered limited ordinary shares and 2.538 million for owners of limited preference shares. Each ordinary share carried the right to one vote at the annual

general meeting. Preference shares did not have voting rights but took priority for the purpose of profit distribution and are entitled to a higher dividend. There were no shares with multiple or preferential voting rights. The implementation of the decision taken at Sto AG's Annual General Meeting on 12 June 2013 to convert to Sto SE & Co. KGaA by way of entry in the trade register on 26 March 2014 has not materially changed this situation. The previous total of ordinary shares corresponds to the number of limited ordinary shares now and the previous total of preference shares corresponds to the number of limited preference shares now. The share capital and voting rights for Sto SE & Co. KGaA also mirror the situation with the previous Sto AG.

Sto limited shareholders exercise their rights in accordance with the relevant statutory provisions before or during the Annual General Meeting, which takes place once a year. As the personally liable partner of Sto SE & Co. KGaA, Sto Management SE ensures the timely dispatch of all reports and records required by legislation for the annual general meeting, including the agenda. These documents are also available on our website.

At the Annual General Meeting, the personally liable partner of Sto SE & Co. KGaA presents the annual financial statements of the previous fiscal year for Sto SE & Co. KGaA and the consolidated annual financial statement of Sto SE & Co. KGaA, as well as the management/Group management report for the previous fiscal year for the approval of the annual financial statements by the Annual General Meeting and of the consolidated annual financial statements for its information, and comments on key events. Each limited shareholder is entitled to attend the annual general meeting, to rise to speak at the meeting in relation to items on the agenda, and to ask questions and to propose motions on specific issues.

Management and control structure

The corporate headquarters of Sto SE & Co. KGaA are located in the southern German town of Stühlingen. This means that Sto SE & Co. KGaA and the Sto Group are subject to German law, to which our Corporate Governance activities must conform. In relation to the stock market listing and the financial market, the German Companies Act and in particular all the regulations of the capital market law must be adhered to. Also important for Sto are in particular the German Commercial Code, the International Financial Reporting Standards (IFRS) and the German Co-Determination Act.

Sto SE & Co. KGaA is managed by STO Management SE as the personally liable partner, whereby its Management Board is subject to the oversight of the twelve-strong Supervisory Board of Sto SE & Co. KGaA. Accordingly, the management of the Company and the process of monitoring it are strictly separated. Both the personally liable partner and the Supervisory Board of Sto SE & Co. KGaA abide by the standards of proper corporate management at all times and collaborate closely for Sto's benefit.

The **personally liable partner STO Management SE**, the board members of which are presented in this Annual Report, manages the company 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 personally liable partner also develops the strategic alignment of the company and ensures this strategy is implemented. It makes any arrangements necessary to ensure compliance with legal requirements and internal corporate guidelines within the Sto Group.

The Board's functions also include the preparation of the annual financial statements for Sto SE & Co. KGaA and the related consolidated annual financial statements as well

as the establishment and development of the risk management system. Detailed information about risk management is provided in the management report of this annual report. The personally liable partner pays attention to diversity when filling management positions in the company and in particular aims to ensure that women are adequately taken into account.

The **Supervisory Board of Sto SE & Co. KGaA** is equally composed of shareholder and employee representatives in accordance with the German Co-Determination Act. The members are presented in the report of the Supervisory Board. The work of the Supervisory Board is regulated through rules of procedure. The key tasks are to monitor and advise the Executive Board of the personally liable partner STO Management SE. For any matters that are of fundamental importance to Sto SE & Co. KGaA, the Supervisory Board becomes involved in the decision-making process from the outset. The Supervisory Board ensures that the personally liable partner STO Management SE and its Executive Board comply with the statutory disclosure rules in the manner detailed at greater length by the Supervisory Board, as required by law.

The Supervisory Board of Sto SE & Co. KGaA is briefed by the personally liable partner on a regular, timely, and comprehensive basis about all relevant matters relating to the strategy, planning, and business development as well as the risk situation and risk management. Any departures in performance of the business from defined plans are discussed. The Supervisory Board is provided with all crucial documents in a timely manner.

It is the job of the Chairman of the Supervisory Board to coordinate the Board's work, steer its meetings, and represent its interests externally. He maintains close contact with the members of the Executive Board of the personally liable partner between meetings; discussing issues including strategy, business development, and risk management.

On the basis of the findings of the auditor, the Supervisory Board carries out an inspection of its own of the annual financial statements of the Sto Group and Sto SE & Co. KGaA. Moreover, the half-year financial report and the interim reports are discussed with the Chairman of the Supervisory Board within the first and second half of the year prior to their publication. The Chairman then consults with other members.

In determining the composition of the Supervisory Board, the limited partnership shareholders of Sto SE & Co. KGaA ensure that the necessary expertise, skills and professional experience required to properly discharge the Board's responsibilities are represented. All members of the Sto Supervisory Board are proven experts in their respective fields. They are solely responsible for engaging in education and training measures that will enable them to carry out their duties as Supervisory Board members, and receive appropriate support from Sto SE & Co. KGaA in doing this. Sto also promotes diversity as required by the Code.

The remuneration that Sto Supervisory Board members receive is at a level that appropriately reflects their duties and the position of the Sto Group. For more information on remuneration, please consult the appendix of the present annual report, and the Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG).

The Supervisory Board holds regular meetings. In fiscal year 2014 there were seven meetings, one of which was still held under the legal form AG. The report of the Supervisory Board contained in this annual report provides detailed information on the topics discussed. If required, meetings of the Supervisory Board are separately prepared by the shareholder and employee representatives.

The Supervisory Board regularly checks the efficiency of its work. One way to improve efficiency is through appropriately qualified

committees. An Investment, an Organisation, and an Audit Committee exist at Sto SE & Co. KGaA. A Nomination Committee is also formed before Supervisory Board elections. The next elections will take place at the Annual General Meeting in 2017.

In the periods leading up to the Supervisory Board meetings, these committees generally deal with complex issues and prepare the findings for the full Supervisory Board meetings. The Chairperson of the relevant committee provides the Supervisory Board with reports on the committee's work. The Chairperson of the Audit Committee is independent and cannot serve simultaneously as the Chairperson of the Supervisory Board. As a financial expert he has the specialist knowledge required for this position, and did not belong to the Executive Board during the past two years.

Other company management practices

Alongside the legislative regulations and the Corporate Governance Code, there are other company management practices that Sto SE & Co. KGaA applies. These include not only internal regulations, but also external standards such as the **"Global Compact"**, a worldwide initiative set up under the auspices of the United Nations. We joined this in 2009. In the **"Global Compact"**, the UN calls on participants to adhere to and implement ten principles taken from the areas of human rights, labour standards, environmental protection and anti-corruption practice. For Sto, this particularly includes the issues of diversity. We take great care throughout the Group to ensure that no individual is disadvantaged on the grounds of his or her gender, skin colour or religious views. This applies in particular when it comes to filling management posts. Additional measures that we have put in place together with the **"Global Compact"** are outlined under the **"Sustainability and Corporate Social Responsibility"** section of this annual report. This report also represents

the annual Communication on Progress (COP) required by the “Global Compact”.

Our most important internal regulations include the “Principles for Cooperation and Management within the Sto Group”, a set of Group-wide practice guidelines for all employees and managers. As well as rules for internal cooperation, they also include information on the “Global Compact” principles, for example.

Transparency

Sto SE & Co. KGaA is even-handed in keeping its shareholders, financial analysts, the media, and the general public informed. We provide all shareholders and stakeholders regularly and promptly with information about the economic situation and trends and about key events within the company. To this end, we use numerous instruments such as the annual and half-yearly financial reports, interim announcements, as well as press releases covering current topics.

Annual and half-yearly reports as well as interim announcements are lodged with the Companies Register and the German federal government gazette (“Bundesanzeiger”) on the day of publication. These documents and current press releases are simultaneously posted on the Internet at www.sto.de under the heading “Unternehmen” (Company) in the “Investor Relations” section. The use of various communication channels ensures that all shareholders and other target groups are informed at the same time. As soon as any insider information directly affecting Sto emerges, we immediately report such information in accordance with the relevant legal provisions of Section 15 of the German Securities Trading Act (WpHG).

All key dates for publications and functions are listed in the calendar of financial events, which is announced well in advance. The latest financial calendar, valid as of the end of March 2015, is reproduced in the 2014 annual report. The current version of the calendar can also be viewed on the Internet.

All persons with management functions at STO Management SE or Sto SE & Co. KGaA must disclose any private transactions involving Sto limited partnership preference shares to the Federal Financial Supervisory Authority (BaFin) and to Sto SE & Co. KGaA within five working days, in accordance with Section 15a of the Securities Trading Act (Directors’ Dealings). No notifications of Directors’ Dealings occurred in fiscal 2014.

Accounting and auditing of financial statements

The accounting of the Sto Group is based on the international principles of the International Financial Reporting Standards (IFRS). Detailed information on these Standards is set out in the Notes to the annual report 2014. The annual financial statement of the parent company Sto SE & Co. KGaA are prepared in accordance with the German Commercial Code (HGB). The annual financial statements of both Sto SE & Co. KGaA as well as the consolidated annual financial statement of the Sto Group, including the associated 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 can be precluded early on. The auditing company commissioned by Sto has issued an appropriate 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 statements and the consolidated annual financial statement and reports on the key findings of his audit at the Audit Committee meeting.

Management Report for the Sto Group (IFRS)



The Sto Executive Board (from left):
Rainer Hüttenberger,
Gerd Stotmeister,
Jochen Stotmeister, and Rolf Wöhrle

Members of the Executive Board in the fiscal year 2014 until March 26 of Sto Aktiengesellschaft and then STO Management SE (personally liable partner of Sto SE & Co. KGaA)

Jochen Stotmeister,
Grafenhausen/Germany | Chairman of the Executive Board, responsible for strategy and corporate development, central services, personnel and internal auditing

Gerd Stotmeister,
Allensbach/Germany | Deputy Chairman of the Executive Board, Chief Technical Officer, responsible for process engineering, innovation, materials management and logistics

Rolf Wöhrle,
Bad Dürkheim/Germany | Chief Financial Officer, responsible for finances, controlling, legal, and information technology

Rainer Hüttenberger,
Stein a. Rhein/Switzerland | Chief Marketing and Sales Officer

Until the completion of the conversion of Sto Aktiengesellschaft (hereinafter also referred to as Sto AG) into Sto SE & Co. KGaA, by virtue of entry in the trade register on 26 March 2014, the business affairs of Sto SE & Co. KGaA were conducted in fiscal year 2014 by the Executive Board of Sto AG and subsequently by STO Management SE, the personally liable partner Sto SE & Co. KGaA. Its board members and their areas of responsibility are identical to those of the former Executive Board of Sto AG, as stated above.

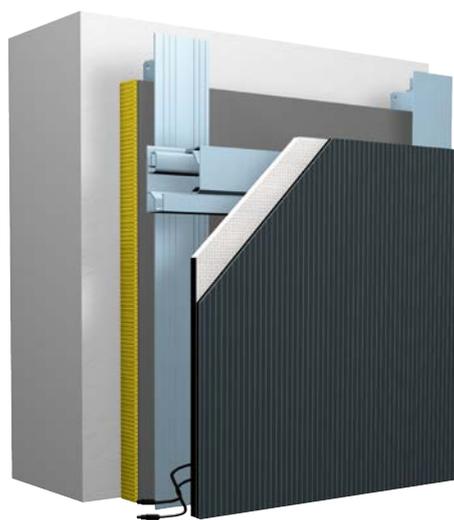
The fiscal year 2014 at a glance

- Sto consolidated turnover up by 3.7 % to EUR 1,208.7 million
- Foreign business up 4.5 % to EUR 659.5 million, domestic sales up 2.7 % to EUR 549.2 million
- Consolidated EBIT decreases from EUR 99.9 million to EUR 97.0 million
- Earnings before tax (EBT) at EUR 96.2 million after EUR 99.0 million in the previous year
- Return on sales down from 8.5 % to 8.0 %
- One-off special distribution: dividend of EUR 0.31 per limited preference share and EUR 0.25 per limited ordinary share plus a bonus of EUR 25.14 per share
- Cash flow from operating activity at EUR 93.9 million (previous year: EUR 80.9 million)
- Increase in number of employees in the Group on the reference date from 4,791 to 4,979
- Outlook for 2015: increase in turnover of 5 % to around EUR 1,270 million and increase in EBIT from EUR 92 million to EUR 102 million expected

A. Group fundamentals

Business model

With an annual turnover of approximately EUR 1.2 billion and around 5,000 employees, the Sto Group is one of the major international manufacturers of products and systems for building coatings. Its core business focuses first and foremost on external wall insulation systems (EWIS), a segment in which our company occupies a leading position, and also on rainscreen cladding systems (RSC). Both of these are pooled in the **Facade Systems** product group, which, in the 2014 fiscal year, accounted for a total of 50.4 % of Group turnover. The **Facade Coatings** product group, which includes render and paint systems for external applications, made up 23.2 % of the turnover. The Sto product range also includes **products for interiors**, such as render and paint systems optimised for home and office interiors, decorative coatings and acoustic systems for regulating room noise (share of turnover: 12.8 %). Furthermore,



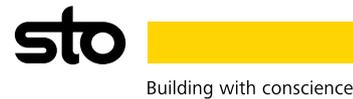
The StoVentec ARTline ventilated rainscreen cladding system with integrated photovoltaics transforms insulated facades into a power station.

we produce and distribute high-quality **floor coatings** and products for **concrete restoration**, for example.

Sto benefits from the comprehensive **expertise** within the Group. We boast extensive knowledge not only about our core business, but also about related areas such as design and consultancy services and the use of alternative

coating materials or claddings such as stone facades. Thanks to our modular services at Sto, which complement one another perfectly, we can provide our customers with everything relating to facades from a single source and give building owners maximum freedom to create their own designs. The individual components of our range of services are also exactly matched, ensuring a high-level efficiency during the application process.

Our consistent implementation of this business model, which is based on expertise, quality, and customer benefits, as well as our uniform market presence in every country, have established the Sto name as one of the **most internationally recognised product brands** in the industry. Our successful brand strategy is based on the four pillars "Close", "Experienced", "Performing", and "Advanced". It is continually being optimised and adapted in line with the prevailing general conditions. In 2014, a main focus of our work was on training employees, whom we view as ambassadors of our brand.

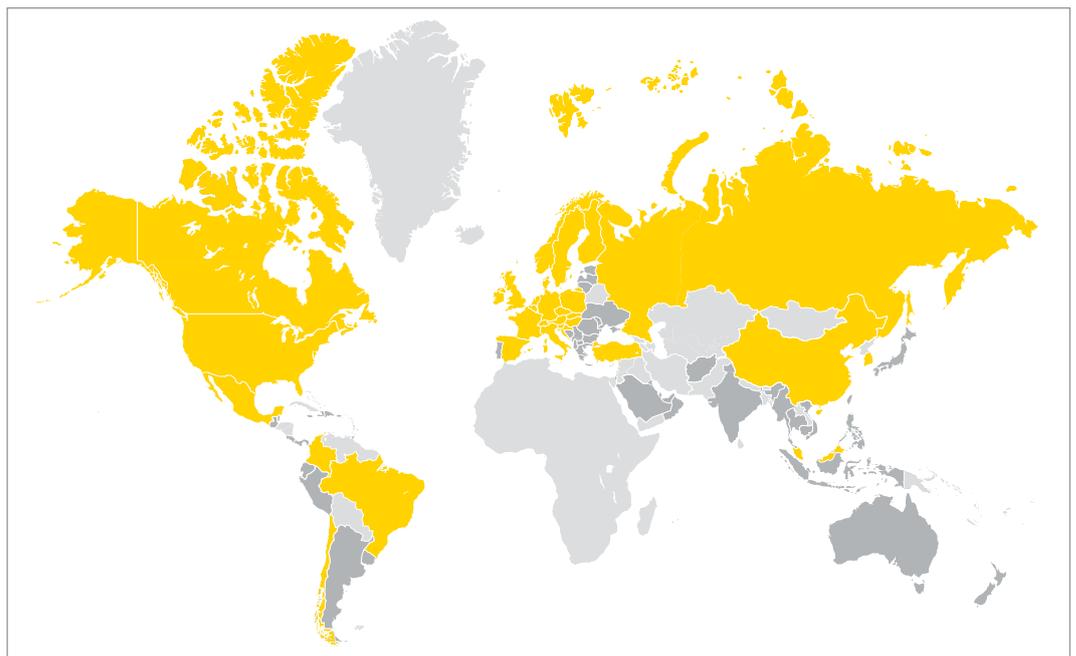


Sto's **innovative strength** also contributes to the brand's positive image. Our company is internationally regarded as a technological pacesetter in the industry. To consolidate this leading position while also developing new growth markets, research and development are considered core strategic activities at Sto. This is also enshrined in our corporate vision "Technology leader in the sustainable design of living space tailored to human needs. World-wide."

Sales markets

In regional terms, our most important market is **Western Europe**, where, in 2014, we generated 78.0 % of our business volume – including Germany. We also operate in **America** and **Asia** (11.8 % share) as well as in **Northern and Eastern Europe** (10.2 % share). Our corporate management is primarily focused on these

- Sto subsidiaries
- Sto partners



regions. Business activities are divided into the geographical segments of Western Europe and Other, with the latter being broken down into the regions of Northern/Eastern Europe and America/Asia in accordance with internal reporting. The most significant individual market is **Germany**. In 2014, it contributed around 45.4 % to consolidated turnover.

The strategic decision to transfer our business model (originally developed for German-speaking regions) to other countries and to systematically tap into foreign markets has also had a favourable long-term impact on our corporate development and significantly improved our position. At the end of 2014, the Sto Group was represented in 34 countries with 42 subsidiaries of our own and their operating sites. In addition, we are in supplier relationships with distribution partners in many other countries.

Activities in new building and refurbishment work

Sto products are used both in the construction of new buildings and in the renovation of existing buildings. The comparative weighting of these two market segments in individual regions depends on the characteristics specific to each country. In Asia, for example, the construction of new buildings is of much greater importance than renovation work, due to the prevailing pent-up demand. However, renovation is more prominent in the mature economies of the western world.

The construction of new buildings is usually sensitive to economic cycles, and therefore shows considerable fluctuations in sales as it depends on general economic conditions. However, demand in the areas of renovation and refurbishment has experienced a less volatile trend in recent decades. Renovation business generates the majority of Group turnover within the Sto Group.

Customers and distribution system

The Sto Group has positioned itself in the market for building coatings as a supplier of quality products and systems with a high degree of technological expertise and a comprehensive range of services. The range is targeted at professional applicators such as painters, plasterers, and building contractors, as well as architects and planning offices, who are supported locally by means of a **direct distribution system**. In the core market of Germany, this covers almost the entire country. Sto has also been developing a second distribution channel, **multi-stage distribution**, for a number of years now. Through wholesalers and specialist retailers we provide customers with selected products that we have clearly defined as distinct from our core business and that have their own market niche: these include lacquers and fillers. Since we see additional potential in this channel, we intend to expand two-stage distribution gradually over the coming years.

Corporate structure

The parent company of the Group is Sto SE & Co. KGaA, headquartered in Stühlingen. The conversion of Sto-Aktiengesellschaft into Sto SE & Co. KGaA, as agreed at the Annual General Meeting on 12 June 2013, took effect on 26 March 2014 upon entry in the trade register of Freiburg district court. Sto SE & Co. KGaA functions as the Group's holding company and is also responsible for operative domestic business involving facade systems and coatings as well as interior products.

Additional domestic corporate units are: **Innolation GmbH**, Lauingen, which produces insulation and carries out further developments in innovative insulation technology; **Verotec GmbH**, Lauingen, which produces carrier boards for acoustic systems, rainscreen cladding systems, and architectural elements on behalf of other Group companies, as well

as selling its products and services to external industry customers as part of the diversification strategy that has been launched; and **StoCretec GmbH**, Kriftel. This unit is responsible for the areas of floor coatings and concrete restoration within the Group. Natural stone work expertise resides with **VeroStone GmbH**, Kirchheim, and the Johann Neumeyer & Brigl GmbH & Co. KG natural stone works in Eichstätt, which merged with VeroStone GmbH at the start of 2015. The company **Südwest Lacke + Farben GmbH & Co. KG**, Böhl-Iggelheim, is the Group's specialist for lacquers and varnishes. It particularly focuses on working with retailers, but also contributes its extensive expertise to the pool of knowledge on lacquers that the Group has as a whole.

Foreign business is largely handled by national companies operating independently, with the product spectrum offered in each case being tailored to suit local conditions and specific requirements. The products are either produced locally by the companies themselves or purchased via the Group. A list of all subsidiaries of Sto SE & Co. KGaA is reproduced in the Notes for the Group.

A Product Management department oversees and is responsible for each of the four business fields: facades, interiors, concrete restoration, and floor coatings. 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. In this way we are able to become better acquainted with the vast range of different requirements that the various international markets have and tap into additional sales potential through our targeted market approach and specialist technical expertise.

The business fields are complemented by central units such as technical service or strategic marketing. These provide global support to all our subsidiaries or product groups and assistance in dealing with overarching issues.

This will create the right conditions for efficient management on a global scale, and for targeted development of the service portfolio.

Change in legal form of Sto-Aktiengesellschaft into Sto SE & Co. KGaA

On 12 June 2013, the Annual General Meeting of Sto Aktiengesellschaft decided to convert Sto Aktiengesellschaft into the legal form of an SE & Co. Kommanditgesellschaft auf Aktien. As part of this conversion, STO Management SE Stühlingen declared its accession to this company as the personally liable partner and approved the Sto SE & Co. KGaA's articles of association. The conversion was carried out with the entry of Sto SE & Co. KGaA in the trade register of Freiburg district court on 26 March 2014, under HRB 711236.

Business management and control system

Sto SE & Co. KGaA's business affairs are managed by the four-strong Executive Board of the personally liable partner STO Management SE. It develops the Group strategy and ensures its implementation. An important instrument in doing this is our efficient control system. The parent company Sto SE & Co. KGaA, its subsidiaries, and the other corporate units are controlled and managed by reference to strategic and operational targets as well as key financial figures. These are based on business figures which are uniformly determined throughout the Group and which, in turn, are part of a standardised reporting system. The primary key operating ratios employed by Sto SE & Co. KGaA are net turnover, earnings before interest and taxes (EBIT), earnings before tax (EBT), and return on sales. These key figures are also employed in the planning and controlling process.

The reports compiled within this standardised reporting system are submitted directly to STO Management SE, which then forwards the relevant information to Sto's Supervisory Board

via its Executive Board. Additionally, management meetings between the Executive Board of STO Management SE and the executive staff of the subsidiaries or sales regions take place on a regular basis. The control system used by Sto SE & Co. KGaA strengthens the decentralised entrepreneurial responsibility of our employees at a local level while also guaranteeing transparency within the Group.

In addition to internal parameters, we also monitor external early indicators as a means of further improving our planning processes as well as our corporate and risk management. Such indicators primarily consist of economic data and detailed information on the sector, such as the trends in the volume of structural engineering, or the segments for new buildings and renovation.

Reorganisation of the management structure

At the Annual General Meeting of STO Management SE on 16 June 2015, Jochen Stotmeister will retire as Chief Executive Officer (CEO) of STO Management SE. For this reason, the Supervisory Board of STO Management SE, which manages Sto SE & Co. KGaA as the personally liable partner, decided to establish a new Executive Board structure during its meeting on 23 July 2014. This will come into force on 1 July 2015. Michael Keller, formerly head of the Germany Region at Sto SE & Co. KGaA, will become a new member of the Executive Board of STO Management SE as of 1 July 2015. He will assume responsibility for the areas of Sto Brand Distribution for Germany, Distribution, and Central Services. The Supervisory Board also chose to appoint Executive Board member Rainer Hüttenberger as Spokesperson of the STO Management SE Executive Board with effect from 1 July 2015. In future, he will be in charge of the areas of Marketing and Brand Distribution for Sto International. Within the Executive Board, which

in future will be run with all members on an equal footing, Rolf Wöhrle will continue to act as Chief Financial Officer and Gerd Stotmeister as Chief Technical Officer.

Fundamentals of the remuneration system

The remuneration for the Executive Board of the personally liable partner STO Management SE (or the Executive Board of Sto AG up to 26 March 2014) consists of a fixed component and a variable component, which carries significantly more weight. The level of the variable salary component is linked to the earnings trend prevailing in the Sto Group, whereby a cap has been agreed in this context. No stock options are granted.

At the end of March 2014, the Executive Board members' employment contracts were transferred to STO Management SE, Stühlingen. The remuneration structure of the members of the Executive Board remained unchanged in the 2014 fiscal year, although the remuneration was borne by STO Management SE following the transfer. In accordance with Section 6 Paragraph 3 of the articles of association of Sto SE & Co. KGaA, STO Management SE receives compensation of administrative expenditure at the same level as Sto SE & Co. KGaA.

The members of the Supervisory Board of Sto SE & Co. KGaA are provided with fixed remuneration beyond compensation for costs incurred. The Chairman is entitled to four times and the Deputy Chairman to two and a half times the amount of the basic remuneration. The Chairman of a Supervisory Board Committee is additionally remunerated with a fixed annual amount. If a committee has only been formed for part of a fiscal year, the remuneration shall be proportionate.

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

Strategic objectives

Sto's business model is geared to long-term success and has the goal of making us a global technology leader in the sustainable design of living space tailored to human needs. This corporate vision (along with the other principles on which our practice is based) is anchored in the Sto Guiding Principles, providing employees and managers with guidance when making strategic and operational decisions. We believe that long-term success is only possible through sustainable, solid economic activity. Constant progress and a financially sound footing is the basis on which we wish to permanently fulfil our responsibility towards Sto customers and employees, society and the environment, and all other stakeholders and shareholders. Our guiding principles shape our strategy, which contains the following core components:

- **Internationalisation** – By systematically developing and penetrating selected regions, we increase our sales opportunities and reduce our dependency on individual countries.
- **Development of alternative distribution channels** – Gradual development of our multi-stage distribution concept attracts additional groups of customers and expands our base.
- **Group expertise** – Organic further development or suitable acquisitions reinforce the Sto Group's expertise and is expanded in specific areas.
- **Attractive employer** – We define and embrace measures for adding new specialists and managers to our team and improving 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 industrial sector. Additionally, we take an active role in trade associations and interest groups, so that we

can contribute to the process of shaping general conditions within the industry and the technology it uses.

- **Corporate Social Responsibility** – By consistently developing and implementing our strategy of sustainability, we take responsibility towards customers, the company, employees, other stakeholders, shareholders, and the environment.
- **Earnings-oriented growth** – We align our decisions with this overarching corporate objective.

B. Financial report

Overview of business performance in 2014 and general statement on financial development

Following an exceptionally dynamic start to 2014 thanks to favourable weather conditions, business in the Sto Group began experiencing a surprisingly significant weakening in April, with its performance below expectations in the second and third quarters as well as in October. At the start of November 2014, this prompted us to revise down our turnover forecast, plus our forecast concerning the EBIT, EBT, and return on sales earnings figures. It was only the delayed onset of winter in the last two months of the year and the resulting high demand as well as positive currency translation effects that partially compensated for the decline. This made it possible to uphold the original forecast for the the EBIT, EBT, and return on sales earnings figures. The target increase in turnover that had been revised down in November from approximately 5 % to approximately 2 % was exceeded, with consolidated turnover rising by 3.7 % to EUR 1,208.7 million.

In Germany, conflicting and, in some cases, highly exaggerated media reports on external wall insulation systems led to feelings of uncertainty, particularly among private

building owners. This resulted in many planned investment projects involving energy-related refurbishment being postponed or only partially completed, particularly where the single-family and two-family house segment was concerned. The ongoing discussion about tax incentives for refurbishment measures in Germany also fostered the sense of caution among building owners. In total, domestic turnover in the Sto Group amounted to EUR 549.2 million – 2.7 % above the previous year's value – whereas domestic business of Sto SE & Co. KGaA, whose target group is craftsmen, grew by only 0.8 %. Abroad, Group-wide business volume rose by 4.5 % to EUR 659.5 million, with highly diverse turnover trends demonstrated by individual countries. Given the sometimes difficult nature of the general conditions underpinning it, the Executive Board of STO Management SE believes that business development in 2014 was satisfactory on the whole.

Consolidated earnings before interest and taxes (EBIT) also exceeded November's revised forecast of EUR 81 million to EUR 91 million by reaching EUR 97.0 million (compared to EUR 99.9 million in the previous year) and, at the year end, ultimately fell within the originally anticipated range of EUR 90 million to EUR 100 million, particularly as a result of the positive effects created by the weather and currency conditions. Consolidated earnings before tax (EBT) fell to EUR 96.2 million (previous year: EUR 99.0 million) and also remained within the range of EUR 88 million to EUR 98 million predicted at the start of 2014 (revised forecast: EUR 80 million to EUR 90 million). On this basis, a return on sales of 8.0 % was calculated following 8.5 % in the previous year (original forecast: 7.2 % to 8.0 %; revised forecast: 6.7 % to 7.6 %). Consolidated net income stood at EUR 66.0 million as compared to EUR 68.4 million in the previous year.

The financial and asset situation continued to put in a very solid performance: at the end

of the reporting period, the Group's equity ratio stood at 67.4 % compared to 68.4 % in the previous year, and cash stocks at EUR 113.0 million (previous year: EUR 103.9 million). Taking borrowings into account, net financial assets improved by rising from EUR 94.8 million in the previous year to EUR 104.7 million. Cash flow from operating activities grew from EUR 80.9 million to EUR 93.9 million.



On the basis of the solid earnings, financial, and asset situation of Sto SE & Co. KGaA and the Sto Group, the personally liable partner STO Management SE will propose, through its Executive Board, a one-off dividend distribution of EUR 163,308,420.00 at the Annual General Meeting on 16 June 2015. This means that limited preference shareholders are expected to receive an ordinary dividend of EUR 0.31 as well as a one-off bonus of EUR 25.14 per share, and limited ordinary shareholders an ordinary dividend of EUR 0.25 plus, as well as a one-off bonus of EUR 25.14 per share.

The start of the 2015 fiscal year was typical for the time of year. Consolidated turnover therefore remained significantly below the exceptionally high 2014 level that was the result of favourable weather conditions. For 2015 as a whole, we expect to see growth in consolidated turnover of 5 %, up to around EUR 1,270 million, despite the fact that the general conditions in many countries may continue to present a challenge. As things stand, we anticipate consolidated earnings before interest and taxes (EBIT) to amount to between EUR 92 and 102 million. On the whole, the Executive Board of STO Management SE continues to view the business prospects of the Sto Group as positive at the time of compiling the Group management report.

Overall economic and industrial sector-related general conditions in 2014

Global economic development

According to the International Monetary Fund (IMF), the global economy grew by 3.3 % over the past year after a hesitant start. Any improvements in economic trends beyond this were noticeably hampered by numerous political crises – the Russia-Ukraine conflict and hostilities in the Middle East in particular – as well as economic data that failed to meet expectations in many countries. Most notably, several euro zone countries as well as Russia and Brazil performed less well than forecast, although the relatively vibrant development in the USA compensated for this somewhat. The significant reduction in oil prices during the fourth quarter also had a positive impact.

The 2014 gross domestic product increased by 1.8 % in the industrialised nations, primarily thanks to a dynamic development of the US economy which experienced a 2.4 % growth. Developing and emerging countries continued to experience an average strong growth of 4.4 %, although the rate of growth was once again lower than in the previous year. Gross domestic product increased by 7.4 % in China, but only by 0.6 % and 0.1 % in Russia and Brazil respectively.

With a growth of 0.8 %, the economic recovery in the euro zone turned out to be much weaker than originally anticipated. The countries within this group continued to perform at a variety of levels. While Ireland, Portugal, and Spain made further strides towards overcoming the crisis, France and Italy demonstrated very modest growth.

Following a surprisingly healthy start to 2014, the German economy sustained a significant setback as the year progressed. Despite

this, the yearly average for the gross domestic product rose by 1.6 % in total – making it a stronger result than the past ten years' average value of 1.2 %. Consumer behaviour was the economy's main source of stimulus. Where gross fixed capital formation was concerned, however, investment in plant and machinery failed to revive in spite of favourable financing conditions. Due to high levels of imports, the external balance made a comparatively low contribution to GDP growth.

International trends for the construction sector

In **Europe**, construction demand in 2014 grew by approximately 1 % according to the results of the EUROCONSTRUCT research association. This meant that the volume of construction in the 19 partner countries rose to around EUR 1.3 quadrillion. Around 45 % of this was attributable to residential construction, which also rose by 1 % in 2014, while a third was the result of non-residential construction and the remaining 22 % civil engineering services. Private demand in particular was diminished by the ongoing difficulties in many European countries' economic situations, as well as high unemployment, less availability of loan offers as a result of enhanced regulation, and unfavourable development in income levels. Hungary, Spain, Portugal, Ireland, and Italy all ranked at



Time and again, surveys have shown that customers put their faith in Sto's professional advice.

the bottom of residential construction, while countries such as Switzerland, Norway, and Finland demonstrated strong momentum in levels of completed housing. Maintenance and modernisation measures in existing residential buildings became a much more prominent trend. This was partly the result of stricter requirements, particularly with respect to energy efficiency; additionally, the need for modernisation grew due to the progressive ageing of the building stock in numerous countries.

The **German construction industry** also lacked momentum in 2014: figures of the German Federal Statistical Office indicated that receipts of orders in the main construction sector were 1.8 % below the previous year's level. This marked a full retreat from the healthy ordering situation that had been seen in the past. Total turnover within the main construction sector still managed to surpass the 2013 level by 4.3 %. However, a strong first half of the year – which saw a 12.8 % growth – was followed by a weak second half with a 1.0 % decline. Positive signals came from the residential construction sector, which benefited from the low interest level, a strong labour market situation, and investors seeking out an investment that would hold its value. In this area of construction, the order receipt level improved by 4.3 % and turnover went up 7.8 %, while public-sector construction and commercial construction recorded a declining number of orders.

Following a disappointing half of the year, the mood of the **US construction industry** grew brighter as 2014 progressed. Figures from Germany Trade and Invest (GTAI) suggest that there are various early indicators of the construction industry recovering. These indicators include the projected number of building projects set to begin over the year which reached its highest level in July since November 2013, and the number of building permits which, once again, rose significantly above the 1- million mark. Between January and Septem-

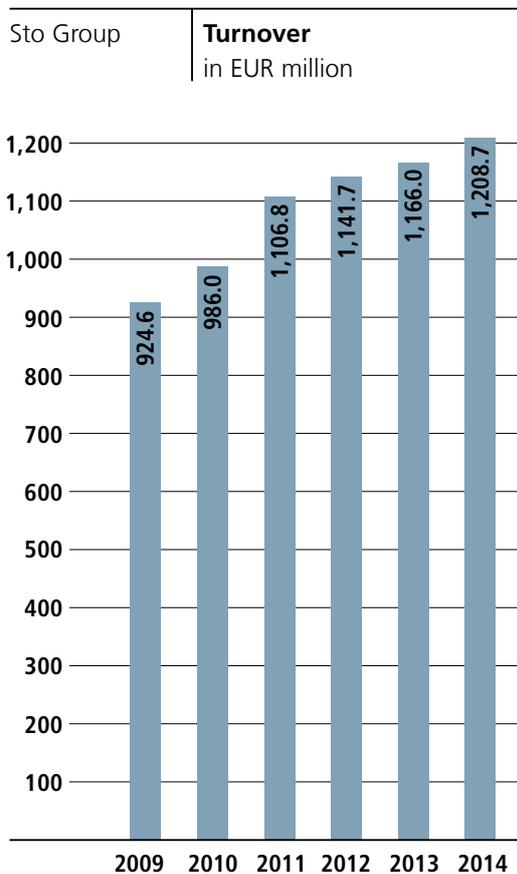
ber, expenditure on construction was approximately 6 % above the previous year's volume. However, residential construction – the driving force in the upturn of the US construction industry since 2012 – lost some of its momentum. This area felt the negative effects of rising house prices, low wage increases, and further strict conditions for granting mortgage loans. Infrastructure construction continues to suffer as a result of strained public finances and thus made only slow progress, while commercial construction, benefiting from an improved overall economy, experienced a sharp rise.

In **China**, the general conditions in the construction industry were extremely difficult in 2014. Although GTAI figures state that property investments did grow by 12.5 % during the first three quarters – a stronger rise than in gross domestic product – this value is still significantly below that of previous years. Vacancy rates and dramatic increases in property prices weakened, specifically, the residential construction sector compared to the previous year. Newly initiated construction projects are experiencing a critical situation. During the first nine months, these fell by 9.5 % (measured in square metres). Residential construction decreased by 14.4 %, while commercial space remained approximately at the previous year's level (-0.5 %) and the office building market demonstrated an increase of 10.7 %. State support measures have not yet been able to reverse the downswing. In principle, China could see a future increase in demand for energy-efficient construction.

Business performance and development of turnover

Compared to the previous year, the turnover of the Sto Group in 2014 increased by 3.7 % to EUR 1,208.7 million. We had originally forecast growth of 5 %. The exceptionally good

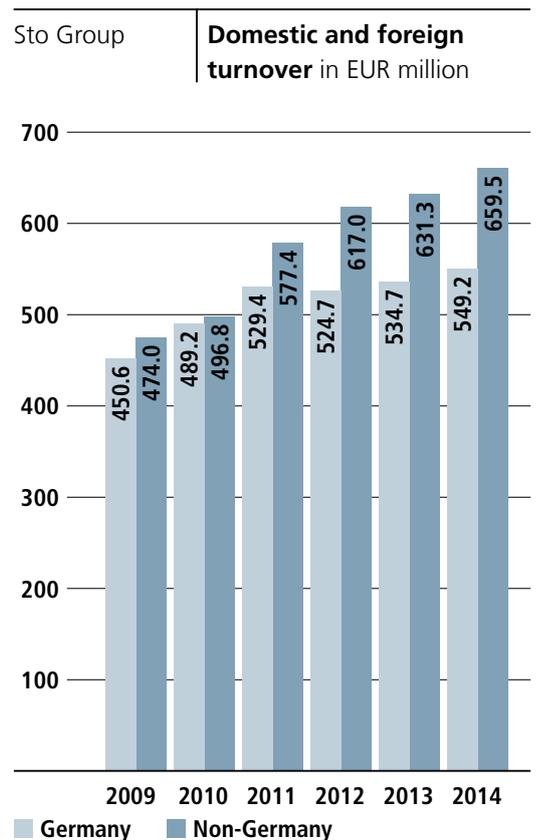
weather conditions and positive currency translation effects were the key factors behind the surprisingly strong development over the last two months of the year. This somewhat counteracted the weak performance in the second and third quarters as well as in October.



Group-wide domestic turnover increased by 2.7 % to EUR 549.2 million, whereas domestic business of Sto SE & Co. KGaA, whose target group is craftsmen, grew by only 0.8 %. The core business of facade systems felt the negative effects of the critical debate concerning their ecological impact, as well as the questions concerning fire protection, efficiency, and building culture. The conflicting and, in some cases, highly exaggerated media reports planted seeds of doubt in private building owners in

particular, resulting in the German EWIS market sustaining significant declines especially in the single-family and two-family house segment. However, potential for sales remains high because of an extensive stock of older buildings. The issue of tax or financial incentives for energy efficiency refurbishment measures remains unresolved. In addition, the declining market volume has increased pressure on sales prices.

Outside Germany, consolidated turnover grew by 4.5 % to around EUR 659.5 million, increasing the **share of consolidated turnover attributable to foreign business** from 54.1 % in the previous year to 54.6 %.



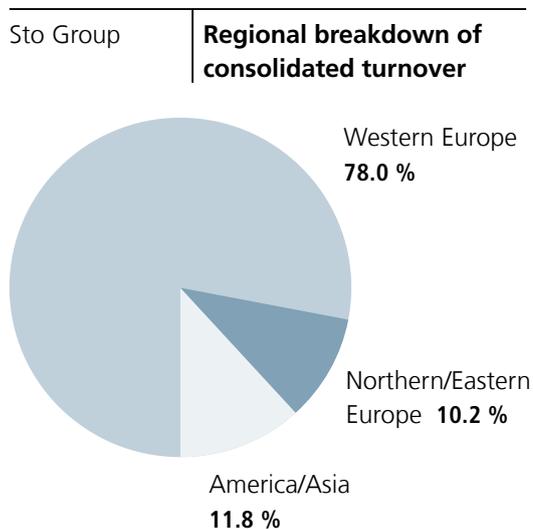
A positive **first-time consolidation effect** of around EUR 4.3 million was mainly the result of taking over the Brazilian Argamont Revestimentos e Argamassas Ltda. in February 2014.

Changes in the exchange rate with a negative impact during 2014 amounted to EUR 5.6 million in total. This was mainly the effect of the euro's revaluation against Scandinavian and South American currencies, and the fall in the Russian ruble. Turnover growth, adjusted for balanced first-time consolidation and exchange rate effects of EUR -1.3 million, stood at 3.8 %.

In 2014, the **Western Europe segment**, including the core market of Germany, contributed EUR 943.2 million to consolidated turnover. Compared to the previous year's value, this corresponded to an increase of 2.6 %.

The countries that form the **Northern/Eastern Europe segment** recorded high growth rates until halfway through the year, at which point they increasingly began to fall. In total, segment turnover for 2014 increased by 7.3 % to EUR 122.9 million. This increase particularly was the result of the unexpectedly positive development in our Eastern European markets.

In the **America/Asia segment**, 2014 also saw an increase of 7.6 % to EUR 142.6 million on account of the first-time consolidation of Brazilian subsidiary Argamont Revestimentos e Argamassas Ltda. Growth rates in Asia and North America took a similarly positive course.



Earnings situation

Throughout the Group, **material costs** in 2014 grew by 4.8 % to EUR 555.6 million, a rate that was slightly disproportionate in relation to turnover. As a result, the cost of sales percentage increased from 45.5 % in the previous year to 45.9 %. Rising prices for some base materials such as ethylene and propylene, as well as selected specialty chemicals and packaging, were a key factor in this. The price of crude oil rose continuously until midway through the year and then experienced a dramatic drop in both the third and fourth quarters, contributing to an easing in the cost situation at year end.

Staff costs, which increased at the same rate as consolidated turnover, i.e. by 3.7 % to EUR 307.9 million, demonstrated two opposing effects. On the one hand, targeted measures to expand the workforce and increases due to collective labour agreements drove up costs. On the other, there was a reclassification of the remuneration paid to the Executive Board – the result of the conversion of Sto AG to Sto SE & Co. KGaA that was completed in March 2014. Since April 2014, this remuneration has been accounted for as other operating expenses rather than staff costs. Taken on a like-for-like basis, the rise in staff costs would have been 5.0 %.

This reclassification also resulted in an increase in other operating expenses from EUR 234.6 million to EUR 244.8 million. In addition, costs amounting to approximately EUR 2.0 million were recorded for the awareness-raising campaign "Dämmen lohnt sich" ("Insulation pays off"), which has been running since April 2014 and was initiated under the auspices of the newly founded Qualitätsgedämmt e.V. association. Other operating income fell from EUR 25.8 million to EUR 24.1 million. The higher amount from the previous year was attributed to a one-off insurance refund that was the result of a legal dispute and, in the same context, to a provision

for the repayment claim from a product liability insurance policy to be released to income. As a result, the balance of **other operating income** and **other operating expenses** stood at EUR -220.7 million after EUR -208.8 million in the previous year.

In total, consolidated earnings before interest, taxes, and depreciation/amortisation (**EBITDA**) fell from EUR 128.9 million to EUR 126.9 million. **Depreciation/amortisation** of intangible assets as well as property, plant, and equipment amounted to EUR 29.9 million on account of investments, making it higher than the previous year's level of EUR 29.0 million. Impairment testing resulted in impairment of goodwill and intangible assets amounting to EUR 1.8 million in total (previous year: EUR 2.3 million).

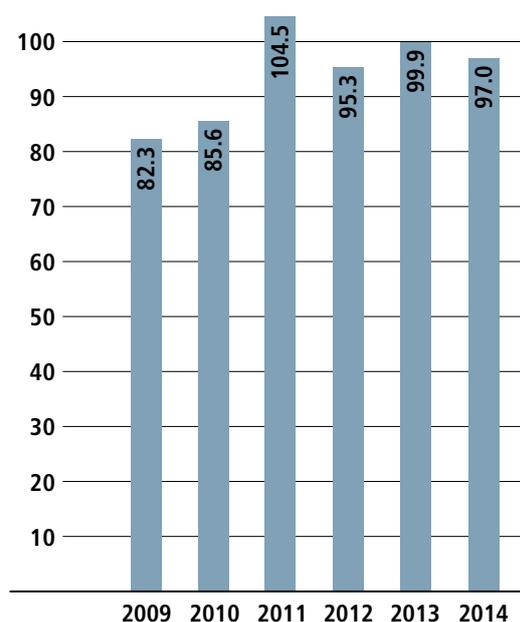
This resulted in 2014 consolidated earnings before interest and taxes (**EBIT**) of EUR 97.0 million, coming 2.9 % below the previous year's value of EUR 99.9 million. EBIT

amounted to EUR 85.7 million in the Western Europe segment (previous year: EUR 88.2 million), EUR 1.4 million in Northern/Eastern Europe (previous year: EUR 0.6 million), and EUR 10.1 million in America/Asia (previous year: EUR 11.5 million).

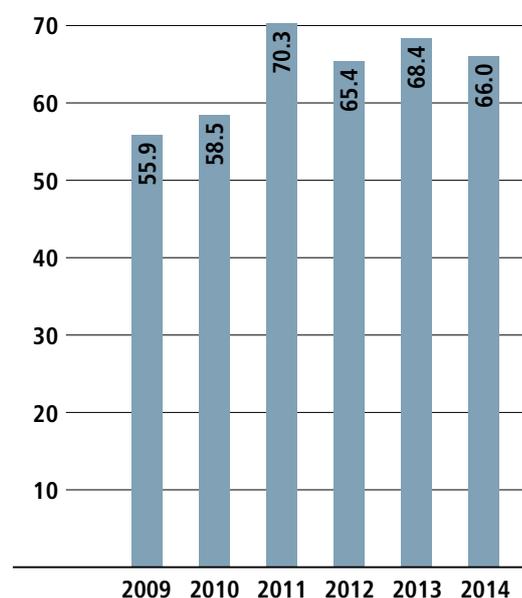
Income from financial investments and investment property improved slightly on the whole, progressing from EUR -0.9 million to EUR -0.7 million. This included a EUR 3.1 million reduction in interest expense to EUR 3.0 million; interest income, meanwhile, rose slightly from EUR 2.2 million to EUR 2.3 million in spite of continued low market interest rates.

Consolidated earnings before tax (**EBT**) dropped to EUR 96.2 million (previous year: EUR 99.0 million), with a return on sales of 8.0 % – following 8.5 % in the previous year. With a slightly increased tax rate of 31.4 % (previous year: 30.9 %), the Sto Group recorded a net profit for the year of EUR 66.0 million following EUR 68.4 million in the 2013 fiscal year.

Sto Group | **EBIT** in EUR million



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



In 2014, diluted and basic earnings were EUR 10.35 per limited preference share (previous year: EUR 10.74) and EUR 10.29 per limited ordinary share (previous year: EUR 10.68).

Sto SE & Co. KGaA – Dividend

For 2014, the parent company Sto SE & Co. KGaA reported **earnings from ordinary activities**, determined in accordance with the German Commercial Code (HGB), of EUR 79.1 million (previous year: EUR 88.8 million). **Net profit for the year** fell from EUR 71.7 million to EUR 62.8 million. The financial and asset situation of Sto SE & Co. KGaA remained extremely solid, with a slightly improved equity ratio of 77.4 % (previous year: 76.4 %).

On this basis, the personally liable partner STO Management SE will propose, through its Executive Board, a one-off dividend distribution of EUR 163,308,420.00 at the Annual General Meeting on 16 June 2015. This means that limited preference shareholders are expected to receive an ordinary dividend of EUR 0.31 as well as a one-off bonus of EUR 25.14 per share, and limited ordinary shareholders an ordinary dividend of EUR 0.25 plus a one-off bonus of EUR 25.14 per share.

Financial situation

The Sto Group's **financial management** aims to maintain the Group's liquidity worldwide, to optimise finance expenses and income, and to control and minimise currency and interest risks. We employ a wide range of financing tools in order to provide us with greater entrepreneurial scope and make us less dependent on individual markets. To this end, we work with banks which enjoy the highest credit ratings and rely on long-term relationships characterised by mutual trust.

The balanced relationship that we maintain between equity and debt capital ensures the long-term financial scope which we need in order to continue our sustainable and earnings-oriented growth strategy. Our current

financial requirements – which can fluctuate significantly with the seasons over the course of the year – are covered primarily using a combination of operating cash flow and available liquidity. If necessary, this also involves the use of credit facilities from a syndicated loan agreement, although this option is only ever required temporarily and to a limited extent. Furthermore, we made use of leases during the year under review. On 31 December 2014, the present value of disbursements due from finance leases in the future stood at EUR 1.5 million (previous year: EUR 2.5 million).

To minimise the effect of exchange rate fluctuations on consolidated earnings, foreign currency items are netted within the Group. Additionally, foreign currency cash flows within the Group are determined during the planning phase for the following year. This is used as a basis for devising suitable **hedging strategies**, which are then agreed with the relevant bodies, and subsequently implemented. Planned cash positions are hedged through hedging instruments congruent to the time and economic state from the area of derivatives.

We have implemented a **cash-pooling system** that covers a select number of our subsidiaries operating in the euro zone and optimises Group-wide liquidity management. This allows us to net cash surpluses and cash requirements automatically within the Sto Group, and minimise the number of external banking transactions. Surpluses can be invested on the best available terms, which helps improve net interest income.

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

Liquidity movements in 2014

In the 2014 fiscal year, **cash flow from operating activities** in the Sto Group increased to EUR 93.9 million compared to EUR 80.9 million in the previous year. This was primarily the result of the positive effect felt from the change in net current assets of EUR 2.7 million (previous year: EUR -15.1 million). On the other hand, consolidated earnings were lower and income tax payments higher. In relation to consolidated turnover, the cash flow margin rose from 6.9 % to 7.8 %.

The **cash flow from investment activities adjusted** for deposits and disbursements for financial investments amounted to EUR -41.5 million (previous year: EUR -30.4 million). The principal reasons behind the higher cash outflow were the disbursements for investments in property, plant, and equipment as well as intangible assets, which reached EUR 39.1 million (previous year: EUR 30.5 million). Thanks to our healthy financial condition, we were able to invest a sum of EUR 143.6 million during the reporting period, with corresponding resources of EUR 132.2 million becoming available after the end of the period. Taking these payments into account, the **cash**

flow from investment activities reached EUR -53.0 million (previous year: EUR -26.8 million).

In 2014, cash flow from **financing activities** amounted to EUR -32.4 million (previous year: EUR -43.6 million). At EUR 31.1 million, dividend distribution to our shareholders accounted for the majority of this. Where current and non-current borrowings were concerned, there were also net reductions of EUR 0.9 million in total following EUR 10.7 million in the previous year.

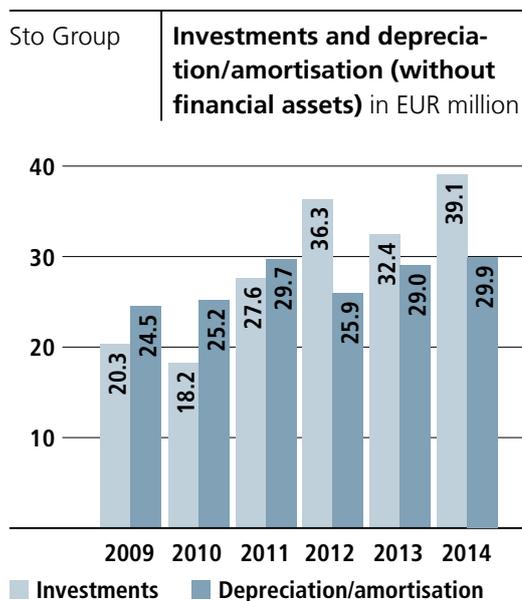
In total, the cash inflows and outflows described here, as well as exchange rate-related changes of EUR +0.6 million (previous year: EUR -1.3 million) led to an increase in **cash and cash equivalents** of EUR 9.1 million to EUR 113.0 million. This sum once again clearly exceeded the borrowings of EUR 8.3 million on the balance sheet date (previous year: EUR 9.1 million).

Investments continue at a high level

In 2014, Sto Group investments amounted to EUR 39.1 million (previous year: EUR 32.4 million) and were exclusively made in the areas of property, plant, and equipment as well as intangible assets. The total amount was below the original projections of EUR 45 million, as some large-scale projects – such as the new building at the Stühlingen location – were subject to delays. At the start of 2015, the German Sustainable Building Council awarded us a gold pre-certificate for this office building. The complex uses not only low-emission building products, but also a highly innovative energy concept involving renewable sources. As a result, the office building – which is set to be ready for occupancy by mid-2016 – meets the criteria of the zero-energy building standard.

In France, the past year saw us complete an insulant manufacturing plant that was officially inaugurated in January 2015. Other key investments in 2014 included measures implemented as part of our “Retrofit” programme,

Sto Group	Cash flow statement in EUR K	
	2014	2013
Cash flow		
from operating activities	93,884	80,913
from investment activities	-52,986	-26,849
from financing activities	-32,439	-43,566
Change in cash and cash equivalents from changes in exchange rates	614	-1,331
Cash and cash equivalents at beginning of period	103,944	94,777
Change in cash and cash equivalents	9,073	9,167
Cash and cash equivalents at the end of period	113,017	103,944



an ongoing project to replace older production plants within the Group or bring them up to the latest standards of technology. One of the first jobs involved replacing the hardware and software in the high-bay warehouse at the Stühlingen location. Furthermore, we invested in efficiency-boosting measures on Verotec production lines. This will ensure a long-term supply of raw materials for constructing acoustic systems, reduce our dependency on suppliers, and optimise both production efficiency and product quality.

Asset situation

As at 31 December 2014, the Sto **consolidated total assets** increased by 6.8 % to EUR 751.3 million compared to the same day of the previous year. Looking at the assets side, **non-current assets** saw a net rise of 7.3 % to EUR 296.6 million. As a result of investments, increases in assets particularly occurred in property, plant, and equipment. This represented an increase of 7.3 % to EUR 234.6 million, while intangible assets rose by just 0.5 % above the previous year's value to EUR 42.1 million. Year-on-year, non-current financial assets

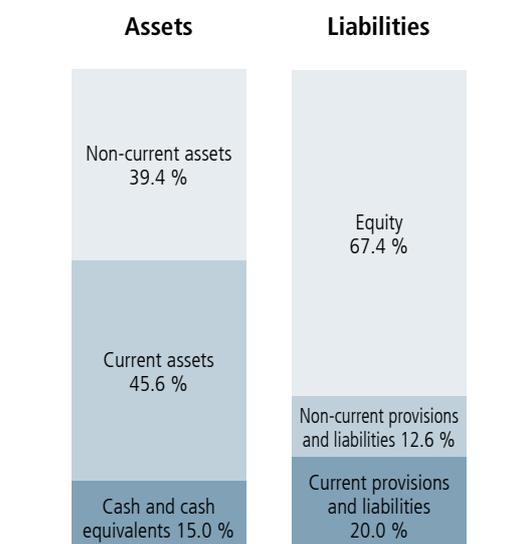
grew from EUR 1.7 million to EUR 2.0 million. Non-current income tax receivables dropped from EUR 2.1 million to EUR 1.4 million. This was contrasted with a EUR 5.1 million growth in deferred tax assets to EUR 15.4 million.

At EUR 454.8 million, **current assets** exceeded the previous year's value by EUR 27.6 million, with current financial assets rising from EUR 12.3 million to EUR 141.3 million. Cash increased from EUR 9.1 million to EUR 113.0 million and other current assets from EUR 8.1 million to EUR 10.2 million. At EUR 69.7 million, inventory was approximately 6.4 % above the previous year's value. In spite of the high turnover experienced during the last two months of the year, receivables from deliveries and services remained at the previous year's level.

On the **liabilities side**, equity increased from EUR 481.4 million to EUR 506.5 million thanks to the satisfactory consolidated net income. At the end of 2014, this resulted in another very robust equity ratio of 67.4 % (previous year: 68.4 %).

Sto Group

Balance sheet structure as at 31 December 2014



Non-current provisions and liabilities

grew by a total of 33.4 % to EUR 94.6 million. Particularly of note in this context was a sharp rise in post-employment benefit provisions of 37.1 % to EUR 81.7 million. This was primarily due to the drop in discount rates on 31 December 2014. Other non-current provisions increased from EUR 7.3 million to EUR 9.3 million, while non-current borrowings decreased from EUR 2.4 million to EUR 1.3 million.

A moderate decline of 0.7 % – from EUR 151.3 million to EUR 150.2 million – was recorded in **current provisions and liabilities**. In particular, this was the effect of the EUR 9.1 million reduction in other current provisions to EUR 22.6 million. Another significant drop of 29.3 % to EUR 4.1 million was experienced in current income tax liabilities, whereas current borrowings increased by 4.5 % to EUR 7.0 million and trade payables by 5.1 % to EUR 44.2 million.

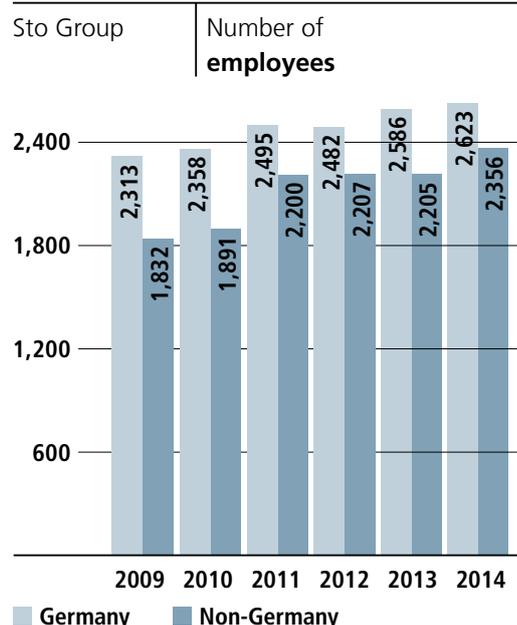
At the end of December 2014, total borrowings had decreased to EUR 8.3 million after EUR 9.1 million on the same day of the previous year. Taking into account cash and cash equivalents of EUR 113.0 million, **net financial assets** stood at EUR 104.7 million (previous year: EUR 94.8 million).

Performance of product groups

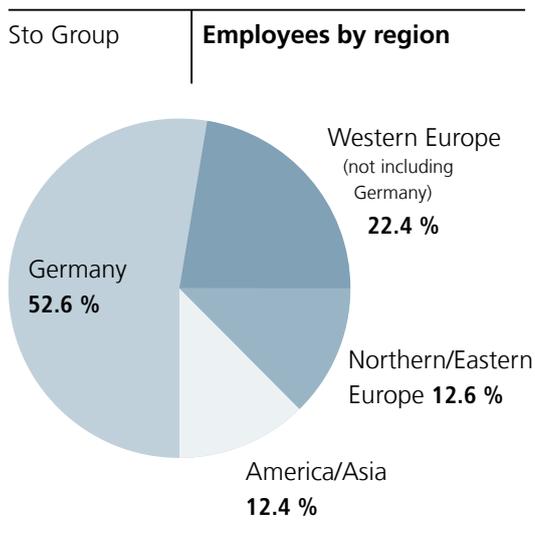
In spite of the EWIS debate taking place in Germany, the facade systems business grew by 3.7 % to EUR 608.8 million in 2014 (previous year: EUR 586.9 million). Thus, this product group accounted for 50.4 % of the Group turnover as compared to 50.3 % in the previous year. The turnover attributable to facade coatings rose by 4.7 % to EUR 280.6 million, increasing its share in Group turnover from 23.0 % to 23.2 %. In the area of interiors, we recorded an increase of 4.0 % to EUR 155.0 million (share: 12.8 %). The turnover attributable to the other business fields grew slightly from EUR 162.1 million to EUR 164.3 million (share: 13.6 %).

C. Other performance indicators**Employees****Group's workforce increased**

2014 saw an expansion in the Sto Group's workforce. At year end, the number of employees had increased compared to the same day of the previous year by 188 to 4,979 people. The workforce in the America/Asia region rose particularly significantly, by 91 employees: this was chiefly the result of the first-time consolidation of the Brazilian company. On the whole we reinforced personnel numbers in specific areas within growth markets, although targeted restructuring measures were carried out in countries battling difficult economic conditions. On 31 December, the share of the Group's workforce employed abroad stood at 47.4 % (previous year: 46.0 %). In Germany, the Sto workforce totalled 2,623 compared to 2,586 in the previous year.



The breakdown of employees according to the individual regions is illustrated in the diagram below.



The average age of the Sto workforce was 42.4 in 2014 and the proportion of female employees in the Group stood at approximately 24 %.

Strategic objectives and measures

Qualified and committed employees are one of the major strengths of Sto. They represent the Group at our customers and business partners, are brand ambassadors, and are the key factor to our long-term success. This is why we consistently provide them with support in gaining qualifications, offer excellent training and development opportunities, strive to create a pleasant working environment, and position ourselves as an attractive employer. This approach is also indicative of our Sto culture, which relies just as much on personal initiative and taking responsibility as it does on creating knowledge networks and exchanging problem-solving skills.

The fundamental goal of our human resources measures is to make a measurable, added-value contribution towards achieving our

strategic objectives. To achieve this ambitious aim, in 2013 we began realigning our human resources work at Sto and pursuing internationalisation more and more. There were six key projects on the agenda in 2014: management and employee development as well as career planning; creating competitive employment conditions; increasing our attractiveness as an employer; further developing expertise and knowledge management; developing target groups in specific ways in order to foster talent; plus internationalising and professionalising human resources management across the Group.

Every Sto company throughout the world was involved in the process of implementing these projects. This allows us to harness the whole wealth of expertise in the Group and incorporate the tools and experience that all our subsidiaries have at their disposal. At the same time, we make sure to take account of various conditions and requirements. Personal contact and face-to-face cooperation are crucial to implementing our strategic human resources measures.

Our international human resources strategy has been defined with a long-term view in mind and is being consistently pursued, even despite the fact that mid-2015 management of human resources within the Sto Group will change.

Another key aim in our personnel policy is to keep the number of accidents as low as possible. We aim to achieve a rate of consistently fewer than ten reportable **accidents at work and on the way to work** per 1,000 employees. In 2014, the rate at Sto SE & Co. KGaA (Sto AG up to 26 March 2014) reached 15.6 after 13.4 in the previous year. We hope to achieve a steady improvement in this key figure through ongoing inspections and optimisations in the areas of occupational safety, day-to-day preventative measures, events designed to communicate information, and training sessions. As



At the end of December 2014, the Sto Group's employee headcount was 4,979.

a means of further enhancing safety at work, 2014 also saw the introduction of software for documenting risk assessments. This software is multilingual and can therefore be used world-wide.

Furthermore, we want to achieve a low **fluctuation rate** – in the lower single-digit range – across the entire Group. In Germany, this is a goal we met again in 2014 with a value of 2.0 % (previous year: 1.8 %). At Sto, we calculate the fluctuation rate 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.

Systematic health management

As part of our Group-wide Fit@Sto health management programme, we have developed a range of tools for boosting the vitality and well-being of our employees, creating an environment that promotes health and performance, and increasing people's sense of responsibility for looking after their own bodies. Our actions, which are focused on specific target groups, passed the "berufundfamilie"

("Work life and family life") audit in the case of both Sto SE & Co. KGaA and StoCretec GmbH located in Kriftel. The first re-certification took place in 2013.

In 2014, we offered seminars on subjects such as "Let go of stress" and "Healthy leadership in practice", as well as seminars designed to help people stop smoking. We implement a range of measures for promoting sports activities among our employees, and regularly organise consulting services covering issues such as living wills/healthcare power of attorney and care.

Qualification and training activities

Within the context of our intensive training activities, in 2014 we ran a number of manager development programmes as well as leadership training designed specifically for SalesCentre managers. By equipping junior members of staff from within our own company with the skills they need, we are also launching a counterattack on the shortfall in specialist and management staff, an issue that is set to intensify over the coming years due to demographic trends.

The range of training on open offer was rounded off by individual internal team development workshops and one-on-one coaching sessions. These mainly covered the subjects of languages, communication, working techniques, and safety at work.

Training at Sto

We also attach great importance to a proactive training and apprenticeship policy. Every year we offer committed young people, especially in Germany, the chance to learn one of now 24 future-oriented occupations within our Group. At the beginning of the 2014/2015 training year, we took on 72 young apprentices at the German locations – eight more than in the previous year. At year end in Germany, we had a total of 187 trainees and students of

cooperative state universities (previous year: 191). In relation to the total German workforce, this resulted in a rate of 7.1 %. As a result, Sto far exceeds the 5.2 % training rate of all the businesses working in the chemical industry in Germany.

In 2014, Arbeitgeberverband Chemie Baden-Württemberg (employers' association in the chemical sector in Baden-Württemberg) recognised the significant commitment of Sto SE & Co. KGaA to training by awarding the company the certificate "Ausbildendes Unternehmen der chemischen Industrie" ("Chemical Industry Training Company"). This particularly acknowledges the significant value that we place on our training activities within our corporate strategy. In recognition of the above-average training rate we achieved in relation to the total workforce, we also received an accolade for exceptional services to training.

The wealth of information that we provide for young people is exemplary too: in 2014, we once again participated in several training fairs and career orientation conventions around Germany with the aim of spreading the word about the training opportunities and prospects available in the Sto Group, and recruiting talented young professionals for our company. In



Members of Sto's younger generation were proud to showcase their company at the Jobs for Future vocational training fair in Villingen-Schwenningen/Germany.

keeping with our holistic approach to training, among our youngest employees we foster a sense of social commitment as well as support for social and ecological projects.

Research and development

Innovation among the competition

Intensive work in the field of research and development is one of Sto's central strategic elements. By creating innovative solutions and products, and continually reinforcing our expertise, we hope to secure the position we are aiming for as a technology leader in our industrial sector and tap into additional new markets and groups of customers. Our Group-wide R&D work takes place predominantly at our Stühlingen headquarters, but occasionally also at other locations. In 2014, the year under review, research and development costs accounted for EUR 12.9 million with an impact on profit and loss (previous year: EUR 11.7 million). This equates to 1.1 % of turnover (previous year: 1.0 %).

One of our most significant development projects in 2014 was the new, highly quick-drying **StoColor Dryonic** facade paint. The idea is based on biomimetics: the practice of transferring a phenomenon occurring in nature to a technical application. In this specific case we used the principle of a desert beetle, which modifies particular sections of its surface so that they become hydrophilic or hydrophobic micro-areas, creating an exceptionally quick-drying effect. Using a similar approach, our StoColor Dryonic facade paint – unveiled in January 2015 at BAU in Munich, the world's leading trade fair for architecture, materials, and systems – is able to significantly reduce the risk of alga and fungus growth without the use of biocides. Not only is this new paint the perfect addition to our second biomimetic product, StoColor Lotusan, it also offers the

potential to be used in a much wider range of applications. StoColor Dryonic can be used on plastic, concrete, or stone surfaces, hence significantly enhancing our range of facade paints. Climate protection company Climate Partner GmbH recognised this innovation by naming it Germany's first climate-neutral facade paint.

Our development of the new **StoSilco blue** finishing render for the StoTherm Classic S1 non-combustible facade insulation system also focused on natural protection against algae and fungi without the use of biocidal film protection. In this case, infestations by micro-organisms are obstructed by optimising the water balance. The system was honoured with the Blue Angel in recognition of its exceptional level of environmental compatibility.

In 2014, we expanded our interiors range by adding products such as the **StoColor Titanium ASE** paint, which combines maximum load-bearing capacity with outstanding cleanability. This prevents surfaces from being easily scuffed, something which often affects walls that are subject to mechanical loads. Where

this happens, pigments are broken down, the affected areas appear glossy, and the overall look of the surface suffers considerably. The outstanding properties of the dead-matt dispersion paint particularly come into their own in dark, intense colour shades and areas of application that require durability, such as staircases, nursery schools, and hospitals.

Where our mineral products are concerned, the **StoCalce Functio** system is one of our most significant developments of recent times. Its ability to regulate moisture in interiors is considerably more effective than comparable products such as Rotkalk and loam rendering. The system received the Product Innovation 2015 award from the Bundesarbeitskreis für Altbaurenewerung (German Federal Working Group for Renovation) and Munich trade fair venue Messe München.

In addition to product innovations and further developments, our R&D activities also cover **fundamental research**, with the aim of unlocking new technologies at product and process level in the medium to long term. One example is the EU-funded "Retrokitt" project, which conducts research into new, inexpensive solutions for energy efficiency measures in a range of European climates. As part of its fundamental research, Sto frequently works with external bodies such as universities, industry partners, and suppliers. Collaborating with our procurement partners, for instance, we test new raw material concepts and how they can be applied to Sto Group products.

Product manager Petra Friedrich and Dr Andreas Weier, Head of Research and Development, accept the award for product innovation from German environment minister Dr Barbara Hendricks.



Production and procurement

Leading process expertise

Sto mainly produces coating materials such as renders, plasters and paints. These are manufactured in specialised production facilities. The most important input materials are lime, marble and quartz sands, cement, pigments,

silicates, silicones, and water-based dispersion agents. Our products' excellent quality is based on our extensive process expertise in the fields of product development and manufacturing, something we continually work to expand.

In addition to conventional coating materials, since 2010 we have also been producing some of the insulation materials we sell, such as EPS boards, ourselves. For this purpose, we began operating high-capacity plants under the auspices of Innolation GmbH at our locations in Lauingen, Germany and – in January 2015 – Amilly, France. With our own production, which serves exclusively the supply needs within the Group, we reduce our dependency on suppliers and increase our depth of added value. In addition, we build up our technological know-how, since we aim to develop innovative insulants in particular.

Worldwide production network

At the end of 2014, the Sto production network comprised 27 facilities in total. Of these, 10 plants were located in Germany and 17 abroad. During the successive expansion of our plant structure, we have been focusing not only on markets that offer the right amount of potential for demand, but also on tapping into new regions. In Santiago de Chile, we purchased a new production site that allows us to manufacture both wet and dry products. During the year under review, we implemented efficiency-boosting measures at Verotec in Lauingen and modernised the production facilities at the Sto SE & Co. KGaA plant in Donaueschingen.

The exceptionally low rate of faulty batches – that is, the proportion of the production quantity that cannot be delivered due to defects – is testament to the outstanding performance that Sto plants deliver. We aim for this value to remain below 0.1 % across the Group. This is something we have already achieved almost without exception in our

European plants. In particular, our production employees are encouraged to identify with this quality objective as well as identify, address, and eliminate any potential areas of weakness well in advance.

Comprehensive quality management

We have established a comprehensive quality and environmental management system in our production, with records maintained at all locations and internal auditing also carried out at all production sites. At the end of 2014, 21 of the 27 plants in total throughout the Sto Group had also received external certification according to international standards such as ISO 9001, ISO 14001, and SHARP. The remaining locations are set to be certified externally in the years to come as well and existing audits are to be extended, a process that we will base on the ISO 50001 and OHSAS 18001 standards. The systems that have been implemented ensure a methodical and verifiable approach to data acquisition and target formulation across the business. This contributes to the continuous improvement of our resource utilisation.

As a market-leading supplier of external wall insulation systems, in Germany Sto also enhanced its existing quality management strategy in the area of EPS insulation boards by putting the following additional quality assurance measures in place:

- More stringent requirements for quality agreements with all suppliers of insulation boards
- Additional daily inspections by suppliers during production
- Monthly monitoring of quality data from these suppliers
- Regular audits of suppliers by Sto Group specialists
- Additional external supervision of all supplier production sites by external, certified test institutes

Procurement

The basic materials required in the manufacture of facade coatings, such as sand, cement, and lime, were available worldwide without any restrictions in 2014. There were, however, some problems with the availability of particular base materials, such as ethylene, propylene, and vinyl acetate monomers.

These supply shortfalls, and the rise in crude oil prices that continued until midway through the year, resulted in a first half of the year that was characterised by ever-increasing costs, particularly where dispersions and packaging pails were concerned. This trend did not cease until after the summer months. The significant drop in crude oil price that was felt in the third quarter of the year was only partly able to offset the rise in material costs, with the result that the cost of sales percentage in relation to total revenues across the Group rose from 45.5 % to 45.9 %.

Procurement management

Sto pursues a proactive policy of procurement management, which ensures uninterrupted security of supply at all production sites. It is based on many years of close cooperation with our suppliers. In 2014, we continued to refine our approach to procurement management so that strategic partners could be integrated into the product development process at an early stage. Pooling our Group-wide purchasing activities was another of our focal points. This approach involves reducing product and system complexity to the furthest possible extent and standardising areas of our portfolio where it makes sense to do so.

To ensure we are always procuring high-quality input products, we perform a systematic supplier evaluation twice a year at our key European Sto companies. As part of this, the companies are assessed according to the criteria of price, quality, commercial cooperation, sustainability, and supply conditions.

These are weighted in different ways and the results condensed into a single key figure. The maximum score is 100; with a result of 89.4 (previous year: 89.3), Sto SE & Co. KGaA (Sto AG up to 26 March 2014) was just slightly below its 2014 target of 90.0 (previous year: 89.0).

Another cornerstone of our purchasing strategy involves early identification of price changes and any supply shortfalls in procurement markets. For that reason, our risk management strategy involves us systematically monitoring crucial raw materials, continually checking the financial stability of our main suppliers, and relying on intensive global supplier notifications as well as long-term framework agreements. We also expect our suppliers to meet our own high standards of quality in the materials with which they provide us.

As part of our **stock management system**, each individual Sto company is allotted a target percentage for its stock value (average stock in relation to annual turnover) on the basis of its product range and prevailing market conditions. This can range from 2.5 % to 10.0 % depending on whether the company is purely commercial in nature or is a production company, and with the level of automation taken into account. The targets specified were largely achieved in the year under review, with any excess values analysed and countermeasures introduced.

The Group-wide Procurement Policy pursues our goal of reinforcing our global purchasing network and combining our internal requirements more effectively so that we can tap into additional benefits in the purchases we make. With the close cooperation of our subsidiaries, we have also carried out a targeted programme of standardising and reducing overall procurement costs.

D. Events after the reporting period

On 27 March 2015, the Supervisory Board of STO Management SE, which manages Sto SE & Co. KGaA as the personally liable partner, decided on further actions for restructuring the Executive Board, especially for the time after the departure of the Chief Executive Officer, Jochen Stotmeister:

- Executive Board member Rainer Hüttenberger was appointed Spokesperson of the Executive Board with effect from 1 July 2015.
- Michael Keller was appointed Member of the Executive Board with effect from 1 July 2015.

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

E. Risks and opportunities report

Risks and opportunities

As a Group with a global presence, Sto faces opportunities and risks just like any other company. In many cases, it is only possible for us to seize opportunities if we accept that they will be accompanied by certain risks. The risk strategy developed by STO Management SE, as the personally liable partner of Sto SE & Co. KGaA, provides for opportunities that arise to be exploited with rigour, while undertaking risks only where a commensurate contribution to corporate earnings can be expected. This means that managing 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 Sto follows a positive path over the long term.

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, to assess the expected effects on the earnings, finance, and asset situation, and to implement appropriate countermeasures.

The most important constituent of the risk management system is a detailed **reporting system** that has been standardised for the Group. It records all operational activities, from purchasing through production to distribution, both quantitatively and qualitatively in accordance with a specified scheme. Through continuous monitoring of clearly defined key figures, we can identify undesirable developments at an early stage and quickly initiate countermeasures. It is supplemented by a **risk manual** defining various risk categories, guidelines for assessing risks, and procedural instructions for every Group company. This manual is binding throughout the Group. These two instruments are complemented by an annual **risk inventory**, which is used to document all current risks on a timely basis. The managers of the respective business fields are required to notify the central investment controlling department immediately of any relevant new risks which are identified in the course of the year.

Sto works with internationally renowned **insurance companies** to insure material property and assets against loss and consequential business interruption caused by unforeseeable events such as fire, explosion, or natural disasters. Third-party liability damages caused by Sto or Sto products are also covered by insurances. We bear minor damage ourselves, while maintaining a sufficiently high coverage against major claims. Still, our insurance coverage may turn out to be insufficient in individual cases. In order to reduce the risk of underinsurance,

we regularly review our insurance coverage and perform risk analyses together with our subsidiaries and other business fields. Here, we also seek the advice of an internationally operating and experienced industry insurance broker.

Internal control system

As a supplement to our risks and opportunities management system, we have also implemented an **internal control system (ICS)**. With regard to the accounting process within the Sto Group, this system covers all principles, procedures and measures which are intended to ensure the effectiveness, economic efficiency and reliability of the consolidated accounting and compliance with the relevant legal requirements. The ICS also incorporates an internal monitoring system comprising in-process elements and elements independent of the process concerned. Important in-process measures are checks such as the "dual-control principle", which are implemented according to the maturity of the company. Added to this are machine-based IT process checks.

We use the SAP system software that we have set up in many of Sto's companies to manage our IT-assisted accounting process; by applying our practices Group-wide, we ensure the correct and reliable processing and recording of all accounting data and details. Back in 2011, we introduced an electronic workflow based on the SAP system for centralised invoice processing and archiving, starting with Sto SE & Co. KGaA (Sto AG until 26 March 2014). Since 2012, we have been gradually rolling this out to our subsidiaries. Access to various types of data is clearly regulated and corresponding access restrictions are in place.

A manual containing corporate accounting guidelines, which is regularly updated, provides the basis for drawing up the annual financial statements in accordance with IFRS, which must be included in the consolidated annual financial statement of the Sto Group. The aim of the

guidelines is to ensure the uniform implementation of valuation and reporting rules throughout the Group. All balance sheets, income and cash flow statements drawn up by the subsidiaries and other business fields are audited by the Group accounting department and the central investment controlling department to verify that they are correct, complete and in compliance with the accounting guidelines.

The guidelines' stipulations include the use of a standardised, complete set of forms and a uniform system of accounts across the Group. The manual also includes specifications on the presentation and handling of Group accounting and the corresponding balance reconciliation.

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

We also ensure the correctness and reliability of our accounting processes by applying specific key figure analyses, and through the processing and control of highly complex business transactions by different persons. The separation of administrative, implementing, accounting, and approval functions and the performance of these functions by multiple persons (dual control principle) 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. In this context, a

meeting focusing on the annual financial statements takes place for each operationally active subsidiary between representatives of Group accounting or investment controlling, the local Management Board, and, in most cases, the Chief Financial Officer of STO Management SE as a representative of the Group's parent company – as well as the applicable national control committees, such as the "Board of Directors" (BOD), with participation of the local auditor. If necessary, the Chief Executive Officer of STO Management SE and the Group auditor also take part in the meetings.

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 Internal Revision department, which was established in 2012, ensures that our increasingly complex corporate processes also remain transparent in the future. Simultaneously, this ensures that increasingly strict compliance requirements are met. As an independent department, Internal Revision reports directly to the Chief Executive Officer of STO Management SE and to the Chairman of the Supervisory Board on issues of compliance.

The effectiveness of the RMS and ICS is regularly examined in accordance with the relevant statutory requirements – externally by our auditor as part of his auditing commission and internally by the Investment Controlling and Group Accounting departments as well as Internal Revision. 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.

By way of qualification it should be pointed out that decisions based on personal judgments, flawed checks, criminal actions by individuals, or other circumstances may impair the effectiveness and reliability of the deployed ICS,

in view of which even Group-wide application of the deployed systems cannot fully guarantee the correct, complete and timely recording and reporting of facts in the Group accounting.

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

Dependence on weather conditions

A proportion of Sto's products is used on the exterior. This means that their application is dependent on weathering influences, something on which Sto can only have a very limited effect. Consequently, a long and harsh winter can negatively impact on sales at the start or end of a calendar year, with the effects in some cases unable to be fully recouped in the following period 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, result in upward or downward shifts in consolidated earnings before interest and taxes (EBIT) by as much as EUR 20 million to EUR 30 million.

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 a very important role in this. Here, some sales of building products respond 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. We counter this economy-based risk mainly through internationalisation of our business activities, which ensures regional diversification and makes us more independent of cyclical fluctuations in specific countries. This also puts us in a position to avoid subsidiary risks for the Sto Group resulting from market interest rate changes: significant rises in interest can result in a decline in building investments.

Risks in the procurement of raw materials

To manufacture its facade and coating products, the Sto Group requires 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.

To a certain extent, the prices of our self-produced products and commercial products are dependent on crude oil; these include paints, renders, and polystyrene insulation boards, for example, and even our plastic containers (e.g. yellow Sto pails). The price of crude oil is highly volatile as it largely depends on the performance of the global economy and the political environment. In the medium to long term, the price trend is expected to make a climb. The demand for numerous speciality chemicals such as titanium dioxide, particularly in emerging and developing countries, is also set to increase over the long term.

In the Sto Group, strong increases in procurement prices could trigger a significant rise in material costs in a short period of time. 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 rate. Based on our experience, costs of sales can increase by up to two percentage points, which in turn can result in a decline in earnings of as much as EUR 25 million.

Price and cost effects aside, a rise in demand for various raw materials and goods could also trigger occasional supply shortages in extreme cases. We confront these risks through advance procurement as well as early contracts with our partners and suppliers. Additionally, the Sto areas of 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 relevant raw materials. To this end, alternative materials and suppliers are also assessed for their suitability.

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 current debate being held in Germany on the advantages of facade insulation systems, on their ecological impact, fire protection issues, and efficiency, and on building culture, have investors and private building owners adopt a cautious attitude. Recently, feelings of uncertainty have been fuelled further by conflicting and, in some cases, highly exaggerated media reports. Against this backdrop, the entire industrial sector faces the risk of failing to fully exploit sales potential over the short to medium term. As the market leader, Sto could potentially feel an above-average impact of this, which in turn would be reflected in corresponding levels of turnover and income losses.

The Qualitätsgedämmt e.V. association and Sto hold the belief that it is possible to bolster the confidence of users and consumers by providing them with objective information and clear explanations of the product properties that facade systems offer. It is also important to add that criticism has chiefly been levelled at systems containing EPS insulation boards, which are only used in one section of our system

range. Sto also offers a number of alternative insulation materials that ensure high-performance facade systems, as well as other products. Additionally, this sales risk is mitigated by Sto's success in regional diversification and the long-term upward trend in energy prices, which has made facade insulation an appealing prospect from a financial perspective. Another plus point in this area is policy-makers' commitment to adhere to targets for achieving energy savings and CO₂ reductions; this also opens up opportunities for launching relevant incentive measures.

Additionally, Sto has used the conflicting and, in some cases, highly exaggerated media reports as an opportunity to anchor the additional quality measures outlined under "Comprehensive quality management" in the "Production and procurement" section, and has since established a standard of quality management that far exceeds what is generally found on the market.

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

Warranty-related and legal risks

Ongoing research and development activities are of strategic importance for the Sto Group. Innovations 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 transparency of risk.

At the same time, however, innovations can involve risks. While new products or product

versions are only ever launched on the market once they have undergone extensive testing, we will never be able to completely rule out the possibility of warranty claims against companies of the Sto Group, including claims arising after some time has elapsed. We reserve the right to react appropriately to recognised risks through adequate innovations or modification of mature products.

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

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

A further legal risk for companies of the Sto Group is that of liability associated with consultancy services, as the range of what we provide is rounded off by supplementary services. For example, employees of Sto SE & Co. KGaA provide our customers with support in relation to tenders, quotations, technical issues, and build-

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

Payment default risks

In times of recession the building industry also faces an increased risk of default on receivables. To avoid or mitigate 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. The most important component of the system in place in Germany is a set of rules containing guidelines for granting and monitoring merchandise credits. Strict application of these rules has allowed us to keep the default quota at a low level even during difficult economic times.

Currency risks

As a result of the consistent internationalisation of its business activities, Sto is increasingly exposed to currency risks. We control these risks by means of currency hedges. This involves relevant risks from foreign currency cash flows being analysed, recorded, and reduced by applying suitable hedging measures; these processes take place throughout the Group. Our main focus is on the currencies of countries where we do not have production equipment, i.e. where regular supply and cash flows are necessary to maintain business operations. In 2014, this particularly affected Switzerland, Canada, Poland, the United Kingdom, Hungary, the Czech Republic, Sweden, and Norway. In addition, in specific cases and where necessary, we perform additional hedging.

IT risks

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

the Sto Group. Serious malfunctioning like system failures, attacks on our networks, and loss or manipulation of data have the potential to endanger Sto's supply readiness and result in declines in turnover. With this in mind, in 2013 we started planning and implementing further-reaching cyber security measures in order to ensure maximum continuity, integrity, and availability. We believe that Internet-based services (the cloud) harbour both legal and technological risks, so we do not currently use these for company-related information and processes.

Continuity:

The core systems necessary to the Sto Group's operating business, such as SAP and Lotus Notes, are deployed in redundant and fully virtualised form. This ensures maximum continuity of the systems and the appurtenant services. In order to counter the consequences of possible collateral damage in the computer centre, an adequate physical separation of the existing, redundant computer centres has also been initiated. The data on the core systems are backed up daily and stored separately.

Integrity:

To prevent unauthorised access to the Sto Group's information systems, as far as possible we use technological security systems available on the market. Besides this multiple-step architecture, we also counter the risk by adopting a restrictive approach to issuing access authorisation and prohibiting the storage of company-related information in unprotected areas, such as Internet cloud systems. This is regulated by a comprehensive IT Policy.

Availability:

The redundant configuration of all core operational systems and network connections ensures maximum availability for all key business processes. An automated monitoring system

serves to continuously monitor system availability. We counteract risks that might result from a difficulty in replacing hardware components or the inability to update software using a gradual programme of modernising infrastructure in the computer centre and as part of our “Retrofit” project.

Human resources risks

The success of the Sto Group is primarily based on the knowledge and commitment of our employees. If, in the light of the increasingly strong competition for professionals and executives, we do not succeed in recruiting appropriate personnel, this may have a negative impact on our future corporate development. This risk may become even more serious in the medium to long term due to demographic trends, particularly in western industrialised countries. Not only could the pool of talented young professionals become smaller, but many people may also leave the company for reasons of age which would entail loss of knowledge.

Sto SE & Co. KGaA implements numerous measures to eliminate these risks and position itself as an attractive employer. For example, we provide extensive career development opportunities as well as excellent further and advanced training, and we take steps to make achieving a good work-life balance easier. This will enable us to win over new professionals and executives, while at the same time fostering the sense of loyalty felt by those already working for Sto.

Risks arising from fluctuations in payment flows

As a result of the seasonal variability affecting Sto products, the demand for liquidity to finance current business 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, we dispose of an adequate and contractually guaranteed variable credit facility as part of a syndicated loan agreement.

To further reduce our exposure to liquidity risks, we also maintain intensive communication with our banks and operate an active financial management system. Where necessary, 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 liabilities to banks at variable interest rates.

Since 2012, the Sto Group’s treasury activities – which, like our internationalisation strategy, is becoming increasingly important – have been pooled and handled in an independent department. This measure strengthens and further centralises the recognition and control of financial resources for internal and external financing as well as financial risk management. In 2014, the key features of a treasury guideline with a modular structure were sketched out, with step-by-step expansion and implementation of the guideline set to take place. It aims to define and outline clear rules and regulations.

Environmental risks

Manufacturing Sto products poses only minor environmental risks, as production takes place in modern, largely automated plants. We have also implemented an environmental management system geared to international standards. More information about our environmental protection measures can be found in the section entitled “Production and procurement” and in the Sustainability Report in this Annual Report.

Opportunities and risks for business development in 2015

Predictions on future business development are generally subject to major uncertainty. At Sto, one of the major factors to account for is the set of highly volatile general conditions to which the international construction industry

is exposed. Furthermore, our planning is based both on our own forecasts concerning trends in currencies that are relevant to Sto, which may also be subject to significant fluctuations, and on the assumption that a stable political environment will prevail. Should our estimates prove incorrect, however, then expectations for 2015 may deviate from the actual situation.

Additionally, the risks presented may bring about some short-term influencing factors that may have either a positive or a negative effect on Sto's development. One such factor at the moment is the issue of sovereign debt within the euro zone. 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 numerous European nations (in some cases, on a significant scale) as part of fiscal consolidation efforts. In the countries affected by this, this could result in a decline in construction investments in the public sector.

The current debate surrounding the ecological impacts, fire protection issues, and efficiency associated with facade systems, and surrounding building culture in general, is continuing with no end in sight in the foreseeable future. The conflicting and, in some cases, highly exaggerated media reports have the potential to awaken strong emotions, such as anxiety, which industry associations and companies may find difficult to quell. With this in mind, it is not possible to make a reliable prediction of how EWIS sales will develop. Where declines are concerned, Sto may be particularly heavily affected given its position as a market-leading company.

If the world's economy recovers more effectively in 2015 than research institutes

have predicted, the demand for raw materials may rise at a disproportionate rate and lead to significant price increases that exceed our plans. These higher costs could be balanced out by turnover effects resulting from higher demand for construction services. 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 are a possibility during the winter months – a time when it is not usually possible to carry out any work on construction sites – and may have a positive effect on the turnover and earnings situation.

Government funding has shown to have a positive impact on the sale of facade systems. Therefore, Sto can expect opportunities to arise when new programmes are launched or existing ones are extended. This does, however, require these incentive measures to be designed in a transparent way that is tailored to the relevant target groups. Otherwise, the measures may not have the corresponding effect and facade product manufacturers may not be compensated for the advance expenses they have incurred. Delays in decisions on the policies underpinning these measures also exacerbate the risk to which providers are exposed, as potential building owners may refrain from making investments, resulting in temporary demand shortfalls.

Provided that the economy performs better than expected in regions where we make plans with a great degree of caution, 2015 will see opportunities for business development. This is particularly the case in Southern European countries, but it also affects German-speaking regions.

Targeted internationalisation of our activities will also open up opportunities for growth,

arising from exploiting new markets as well as from more intensive development in countries in which we are already represented.

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

Overall risk exposure

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

F. Outlook report

Global economy

For 2015, the International Monetary Fund (IMF) anticipates further moderate growth in the global economy, amounting to 3.5 %. Economists are especially optimistic about the development in the economy of the USA, expecting GDP growth of 3.6 %. By contrast, the euro zone economy is only set to expand by around 1.2 %.

At 4.3 %, the increase experienced in emerging and developing countries is expected to be slightly weaker than in 2014. The continued slowdown in growth seen in China (+ 6.8 %) plus the recession forecast for Russia (- 3 %) are set to have a particularly burdensome effect. The course of growth in Latin America and Brazil is likely to remain at the same pace as that of the previous year.

Germany, however, is once again expected to see a subdued economy in 2015. The German Council of Economic Experts believes that gross domestic product growth will amount to 1.8 %, with the rise likely to be attributable mainly to the domestic economy once again. This depends on positive impetus from private consumers, driven by the continued good health of the labour market and rises in real wages. Investments in plant and machinery are not expected to make any significant contributions towards growth.

Trends for the international construction industry

According to calculations of Germany's two central construction industry associations – the Hauptverband der Deutschen Bauindustrie and Zentralverband des Deutschen Baugewerbes – in 2015, overall turnover in the **German construction industry** is set to rise by 2 %. This would result in the 100-billion mark being exceeded for the first time since 2000, despite a slower pace of growth. In the residential construction sector, the investment environment is extremely favourable, particularly as a result of the historically low level of mortgages and the minimal returns on alternative capital investments. An increase of around 3 % is expected here. Where commercial construction is concerned, an increase in turnover of 1.5 % is considered realistic as things currently stand, while even lower growth of just 1.0 % is expected in public-sector construction.

According to EUROCONSTRUCT, the **European construction industry** is also expected to pick up some speed in 2015; specifically, it is working on the basis of an expansion in construction activities amounting to more than 2 %. Residential construction, which is highly dependent on economic development, has a lower percentage rise forecast than civil engineering. Many European countries are continuing to experience a challenging financial situation, which is preventing a rapid revival in construction demand within Europe. France and Italy, therefore, are not expected to show any signs of stimulus, whereas a slight increase in construction activities is forecast for Spain and the United Kingdom. It is currently believed that renovation measures on existing buildings will develop in a much more stable fashion than activities involving new buildings. Significant growth in the area of modernisation is anticipated across Europe.

According to GTAI, the construction industry in the **USA** is set to enjoy an upswing during 2015. A rise in the economy means that prospects for building construction are also good, with commercial construction especially likely to gain momentum. Infrastructure construction could also rise even more sharply, whereas current expectations are that the increase in residential construction will lose some of its impetus. An increase of 10.4 % is forecast here. Environmentally friendly and energy-saving construction types represent a growing trend. While demand in this area is still relatively low, particularly where residential construction in the USA is concerned, there is significant potential for sales of energy-efficient and environmentally friendly building products.

In **China**, the construction industry's period of weakness that began in 2014 is likely to continue. GTAI expects 2015 to see a decline both in property investments, which represent around 15 % of GDP in China, and in the construction industry, which is accountable for

6.8 % of the country's economic performance. The extent to which this downswing will persist, or when a revival will commence, is not currently clear. For 2015, the UBS banking group forecasts a 5 % to 10 % drop in property sales and a 10 % drop in new construction projects, even though both the government and the central bank are expected to put additional support measures in place. China also hopes to invest more resources in energy-efficient and green building technology.

Projected performance of the Sto business segments

Assuming that the underlying economic conditions develop as forecast, we expect the **Western Europe** segment to see an increase in turnover reaching almost the middle single-digit percentage range in 2015. However, the situation in parts of Europe – France and Italy in particular – is likely to remain a challenge.

In the **Northern/Eastern Europe** segment, business volume is likely to grow in the upper single-digit percentage range in 2015. As things currently stand, Sto may be able to expand particularly in those Northern European countries that largely escaped the effects of the financial crisis. Where Eastern Europe is concerned, trends will largely be dependent on how the Ukraine crisis develops, as many companies maintain close business relationships with CIS states in this region. As a result, restrictions on export permits and financial market sanctions imposed on Russia could have a debilitating impact.

For 2015, we also forecast growth for the **America/Asia** segment despite the expectation of weakened growth rates because of economic development, especially in China. In America, Sto Corp. is set to benefit from the healthy conditions in the US construction sector, and in the South American countries we benefit from intensified market cultivation. Currently, we expect net turnover in America/Asia to reach

the top end of the upper single-digit percentage range.

Projected performance of the Sto Group

Across the Group, Sto SE & Co. KGaA 2015 expects to see a 5 % rise in turnover to around EUR 1,270 million. This forecast is based not only on the development that individual regions are likely to experience, as described previously, but also on the anticipation that demand for facade systems in most countries will rise somewhat more significantly than in previous years. We are also currently working on the basis that the euro will remain relatively stable. Pressure on sales prices is likely to continue.

The current reporting period began in typical fashion for the time of year. Thanks to the exceptionally mild weather experienced during the first few months of 2014, consolidated turnover remained significantly below the previous year's level.

As things stand, consolidated earnings before interest and taxes (EBIT) in 2015 are likely to amount to between EUR 92 million and EUR 102 million. The exceptionally low crude oil price at the beginning of the year is resulting in a short-term period of easing affecting many crude oil-based raw materials. However, we expect the price to rise gradually from the second quarter onwards. We also anticipate higher procurement costs for accessories such as aluminium profiles. Earnings before tax (EBT) are expected to reach between EUR 90 million and EUR 100 million. Where the resulting return on sales is concerned, we are also likely to see a value between 7.1 % and 7.9 %.

The number of **employees** is set to rise once again in 2015: we are reinforcing workforce numbers in specific areas within growth markets, although targeted restructuring measures are being carried out in countries battling difficult general economic conditions.

We have planned a budget of approximately EUR 45 million for **investments in property,**

plant, and equipment. Key initiatives are the construction of the new office building in Stühlingen, plus additional efficiency-boosting measures within the Verotec production facilities. We also intend to invest in optimisations of location structures in Germany, updates to hardware and software, and equipment replacements as part of our "Retrofit" project.

Turning to the area of **financing**, we do not currently have any extraordinary measures planned for 2015.

General statement on future development

Sto is one of the leading providers of high-quality facade systems and coatings, has a strong position on the market as well as solid financial and asset conditions, and is on a path of earnings-oriented growth. This situation is based on the company's top-quality product range, which has a comparatively broad scope within the industrial sector; its excellent innovation skills that have been significantly enhanced by external specialists, areas of expertise, and experience; and its efficient distribution system. As a medium-sized business operating on a global scale, we also benefit from our position as a reliable partner that acts exactly as it is expected to, and from our international presence, which we are set to develop in specific areas over the coming years.

On this basis, we are confident that we can reach the objectives we have envisioned for the long term, despite the fact that the average annual growth rate (CAGR) is currently below expectations. By 2020, we intend to have achieved a Group-wide turnover volume of EUR 2 billion. To do this, we rely on consistent internal growth. This is to be achieved through continued internationalisation, development of our multi-stage distribution concept, and tapping into potential more effectively within our sales organisations. We also intend to work even harder to exploit the potential that lies in our worldwide logistics skills. Our earnings situ-

ation is something that we particularly wish to improve by putting planned productivity-boosting measures in place. Specifically, these include optimising our use of resources and consistently implementing improved, IT-supported distribution control processes. Where possible, and where it makes sense to do so, we also wish to promote our organic growth by making selective acquisitions.

At present, we believe that the debate currently taking place on the issue of EPS facade systems – and the resulting feelings of reluctance in Germany – could have a negative effect on the industrial sector. The debate is becoming increasingly wide-ranging, however, with the advantages of energy-efficient building refurbishment once again starting to attract attention.

Another significant plus point for the Sto Group is our professional, committed workforce. We are aware of the responsibility we hold towards our employees, and pursue a long-term human resources strategy as well as fostering close cooperation with employee representatives. We will face up to our social responsibility with equal vigour and integrate sustainability aspects even more firmly into our corporate structures.

Stühlingen, April 2015

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

Sto share

Data on the Sto preference share

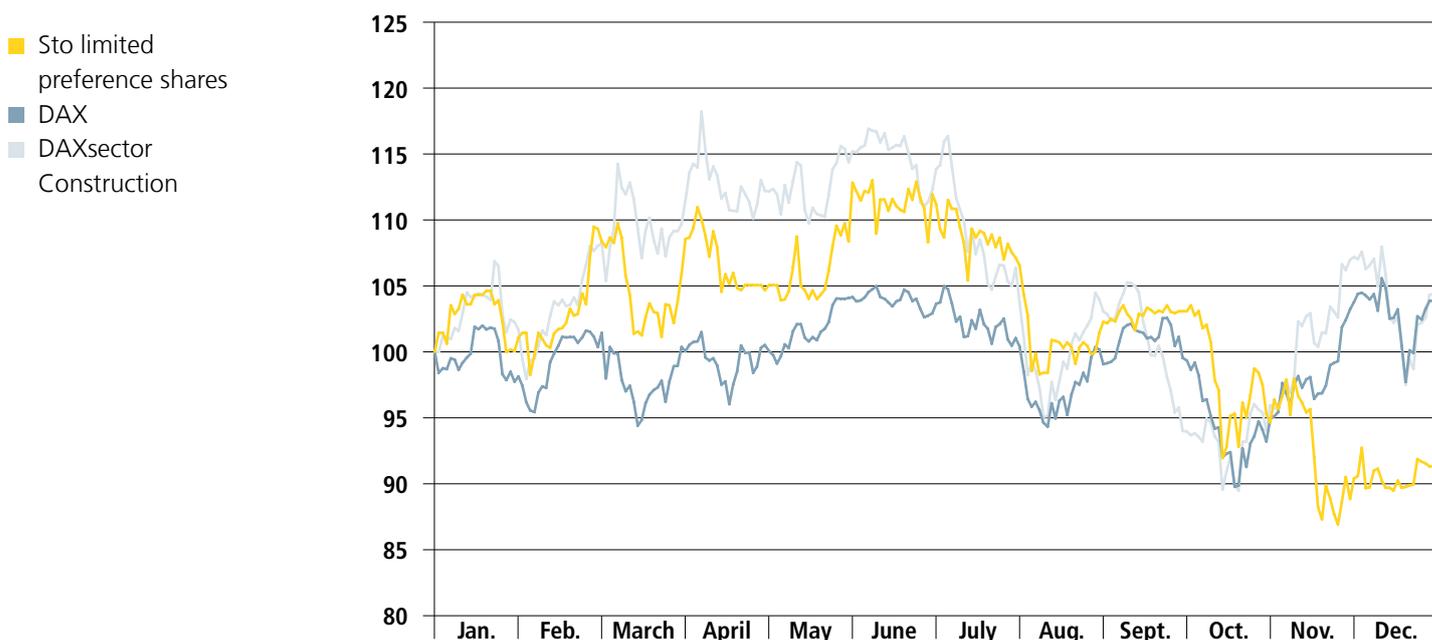
Ticker symbol	STO3
ISIN	DE0007274136
WKN	727413
Share category	Non-voting bearer preference share
Market segment	Regulated market
Level of transparency	General Standard
German Securities Exchange sector	Consumer goods
German Securities Exchange subsector	Residential construction and furniture
German Securities Exchange industrial sector	Plastics
Number of limited preference shares	2,538,000
Number of non-listed limited ordinary shares	4,320,000

2014 on the stock markets

The development of global stock markets varied widely in 2014. As a result of the healthy economic climate, the US American S&P Index reached record levels and increased by 13 % over the course of the year. In contrast, many trading centres in the emerging markets suffered losses. For example, the Brazilian and Russian stock exchanges suffered setbacks. One notable exception was China: measures introduced here to liberalise securities trading caused sharp gains. In Europe, the positive effects arising from the relaxations to the monetary policy of the European Central Bank (ECB) were at odds with the disappointing economic results in certain countries and the impacts of geopolitical crises. Net profits and losses were virtually offset on the most important European trading centres and the Stoxx Europe stock index recorded a slight increase of 1.0 %.

Share price trend for 2014

(indexed on 30 December 2013 = 100)



In Germany, the benchmark index DAX reached an all-time high in December 2014 at 10,093 points. On the reference date however, it closed at 9,805.55 points and despite added momentum from the expansive ECB monetary policy, it only managed a rise of 2.7 % in comparison to the previous year. The Construction sector index on the Frankfurt Stock Exchange was also volatile: Following major setbacks through the year, it closed trading at the end of December with a plus of 3.9 % for the whole of the financial year.

The Sto SE & Co. KGaA share

On 12 June 2013, the Annual General Meeting of Sto-Aktiengesellschaft with the accession of STO Management SE as personally liable partner decided the conversion into Sto SE & Co. KGaA. The change of the corporate form was entered in the trade register of the Amtsgericht Freiburg (district court of Freiburg) and hence came into effect on 26 March 2014.

As a result of the conversion, the share capital of the current Sto SE & Co. KGaA regarding the number of shares, notional nominal value and other characteristics of the shares have not yielded any change in comparison to the share capital of the previous Sto AG. 4,320,000 shares exist for registered ordinary bearer shares and 2,538,000 shares for preference bearer shares. The limited preference shares are still listed and traded under the WKN 727413 (ISIN DE0007274136) on the regulated market of the stock exchanges in Frankfurt am Main (General Standard) and on the Baden-Württemberg Stock Exchange in Stuttgart. Furthermore, the limited preference shares, just like the preference shares of the Sto AG until now, are traded on the electronic trading platform XETRA as well as on the unofficial regulated market of the Berlin, Düsseldorf and Munich stock exchanges.

Sto share with a loss

Following last year's substantial profit, the Sto limited preference share faced noticeable losses in 2014. The rate started high experiencing volatile trading in the first months of the year and even reached a historic high at EUR 156.00 at the start of June. The year progressed with a downturn in the wake of the increasing geopolitical risks and the contradictory and somewhat exaggerated media reports in Germany on external wall insulation systems. We were also forced to lower our turnover and profit forecast for 2014 due to underperforming business development in the second and third quarter as well as in October. The fall in share prices culminated in a low for the year of EUR 119.90 recorded in November. The rate then managed to recover and ended the year at EUR 125.00.

Key figures on the Sto preference share

Values per share in euros

	2014	2013
Earnings per preference share	10.35	10.74
Cash flow from current operating activities	14.61	12.60
Equity capital	78.82	74.91
Dividend payout per preference share		
Dividend	0.31	0.31
Bonus	25.14	4.56
Share price at year end*	125.00	138.00
Year high*	156.00	147.00
Year low*	119.90	112.00
PER (31/12)	12.08	12.85
PER (high)	15.07	13.69
PER (low)	11.58	10.43
Capitalisation of preference shares on 31 Dec (in EUR million)	317.3	350.2

*XETRA closing price

Compared to the previous year's value, this corresponded to a decline of 9.4 %.

The market capitalisation of 2.538 million Sto limited preference shares stood on 31 December 2014 at EUR 317.3 million, compared to EUR 350.2 million the previous year.

Result lower than in previous year

Sto SE & Co. KGaA's consolidated turnover in the fiscal year 2014 rose by 3.7 % to EUR 1,208.7 million and therefore lay below the forecast figure published at the start of the year. The operating result (EBIT) fell by 2.9 % to EUR 97.0 million in comparison to the previous year, yet still managed to be within the forecast EUR 90 to 100 million bracket. The consolidated net income result stood at EUR 66.0 million (previous year: EUR 68.4 million). This resulted in earnings per limited preference share of EUR 10.35 (previous year: EUR 10.74) and per limited ordinary share of EUR 10.29 (previous year: EUR 10.68).

The personally liable shareholder STO Management SE will propose via its Executive Board a one-off dividend distribution of EUR 163,308,420.00 at the annual general meeting on 16 June 2015. This means that limited preference shareholders are expected to receive an ordinary dividend of EUR 0.31 and a one-off bonus of EUR 25.14 per limited preference share, and limited ordinary shareholders an ordinary dividend of EUR 0.25 and a one-off bonus of EUR 25.14 per limited ordinary share. Based on the 2014 closing price of EUR 125.00, this would result in a dividend yield per limited preference share of 20.4 %. Based on the opening price for 2014 of EUR 140.00, this means a yield of 18.2 %.

Trading volume in 2014

In the 2014 fiscal year, Sto preference shares were traded on the regulated market on the stock exchanges in Frankfurt (General Standard) and Stuttgart, in the electronic trading

system XETRA, and on the unofficial regulated market of the Berlin, Düsseldorf, and Munich stock exchanges. In total, 756,283 Sto shares changed hands on all German stock exchanges in the reporting period, compared to 896,734 shares in the previous year. 80.7 % (previous year: 73.6 %) of the total turnover was traded on XETRA, 6.6 % (previous year: 8.7 %) at Frankfurt, and a total of 12.7 % (previous year: 17.7 %) at the other trading locations.

Shareholder structure

Of the 2.538 million limited preference shares, on 31 December 2014 an estimated 50 % were in the hands of institutional investors. The remaining ones were free float. The number of non-listed limited ordinary shares remained unaltered at 4.32 million. On the reference date, 90 % of these were held by the Stotmeister family via Stotmeister Beteiligungs GmbH, and 10 % by Sto SE & Co. KGaA.

Sustainability and Corporate Social Responsibility

Assuming responsibility

Adopting a sustainable approach to business activities is one of the keys to achieving long-term success. This applies especially in an increasingly complex world, in which ecological and social concerns as well as the classic economic challenges are becoming ever more relevant. As a result, risks as well as opportunities are becoming more diverse. Appropriate instruments that encompass a coherent sustainability strategy are required for managing these challenges consistently and successfully. In this way, Sto combines the aim of creating a sound basis for continuous, earnings-oriented growth with making a social contribution.

Sto's sustainability strategy

Sto has been grappling with the issues of sustainability and corporate social responsibility (CSR) ever since the company was established – even if these concepts as we know them today did not exist in 1955. But even at that time, our corporate policy was oriented towards long-term, positive development in fair cooperation with customers and employees. Environmental protection, health and safety, and efficient use of resources and energy were added to the canon of values very early on. All this is also expressed in the corporate mission we drew up: “Building with conscience.” It symbolically stands for our objective of maintaining the value of buildings in strict compliance with the needs of mankind and nature. In accordance with this objective, we also defined our corporate vision “Technology leader in the sustainable design of living space tailored to human needs. Worldwide.”

Over the last few years, we have consolidated our commitment in the area of sustainability step by step: In 2012, we created our own department in direct contact with the Management Board, and in 2013 we developed an overall concept in which all sustainability activities of Sto are grouped together. It

is reviewed regularly and realigned if needed. At the same time, we also launched a new instrument, the Sto “sustainability compass” which we can use to control the dynamic and complex processes of our sustainability strategy more effectively and to find concrete solutions. It encompasses four dimensions: Ecology, economy, social and well-being. In this way we are supplementing the classic definition quite deliberately to include the element of well-being, which in our view is elementary: Particularly when designing facades and interiors, human factors such as subjective perceptions, individual values, aesthetic appeal, and comfort play an essential role.



The sustainability compass is suitable for assessing all Sto activities on a corporate as well as product level. This division into two levels was also incorporated into our new Internet page which we redesigned in 2014 (www.sto.de/unternehmen/nachhaltigkeit) covering all CSR activities of the Sto Group, which is available alongside extensive background information.

A. Company-level activities

Sustainability at Sto is an issue that is found in all areas and departments: from energy- and

resource-efficient production, to environmental and quality management, to health management and social responsibility.

To be ready to face future challenges, we continuously follow the development of various megatrends that present the Sto Group with both opportunities and risks. These include changes on the market, for example the growing demand for “sustainable” products in the construction industry, increasing demographic change that also effects residential and building concepts, as well as ecological changes. For example, the advancing pace of climate change causes an increase in extreme weather conditions, from which humans and buildings need to be protected.

National and international standards

National and international initiatives provide us with important terms of reference on how to promote sustainability at Sto.



On a global scale, we already joined **Global Compact** in 2009, a worldwide strategic initiative for global justice under the auspices of the United Nations. Global Compact members are committed to aligning their business activities and strategies with ten universally acknowledged principles taken from the areas of human rights, labour standards, environmental protection, and anti-corruption and to supporting the corresponding objectives.

In 2014, Sto also made a financial contribution to the German Global Compact Network foundation with a donation of EUR 10,000. We also demand that our suppliers accept the Global Compact principles and thus assume certain minimum obligations. This report corresponds with the annual Communication on Progress (COP) required by the Global Compact.

The **German Corporate Governance Code** represents an important set of national regulations for responsible and transparent company management. Compliance with legal and ethical standards as well as a sound financial policy are integral to our understanding of good corporate governance. All forms of bribery and corruption are unacceptable for us and will not be tolerated. Further details relating to the Corporate Governance at Sto are to be found in the Corporate Governance Report in this annual report.

The nationwide sustainability initiative **Chemie³** 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) in 2013. It developed important guidelines for the chemical industry in Germany and provides various tools for implementing sustainability into a company in practice. Sto is involved in the activities of this initiative and received an award in July 2014 for its participation in the pilot project. The initiative included an extensive self-assessment workshop with a strengths and weaknesses analysis and practical department-related measures. We are continuing this approach throughout the Group. An overall concept is in development based upon already established management processes as well as company and product-related measures, whereby all Sto's sustainability activities can be pooled, reviewed regularly, and realigned if needed.



In 2014 Sto also signed the **WIN Charta**, setting an example in the region for sustainability in the economy. As a signatory of the Sustainability Management Initiative charter (Wirtschaftsinitiative Nachhaltigkeit, WIN) of the State of Baden-Württemberg, Sto commits itself to the twelve principles and objectives of sustainable management and undertakes to submit a regular written report.



Dr Eike Messow (right), Head of Sustainability at Sto and Minister of the Environment Franz Untersteller sign the WIN charter together.

We supplement these specifications from external sources with **company-internal regulations**, which are designed to accommodate Sto's specific corporate environment. First and foremost are 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. We are also committed to participating in both national and international **trade associations** to discuss important sustainability issues that affect the entire Group such as new

legislation on building products, the harmonisation of product directives and information, or the grading of hazardous material. Sto is a member, for example, of the European Association for External Thermal Insulation Composite Systems (EAE), the Institut Bauen und Umwelt e.V. (IBU), natureplus e.V., IG Passivhaus Austria, the Fachverband Wärmedämmverbundsysteme (FV WDVS) and the German Sustainable Building Council (DGNB). Furthermore, we play an active role in the "Sustainability" working group of the German Paint and Printing Ink Industry Association (Verband der deutschen Lack- und Druckfarbenindustrie, VdL) as well as in the "Sustainable Building" working group of Deutsche Bauchemie, and in the Technical Advisory Committee of Bau EPD GmbH.

In 2014, Sto also became a member of the newly founded insulation association "Qualitätsgedämmt e.V." The objective behind this alliance of four family-owned companies is to promote energy efficiency in the building sector. The association focuses primarily on increasing the level of objectivity and acceptance in the public perception of EWIS. Home owners in particular should be given the opportunity to form their own opinion on thermal insulation based on balanced information. With such communication in mind, the initiative "dämmen-lohnt-sich.de" (insulation pays off) was launched in June 2014, with the main focus on setting up an informative website on thermal insulation and an accompanying advertising campaign. The association also advocates high-quality consultation services, products, and installation.



Social responsibility

Commitment to social issues also forms part of a long-standing tradition at Sto. We assume responsibility towards our employees as well as towards people outside our Group.

A crucial sustainability objective is to offer all Sto **employees** a motivating and health-promoting working environment. For this reason, we ensure safety at the workplace, offer numerous qualifications, promote the compatibility of family and working life, and establish health management systems. An employee health and fitness day was again held at Innolation GmbH. We also maintain an aid fund for Sto Group employees who have fallen on hard times due to reasons beyond their control.

Thanks to extensive training activities, we create prospects for the younger generation and establish a pool of qualified specialists and managers for Sto. An annual assessment of CSR and employee measures, training rates, and other key figures help in this sector to quantify sustainability and identify potential for improvement.

Social responsibility for Sto does not end at the factory gates. On the contrary: Sto SE & Co. KGaA, all operative subsidiaries, and many of our employees commit themselves **socially** in many ways – also in 2014.

The Bright Hill Pre-School in Windhoek/Namibia is one of the international projects that Sto has funded for many years. For 100 children from the surrounding slums, this pre-school offers far more than just preparation for primary school: the three to six-year olds learn English and receive their breakfast and lunch here. This project is funded exclusively by donations and has provided a playground, toilet facilities, and even a minibus over the last few years. Partition walls were also provided to allow the multipurpose use of the school building – such as for church services. Alongside

financial support, Sto also provided the school with personnel in autumn 2014: two Sto employees were released from their duties at Sto to spend seven weeks helping on site with the school project.



On 1 October 2014, Sto organised a large donation for refugees in Iraq. Over 60,000 water bottles were distributed in more than 30 camps. The campaign was posted on Facebook and Youtube.

In June 2014, the facade of the Ronald McDonald house in Cottbus was renovated. Sto supported this project by donating material. McDonald's Kinderhilfe children's charity provides convalescence and care to children. The 19 houses based all over Germany provide a temporary home to families whose children are being treated in the nearby hospital.

Every year, Sto trainees organise a social or ecological project. In 2014, the trainees organised a health and fitness day with a charity

In 2014, Sto's long-term commitment to Bright Hill Pre-School in Windhoek/Namibia was cemented by the company sending two of its employees from Germany to help for the first time.



For the first time, Sto trainees organised an employee health and fitness day including a charity run.

run in Weizen to raise funds for the Special Olympics Hochrhein charity, which supports mentally disabled athletes.

The numerous voluntary activities of Sto employees are funded at certain Sto subsidiaries by the company itself – for example at Sto Corp. in the USA, where each employee can take 24 paid working hours' leave (3 working days) to volunteer for a non-profit organisation of their choice.



Alongside fundraising projects selected by the company, the non-profit Sto Foundation is another important cornerstone of the company's charitable activities. Since 2005, the Sto Foundation has been committed to supporting the professional training of young painters and plasterers as well as the academic training of architecture students. Founded ten years ago, nobody could then predict the success of this foundation. In keeping with the motto "Ensuring success in the future means laying the

foundations today", more than EUR 2.2 million has been invested in the areas of architecture and trade. Whether scholarships, a series of European-wide lectures, or the international summer school competition – students and faculties can rely on the support of this foundation. The focus in the trade sector is also on supporting the best apprentices. The educational pyramid concept can be matched to the needs of individual apprentices and encourages motivated painters and plasterers to become university graduates.

Up to and including 2014, the Sto Foundation was provided with annual funding to the tune of EUR 350,000. From 2015 onwards, this amount will be increased to EUR 600,000 to mark the occasion of the 60th anniversary of Sto SE & Co. KGaA and the ten-year success of the Sto Foundation. These funds originate both from subsidies provided by Sto SE & Co. KGaA and the company's limited ordinary shareholders, and from returns on the Foundation's capital to the amount of EUR 1 million. More information can be found on the www.sto.de/unternehmen/sto-stiftung webpage.

Environment and resources

One particular focus of our sustainability management policy is environmental protection and efficient use of energy and resources – after all, Sto's products play an important role in conserving energy and protecting living spaces.

We have established a comprehensive quality and environmental management system in the **production** area, whereby all production locations are recorded and audited internally. 21 of the 27 production sites in total are additionally certified externally in accordance with international standards such as ISO 9001, ISO 14001, or SHARP in order to document the high level of quality. In 2014, Verotec GmbH was certified for the first time in accordance with "ISO 9001:2008 Quality management

systems" and "ISO 14001:2004 + Cor 1:2009 Environmental management systems". The systems implemented ensure a methodical and verifiable approach Group-wide and allow the continuous identification of improvement potential and risks – an essential requirement for optimising business processes. Managers and employees are committed to the relevant requirements made by the management system with regard to quality and environmental protection. The certification of other international locations is planned for 2015. In addition, measures were also introduced in 2014 to comply with DIN EN 16247-1 Energy Audits.

Furthermore, we are constantly striving to improve our **energy- and resource efficiency** company-wide. As part of this we are relying on strategies such as monitoring systems which make it possible to record and analyse power and water consumption as well as heating energy on a continuous basis. The figures prove how successful our efficiency measures have been: between 2005 and 2014, the electricity consumption at our five largest production locations in Germany rose by just 12 % while production volumes increased by approximately 35 %. Since 2011, the consumption of electricity and heating energy per tonne of produced goods has remained constant. At the location in Weizen, we also operate our own small hydroelectric power plant with a near-natural channel flow. The production water is drawn from our own wells, processed internally, and then recycled in a modern silo purification plant. After passing through this circuit several times, the purified water flows into the municipal wastewater treatment plant.

In addition, we consistently strive to ensure the return of recyclable materials, as well as waste disposal in a manner compatible with the material and environment.

The national Climate Alliance Austria certified all Sto locations in Austria as "climate

protection businesses" in 2004, whereby an energy guideline, among other things, is implemented for all factory buildings. This has generated 15 % electricity savings thanks to people using lights and other appliances more thoughtfully, as well as 10 % savings in heating costs due to introducing new thermostats and regular newsletters for raising employee awareness. The possibility of converting the heating system to renewable energies is under evaluation. As part of our energy efficiency activities in 2014 we pushed ahead with the use of LED lighting. The conversion to LED lighting has already been rolled out at some locations e.g. in production in Kriftel, and is in the project phase at others.

With regard to the conservation of resources, we strive to use as much certified **green electricity** as possible. We are setting a particularly good example in Germany, where all our subsidiaries with few exceptions use green electricity. In 2014 we thus achieved a CO₂ saving of more than 5,800 tonnes compared to the German federal electricity mix, according to the certificate from NaturEnergie.

We also recognise the impact that smaller environmental and climate protection measures can have on the climate. Since issue 2/14, our architecture magazine [ark] with an annual distribution of 130,000 copies has been printed on FSC-certified paper. We are also reviewing whether other media products can be printed on FSC-certified paper; however alongside ecological criteria, the functional, aesthetic, and economic requirements must also be considered. Although it makes the conversion process more complex, this approach is in line with our sustainability compass which is geared to finding the most viable solutions.

An important measure we implemented in the logistics and supply chain was the "Supplier Code of Conduct" in order to integrate sustainability into the **procurement process** as well. It is based on the "Global Compact" prin-

principles, as well as on the concepts set out in the Sto Guiding Principles and requires that our suppliers accept these and thus assume certain minimum obligations. Furthermore we ask our suppliers to provide us with information on key ecological, financial, and social indicators. The results and findings are incorporated into the bi-annual supplier evaluation and rating, and are discussed during contract negotiations if necessary.

As the market leader in facade insulation systems, Sto SE & Co. KGaA has established a **quality management system for suppliers of EPS insulation boards** far above the market standard. This includes stringent quality agreements, additional daily inspections during production by the suppliers, monthly controls of this supplier's quality data, regular audits at the suppliers conducted by production specialists at the Sto Group, and additional external supervision of all the supplier's production sites carried out by external certified test institutes. This strict quality management program ensures that EPS facade insulation boards supplied by Sto comply with the high quality standards of Sto today and in the future.

With respect to procurement, we also make sure that 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. Around 72 % of the purchasing volume of main raw materials and packaging in Germany are procured within a maximum area of 350 km and insulation boards usually within a maximum area of 250-300 km.

Optimising the routes and transportation channels of our own vehicle fleet is also an important issue. We promote economical and environmentally conscious driving: for example, our HGV drivers participate in appropriate training courses and we deploy modern monitoring systems. By introducing a GPS-controlled telematics system and expanding our

production in Villach, the number of kilometres clocked by our lorries could be reduced by 400,000 kilometres between 2012 and 2013 in Austria alone – with corresponding reductions in fuel and CO₂ emissions. The amount of kilometres driven by car was also reduced by promoting environmentally conscious travel.

Using the BahnCard Business for business trips guarantees **mobility** using 100 % green electricity in long-distance trains within Germany. When choosing company cars, we are guided by a complex full cost analysis with an optimum balance between price, performance, consumption and CO₂ emission.

One of our beacon projects for 2014 was to promote electric mobility. In September 2014, a charging station with two power connections for employees, visitors to the company, and tourists was installed at the Sto headquarters in Stühlingen (Germany). Both the sockets on the charging station are supplied with hydroelectricity. This guarantees true eco-friendly travel. In order to gather practical experience of electric mobility, the next step is to introduce electric vehicles into our own fleet, and to evaluate new concepts as part of the "electric mobility in rural areas" project organised by the state of Baden-Württemberg and a nationwide research project in Germany.



Alexander Bonde, Minister for the Rural Area and Consumer Protection, together with Chief Technology Officer Gerd Stotmeister and prominent guests inaugurate the charging station for electric vehicles at the Sto car park.

Besides our mobility, our **buildings** are also setting new sustainability standards. Numerous existing Sto buildings meet the passive house standard and we are currently building a new office building at our site in Stühlingen which, when finished, will comply with the “Standard Gold” of the German Sustainable Building Council (DGNB). At the start of 2015 the building was already awarded with the pre-certificate in gold, and it is scheduled for completion in 2016. The new building not only uses low-emission building products, it also features an extremely innovative energy concept which focuses on the use of regenerative energy.

To encourage **biodiversity**, we make sure our company’s outdoor grounds are designed in harmony with nature. With the support from the Lake Constance Foundation, in 2014 we had an initial consultation for the nature-friendly landscape design of the Donaueschingen and Weizen locations carried out. The project is funded by the Heinz Sielmann Foundation, the Global Nature Fund, and the Lake Constance Foundation. The consultations reveal potential ecological improvements and recommendations as to which measures should be initiated first on the basis of the benefit to biodiversity and the expected expense.

Sto’s commitment to sustainability has been recognised with various **awards**: Our Austrian subsidiary Sto Ges.m.b.H. secured two CSR prizes in 2014. After receiving the Carinthia TRIGOS in the Large Companies category in May, the company also collected the CSR trophy on a national level for the very first time. Sto was able to score particularly highly with its holistic commitment to corporate social responsibility (CSR). The jury was impressed with the continued development of Sto Ges.m.b.H. over the last few years and particularly praised the Group-wide Supplier Code of Conduct and its focus on regional production and sourcing policies. The focus on eco-friendly product innovation as well as the continuing shortening

of transport routes convinced the committee of the company’s sustainable outlook. Sto Ges.m.b.H. also subjected its CSR activities to a so-called “ethics check” in 2014 and were awarded with the WEISS ethics certificate in silver.



Walter Wiedenbauer, Managing Director of Sto Ges.m.b.H. (left) and online editor Martina Magnet accept the Austria TRIGOS in the Large Companies category from Rudolf Hundstorfer, Federal Minister of Labour and Social Affairs.

Sto Italia srl was again awarded the “Klimahouse Trend” prize – in 2014 this time for the ventilated rainscreen cladding system StoVentec R, which took first prize in the “Architecture systems” category. Last year, Sto Italia srl had already won the prize for the physiologically harmless embossed wallpaper StoTap Infinity.

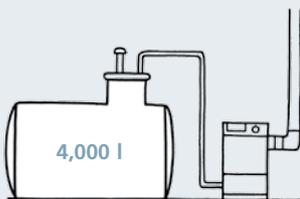
In July 2014, Sto was nominated for the CSR award of the German federal government. Sto is one of five finalists in the category “Companies with 500 to 5,000 employees”. Overall 21 companies were chosen in four categories. They presented their long-term strategies and activities in the areas of company management, products and supply chain, as well as workplace, environment, and community in a management survey. Our activities have also received recognition in the Far East. Our Chinese subsidiary Shanghai Sto Ltd was the proud recipient of the “Energy Saving Star Award” from the China Construction and Energy-saving Association.

Thermal insulation helps to protect the environment

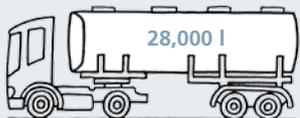
Energy savings from the use of Sto facade insulation systems correspond to around

80 billion litres of heating oil

=



x 20 million oil tanks



x 2.86 million tanker lorries



x 3,200 oil tankers

Between 1965 and 2014, facade insulation systems from Sto played a direct role in saving the barely conceivable volume of 80 billion litres of heating oil. This represents a notable contribution to global climate protection: the facade insulation systems from the Black Forest have cut CO₂ emissions by around 247 million tonnes. In 2014 alone, Sto products reduced emissions of this combustion gas by around 16 million tonnes.

B. Product-level activities

Sto products make a contribution to key aspects of sustainability: e.g. climate protection, building, energy, and resource efficiency, protection and durability, health, and well-being. All of the raw materials fulfil the functions for their application and are optimised with respect to their impact on the environment based on the latest technology. In the production stage, we aim to incorporate energy-efficient and resource-efficient materials, using renewable raw materials wherever possible and viable. Furthermore, Sto evaluates and promotes the potential to dispose of, reuse, and recycle its products, taking technological and economical feasibility into account.

Our core business is the manufacture of facade systems that contribute to significant savings in heating energy through the efficient insulation of buildings. The Sto systems, which have been installed worldwide since 1965, resulted in savings of around 80 billion litres of heating oil up to and including 2014, with last year accounting for around 5 billion litres of this figure alone. The resulting reduction in CO₂ emissions totalled 247 million tonnes, including around 16 million tonnes in 2014. In this way, Sto makes a significant contribution to climate and environment protection. This also improves the living comfort and quality of the relevant buildings.

Eco-labels

Eco-labels are becoming increasingly recognised as a resource to assess the sustainability of building products. There are three different types:

Labels & certificates

Environmental labels and certificates such as Der Blauer Engel, TÜV, and natureplus® are primarily aimed at end consumers, private consumers, and public procurers. For building certification systems such as the German

Sustainable Building Council (DGNB), environmental certificates are often used as proof of a particularly high ecological standard. The products are evaluated based on various criteria which are defined by the relevant issuing authority.

A large number of our products is certified according to the accredited test and quality seals. In 2014, many of our products were re-certified or certified for the first time, mainly with the quality labels natureplus®, Der Blaue Engel, and TÜV-SÜD Technical Control Board. Our StoCalce Functio interior products were newly added to the group of natureplus®-certified products. A large part of our interior product range carries the TÜV seal of quality – “low-emission, physiologically harmless, and production monitored” awarded by TÜV-SÜD. Our decorative glass-fibre nonwovens have been tested in accordance with the OEKO-TEX® Standard 100 for physiologically harmless substances. In Austria a number of products have been honoured as “Green Brands” as well as with the Austrian eco-label, and in Switzerland we also label our interior products with the Swiss eco-label from the Stiftung Farbe (Paints Foundation). In France, all interior products are labelled with the French VOC label “Émissions dans l’air intérieur”.

In the EWIS sector, our StoTherm Wood, StoTherm Cell, and StoTherm In Comfort systems have borne the natureplus® eco-label for several years and are re-certified regularly. This confirms that the products not only efficiently save energy, but that stricter energy efficiency requirements are also fulfilled in the product’s production, environmental properties, and substances in the system components.

In 2014 we added “Der Blaue Engel” eco-label for EWIS to our portfolio. This is the oldest eco-label and is also recognised worldwide. It focuses on products that go beyond the minimum legal requirements, are manufactured with low emissions, and are not harmful to



health. Our StoTherm Classic S1, StoTherm Mineral, and StoTherm Mineral L products have all been awarded with this eco-label to certify their particular environmentally-friendly properties and their contribution to climate protection.

In-house declarations

In 2014 we began compiling our own sustainability data sheets for a wide range of our products. This voluntary self-declaration is subject to the manufacturer's own responsibility and fills a gap between the old product information and eco-labels. They also meet the increasing demand for concrete product data on ecological and health-related criteria.

Environmental Product Declarations (EPDs)

Central to the environmental product declarations (EPD) are the life cycle assessment (LCA) and additional information, e.g. about the production process, service life, and 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 records a building product's 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. In 2014 we produced new EPDs for various Sto acoustic products.

So-called sample EPDs are now available for a majority of our products. They were developed in collaboration with various associations (Deutsche Bauchemie, VdL, IWM) based on framework guidelines and can be applied to various product groups.

CO₂-neutral products

Our new facade paint StoColor Dryonic is manufactured in a climate-neutral process. Based on an Environmental Product Declaration (EPD), we calculate the CO₂ emissions generated during raw material supply and production, and balance these with emission certificates that benefit a climate protection project. Two of our paints in Austria are also climate-neutral: StoColor Sil In for interiors and StoColor Lotusan for facades. Our StoTherm Wood facade insulation system is per se climate neutral: as this product uses softwood fibres as an insulant, the growth of trees ensures that more CO₂ is captured with this system than is emitted during production.



Dr Eike Messow, Head of Sustainability at Sto, and Reiner Schmid, Head of Segment Facade Coatings (from left), accepted the certificate for Germany's first climate-neutral facade paint StoColor Dryonic from Moritz Lehmkuhl (ClimatePartner).

Specific issues

Alongside eco-labels and declarations, other specific issues are under critical discussion concerning the sustainability of our products. In 2014 this included the following areas in particular:

The **recycling** of raw materials and the re-use of building materials have become important tasks in view of the limited availability of many resources from an economic as well as ecological perspective. This year have devoted ourselves to this topic even more intensively – with a particular focus on the EWIS sector.

We take an active role in various research projects on the recycling of EWIS and continue to research the development of effective re-naturation and recycling measures for building materials produced and marketed by Sto.

The organic, cement-free reinforcing compound and base coat StoArmat RC as well as StoColl RC, a synthetic resin adhesive from our Austrian subsidiary are evidence today that building products can be made from recycled building materials. However we have also realised that this simply cannot be achieved on a large scale for many of our other products. This is why we are devoting our attention to finding applications for treated or contaminated materials.

Furthermore, **renewable raw materials** can help to conserve our finite resources and keep raw materials in circulation. In this discussion, it must also be taken into account that building materials are obliged to fulfil a vast range of requirements. Renewable is not always synonymous with sustainable. As part of extensive research activities, Sto is testing a variety of renewable raw materials and is developing solutions that can make a significant contribution to the portfolio of building products.

In the EWIS sector, this includes our product StoTherm Wood – an insulation system with softwood fibre board that not only contains the renewable material wood, but also offers practical feasibility and functionality. We are also looking for alternative binding agents and additives. For example, cellulose ether is a renewable material which has been used successfully in Sto products for many years as a rheology modifier to optimise flowing capacity. In 2014 we concentrated on defining criteria for renewable materials in order to ensure their sustainable use.

Finally, we also spent 2014 researching the use of biocides in house building, especially for application in the facade area. The brochure “Facade Systems – Solutions for Natural

Facade Protection” takes a look at the topic of algae and fungal growth from different perspectives and provides information on aspects worth considering, and the solutions and alternatives that Sto can offer. Entirely in the spirit of our mission: Building with conscience.

Sto SE & Co. KGaA (until 26 March 2014 Sto AG), Stühlingen
**Consolidated annual financial statements
of the Sto Group (IFRS)**

- Income statement
- Statement of recognised income and expenses
- Balance sheet
- Statement of changes in equity
- Cash flow statement
- Notes

Sto SE & Co. KGaA (until 26 March 2014 Sto AG), Stühlingen

Consolidated income statement for 2014

	Notes	2014 EUR	2013* EUR K
1. Revenues	(1)	1,208,728,994.66	1,166,011
2. Changes in product inventories		2,373,666.91	-1,062
3. Other internally generated assets capitalised	(2)	4,271.91	116
Total revenues		1,211,106,933.48	1,165,065
4. Other operating income	(3)	24,107,155.18	25,835
5. Cost of material	(4)	-555,600,647.38	-530,436
6. Personnel expenditure	(5)	-307,908,980.50	-296,993
7. Other operating expenses	(6)	-244,844,967.89	-234,581
EBITDA		126,859,492.89	128,890
8. Depreciation and amortisation of intangible fixed assets as well as property, plant and equipment	(7)	-29,903,920.02	-29,006
EBIT (Earnings before interest and taxes)		96,955,572.87	99,884
9. Share in profits of associates	(8)	-923.44	-2
10. Interest and similar income	(9)	2,292,873.66	2,171
11. Interest and similar expenditure	(9)	-3,018,182.28	-3,084
12. Other financial income	(10)	0	42
13. Other borrowing costs	(10)	0	-24
EBT (Earnings before taxes)		96,229,340.81	98,987
14. Taxes on income and earnings	(11)	-30,233,929.44	-30,613
EAT (earnings after taxes)		65,995,411.37	68,374
of which:			
share of minority interests		-272,168.39	-400
share attributable to the shareholders of Sto SE & Co. KGaA		66,267,579.76	68,774
Earnings per share basic/diluted in EUR			
Limited ordinary share	(12)	10.29	10.68
Limited preference share	(12)	10.35	10.74

* Some details differ from the details in the consolidated annual statement for the fiscal year of 2013 as certain adjustments were implemented.
For more details see the appendix – General part 7.

Sto SE & Co. KGaA (until 26 March 2014 Sto AG), Stühlingen

Consolidated statement of recognised income and expenses 2014

	2014 EUR	2013* EUR K
EAT (earnings after taxes)	65,995,411.37	68,374
Cash flow hedges:		
changes to fair value recognised in equity	0	0
transferred to the income statement	0	0
Deferred taxes	0	0
Cash flow hedges after taxes	0	0
Currency translation:		
Currency translation differences	4,604,466.66	-3,403
Deferred taxes	0	0
Currency translation differences after taxes	4,604,466.66	-3,403
Earnings to be reclassified in the income statement in future periods	4,604,466.66	-3,403
Actuarial gains or losses		
Actuarial gains or losses	-19,950,258.56	5,187
Deferred taxes	5,363,336.78	-1,263
Earnings not to be reclassified in the income statement in future periods	-14,586,921.78	3,924
Other earnings after taxes	-9,982,455.12	521
Overall earnings after taxes	56,012,956.25	68,895
of which:		
share of minority interests	-303,918.09	-415
share attributable to the shareholders of Sto SE & Co. KGaA	56,316,874.34	69,310

For further explanations concerning equity, see Note (22).

* Some details differ from the details in the consolidated annual statement for the fiscal year of 2013 as certain adjustments were implemented.
For more details see the appendix – General part 7.

Sto SE & Co. KGaA (until 26 March 2014 Sto AG), Stühlingen

Consolidated balance sheet for the year ended 31 December 2014

Assets	Notes	31 Dec 2014 EUR	31 Dec 2013 EUR K*	01 Jan 2013 EUR K*
A. Non-current assets				
I. Intangible assets	(13)	42,125,082.39	41,875	44,381
II. Property, plant and equipment	(14)	234,628,607.49	218,663	210,670
III. Financial assets accounted for using the equity method	(15)	74,871.06	76	0
Fixed assets		276,828,560.94	260,614	255,051
IV. Non-current trade receivables	(17)	779,236.70	925	833
V. Non-current income tax receivables		1,440,726.34	2,115	2,759
VI. Non-current financial assets	(18)	1,954,541.03	1,701	4,531
VII. Other non-current assets	(19)	203,259.25	765	162
VIII. Deferred tax assets	(11)	15,382,128.11	10,312	11,168
Other non-current assets		19,759,891.43	15,818	19,453
Total non-current assets		296,588,452.37	276,432	274,504
B. Current assets				
I. Inventories	(16)	69,746,825.09	65,458	66,208
II. Current trade receivables	(17)	115,678,101.68	115,954	115,051
III. Current income tax receivables		2,782,792.99	2,521	3,657
IV. Current financial assets	(18)	141,258,785.41	129,043	120,378
V. Other current assets	(19)	10,158,201.44	8,136	8,736
VI. Cash and cash equivalents	(20)	113,016,892.76	103,944	94,777
		452,641,599.37	425,056	408,807
VII. Available-for-sale assets	(21)	2,113,695.60	2,114	2,172
Total current assets		454,755,294.97	427,170	410,979
Total assets		751,343,747.34	703,602	685,483

* Some details differ from the details in the consolidated annual statement for the fiscal year of 2013 as certain adjustments were implemented.
For more details see the appendix – General part 7.

Liabilities	Notes	31 Dec 2014 EUR	31 Dec 2013 EUR K*	01 Jan 2013 EUR K*
A. Equity				
I. Subscribed capital	(22)	17,556,480.00	17,556	17,556
II. Capital reserves	(22)	57,803,590.41	57,649	57,649
III. Revenue reserves and other reserves	(22)	429,995,002.23	404,740	366,688
Share attributable to the shareholders of Sto SE & Co. KGaA		505,355,072.64	479,945	441,893
IV. Share of minority interests	(23)	1,126,119.82	1,430	2,769
Total equity		506,481,192.46	481,375	444,662
B. Non-current provisions and liabilities				
I. Provisions for post-employment benefits and similar liabilities	(24)	81,742,135.77	59,609	62,507
II. Deferred tax liabilities	(11)	1,039,452.12	1,501	1,791
III. Other non-current provisions	(25)	9,316,392.84	7,271	8,857
IV. Non-current borrowings	(26)	1,320,191.52	2,393	1,923
V. Non-current financial liabilities	(28)	1,208,474.52	134	97
VI. Other non-current liabilities	(29)	875.80	2	3
Total non-current provisions and liabilities		94,627,522.57	70,910	75,178
C. Current provisions and liabilities				
I. Other current provisions	(25)	22,570,241.51	31,673	37,819
II. Current borrowings	(26)	6,953,357.42	6,737	14,674
III. Trade payables	(27)	44,210,861.69	42,081	46,381
IV. Current income tax liabilities		4,089,202.10	5,804	3,218
V. Current financial liabilities	(28)	27,821,117.55	18,928	18,471
VI. Other current liabilities	(29)	44,590,252.04	46,094	45,080
Total current provisions and liabilities		150,235,032.31	151,317	165,643
Total debt capital		244,862,554.88	222,227	240,821
Total assets		751,343,747.34	703,602	685,483

* Some details differ from the details in the consolidated annual statement for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

Sto SE & Co. KGaA (until 26 March 2014 Sto AG), Stühlingen

Statement of changes in equity as at 31 December 2014

in EUR K	Subscribed capital	Capital reserves	Equity attributable to the shares		
			Revenue reserves	Currency translation reserve	Reserve for pensions
As of 01 January 2013	17,556	57,649	399,914	6,678	-12,717
Retrospective adaptation to post-employment benefit provisions	0	0	0	0	-4,132
As of 01 January 2013*	17,556	57,649	399,914	6,678	-16,849
EAT (earnings after taxes)	0	0	68,774	0	0
Other earnings (after taxes)	0	0	0	-3,403	3,939
Income and expenses recognised	0	0	68,774	-3,403	3,939
Dividend payout	0	0	-31,061	0	0
Transactions between shareholders	0	0	-196	0	0
As of 31 December 2013*	17,556	57,649	437,430	3,275	-12,910
As of 01 January 2014	17,556	57,649	437,430	3,275	-12,910
EAT (earnings after taxes)	0	0	66,268	0	0
Other earnings (after taxes)	0	0	0	4,604	-14,555
Income and expenses recognised	0	0	66,268	4,604	-14,555
Dividend payout	0	0	-31,061	0	0
Deposit by associates	0	155	0	0	0
As of 31 December 2014	17,556	57,804	472,636	7,879	-27,465

* Some details differ from the details in the consolidated annual statement for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

of the parent company		Total	Share of minority interests	Total equity
Reserve for cash flow hedges	Treasury stock			
0	-23,055	446,025	2,769	448,794
0	0	-4,132	0	-4,132
0	-23,055	441,893	2,769	444,662
0	0	68,774	-400	68,374
0	0	536	-15	520
0	0	69,309	-415	68,894
0	0	-31,061	-179	-31,240
0	0	-196	-745	-941
0	-23,055	479,945	1,430	481,375
0	-23,055	479,945	1,430	481,375
0	0	66,268	-272	65,996
0	0	-9,951	-32	-9,983
0	0	56,317	-304	56,013
0	0	-31,061	0	-31,061
0	0	155	0	155
0	-23,055	505,355	1,126	506,481

Sto SE & Co. KGaA (until 26 March 2014 Sto AG), Stühlingen

Consolidated cash flow statement for 2014

in EUR K	Notes	2014	2013*
1. Cash flow from operating activities			
Earnings before income taxes		96,229	98,987
Depreciation of non-current assets	(7)	29,904	29,006
Net profit/loss from disposal of non-current assets		-199	-84
Net profit/loss from the fair-value measurement of investments in associates	(15)	1	2
Net interest income/expense and other net finance income/ expense	(9/10)	725	895
Income taxes paid		-30,638	-27,464
Change in provisions		-4,871	-5,371
Change in net current assets		2,733	-15,058
Cash flow from operating activities		93,884	80,913
2. Cash flow from investment activities			
Investment in property, plant and equipment and intangible assets	(13/14)	-39,132	-30,548
Payments for the acquisition of consolidated companies and other business fields (less acquired cash and cash equivalents)		-4,622	-2,444
Payments received from other disposal of intangible assets and plant, property and equipment		727	725
Interest payment received		1,495	1,843
Disbursements for financial investments		-143,618	-132,762
Deposits from financial investments		132,164	136,337
Cash flow from investment activities		-52,986	-26,849
3. Cash flow from financing activities			
Payments for the acquisition of minority interests		0	-941
Payments for non-current borrowings	(26)	-2,066	-8,098
Payments for current borrowings	(26)	-994	-2,556
Payments received for current borrowings	(26)	2,203	0
Dividend distribution	(12)	-31,061	-31,240
Deposits by associates		155	0
Interest payments		-676	-731
Cash flow from financing activities		-32,439	-43,566
Change in cash and cash equivalents from changes in exchange rates		614	-1,331
Cash and cash equivalents at beginning of period	(20)	103,944	94,777
Change in cash and cash equivalents		9,073	9,167
Cash and cash equivalents at the end of period**	(20)	113,017	103,944

The cash flow statement is explained in Note (31).

* Some details differ from the details in the consolidated annual statement for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

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

Sto SE & Co. KGaA (until 26 March 2014 Sto AG), Stühlingen

Notes to the consolidated financial statements

as at 31 December 2014

General information

1. Information on the company

Sto SE & Co. KGaA and its connected, dependent Group companies deals with the manufacturing and marketing of products, components as well as functional systems – energetic and other – which are used in and on buildings and consist of material components and/or coatings. Moreover, services aimed at maintaining the value of buildings form an integral part of the company's scope of product.

Sto SE & Co. KGaA emerged from the conversion of Sto Aktiengesellschaft, also referred to as Sto AG in the following. At the Annual General Meeting of Sto AG on 12 June 2013 the decision was taken in favour of a conversion to the legal form of KGaA with the accession of STO Management SE as personally liable partner. Following the termination a lawsuit regarding the legitimacy of the conversion resolution, the conversion was entered in the trade register of Amtsgericht Freiburg (Freiburg district court) pertaining to HRB 711236 on 26 March 2014 and has since been valid. The only shareholder of the personally liable partner STO Management SE is Stotmeister Beteiligungs GmbH, in which the Stotmeister families have bundled their assigned STO SE & Co. KGaA limited ordinary shares (as was the case with Sto AG). In relation to the conditions at Sto AG, there have been no changes to the ownership of current limited ordinary shares or the ownership of the current limited preference shares.

Hence, Stotmeister Beteiligungs GmbH is still the majority shareholder and ultimate parent company of Sto SE & Co. KGaA. The address of its registered offices is Ehrenbachstraße 1, 79780 Stühlingen, Germany. Sto AG had been entered in the Commercial Register of the Local

Court of Freiburg under number HRB 620675. Sto SE & Co. KGaA is a listed company, as had been Sto AG until 26 March 2014. Its limited preference shares are listed in the "Regulated Market" segment for official trading on the stock exchange operated by Deutsche Börse AG, Frankfurt/Main as well as Börse Stuttgart AG, Stuttgart. The other Group member 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 13 April 2015 by the personally liable partner STO Management SE and will be forwarded to the Supervisory Board of Sto SE & Co. KGaA on 16 April 2015 for approval at the Supervisory Board meeting on 24 April 2015.

In the following, the designation Sto AG is kept for indications for figures as at 31 December 2013 despite the conversion of Sto AG into Sto SE & Co. KGaA on 26 March 2014, since this had been the legal form as at 31 December 2013. All remarks extending beyond the fiscal year of 2013, the correct designation of Sto SE & Co. KGaA is used.

2. Basis of preparation

Sto SE & Co. KGaA (until 26 March 2014 Sto AG) prepared its consolidated financial statement for the 2014 fiscal year in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and the interpretations issued by the IFRS Interpretations Committee (IFRIC). The supplemental commercial regulations according to Section 315 a of the HGB were also applied.

All standards and interpretations subject to compulsory application in fiscal 2014 were observed.

IFRS 10 "Consolidated financial statements" was published in May 2011 and is to be applied for the first time in the fiscal year beginning on or after 1 January 2014. The new standard replaces the regulations of the former IAS 27 "Consolidated and separate financial statements for group accounting" and interpretation SIC-12 "Consolidation – special purpose entities". IFRS 10 sets forth a uniform control concept applicable to all companies, including special purpose companies. In June 2012, also the revised transitional regulations referring to IFRS 10-12 were published, which are to provide assistance with the initial application of the new standards. In comparison to the previous legal climate, the amendments introduced with IFRS 10 require a considerable degree of management discretion in evaluating the question of which companies should exercise control within the group and whether it is therefore required to include them in the consolidated annual financial statement by way of full consolidation. The standard's first-time application does not have any impact on the current companies consolidated.

IFRS 11 "Joint arrangements" was also published in May 2011 and is to be applied for the first time in the fiscal year beginning on or after 1 January 2014. The standard replaces IAS 31 "Interest in joint ventures" as well as interpretation SIC 13 "Jointly controlled entities – non-monetary contributions by venturers". IFRS 11 eliminates the hitherto existing possibility of proportional consolidation for joint ventures. Such companies are now accounted for at equity in the consolidated annual financial statement. The standard's first-time application does not have any impact on the type of consolidation.

IFRS 12 "Disclosure of interests in other entities" was published in May 2011 and is to be applied for the first time in the fiscal year begin-

ning on or after 1 January 2014. The standard uniformly regulates the stipulated disclosures for Group accounting and consolidates the required disclosures for interests in subsidiaries, which were previously regulated by IAS 27, the disclosures for jointly controlled and associated companies, which have so far been placed in IAS 31 and IAS 28, as well as the disclosures for structured companies.

Since the new standard formulates new disclosure requirements in addition to the previous explanation duties, the Group disclosures concerning this consolidation of companies are more comprehensive.

The other accounting regulations that became applicable for the first time in the fiscal year of 2014 have no appreciable impact on the presentation of the asset situation, financial position or earnings in the consolidated annual financial statement of the Group.

Under Section 315a of the German Commercial Code, Sto SE & Co. KGaA is required to prepare its consolidated financial statements in accordance with the standards issued by the International Accounting Standards Board (IASB) in the form endorsed by the European Union. In addition to the disclosures stipulated by IFRS, these financial statements also include disclosures and explanations required by German commercial law.

The consolidated financial statements provide a true and fair view of the Group's net assets, financial condition and results of operations. This entails a true and fair description of the effects of the Group's business transactions as well as of other events and conditions in accordance with the definitions and criteria contained in the IFRS framework for recognising assets, liabilities, revenues and expenses.

The current/non-current distinction is observed in the recognition of assets and liabilities. The income statement was prepared using the total cost method. Sto's fiscal year is identical to the calendar year. The consolidated financial statements were prepared in euros.

3. International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) which have been published but are not yet of mandatory application

The improvements of **IFRS 2010-2012** represent a collective standard, which was published in December 2013 and deals with adaptations of various IFRS applicable to the fiscal years beginning on or after 1 July 2014. The following adaptations have not yet been applied by the Group:

- IFRS 2: Clarification of the definition of 'vesting condition' and separate definitions for 'performance condition' and 'service condition'.
- IFRS 3: Clarification of the classification and measurement of a contingent consideration in a business combination. The classification of the obligation to pay a contingent consideration as a liability or as equity is solely based on the regulations in IAS 32.11. A contingent consideration must be measured at fair value with an impact on profit and loss.
- IFRS 8: Information on the aggregation of operating segments and reconciliation of the total of the segments' assets to the entity's assets.
- IFRS 13: Explanation on the amendments to IFRS 9 with regard to the measurement of non-current receivables and liabilities following the issuing of IFRS 13.
- IAS 16: Amendment to the handling of accumulated depreciation when applying the revaluation method.
- IAS 24: Clarification that an entity providing key planning, management and supervisory

personnel services (external management in key positions) to the reporting entity is a related party of the reporting entity as defined in IAS 24, and adoption of a simplification regulation regarding indications on these management services through the external entity and the remuneration paid to its employees.

- IAS 38: Amendments to the handling of accumulated depreciation when applying the revaluation method.

Implementation of the improvements of IFRS 2010-2012 is not expected to have substantial effects on the net assets, financial position and earnings situation of the Group.

The improvements of **IFRS 2011-2013** represent a collective standard, which was published in December 2013 and deals with adaptations of various IFRS binding for the fiscal years beginning on or after 1 July 2014. The following adaptations have not yet been applied by the Group:

- IFRS 1: Clarification which issue of the standard and interpretations must or can be employed by a company as part of the first-time application of IFRS.
- IFRS 3: Clarification that IFRS 3 excludes from its scope the formation of joint arrangements.
- IFRS 13: Clarifying the scope of the portfolio measurement in accordance with IFRS 13.48 ff.
- IAS 40: Clarifying the employment of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Implementation of the improvements of IFRS 2011-2013 is not expected to have substantial effects on the net assets, financial position and earnings situation of the Group.

The improvements of **IFRS 2012-2014** represent a collective standard, which was published in September 2014 and deals with adaptations of various IFRS binding for the fiscal years beginning on or after 1 January 2016. The following adaptations have not yet been applied by the Group:

- IFRS 5: Description of the conditions for the reclassification of an asset from the category “held for sale” to the category “held for distribution of dividends” as well as the conditions for the reverse reclassification.
- IFRS 7: Additional guidelines relating to the classification of management contracts as continuing engagement and thus their inclusion in the information when making transfers.
- IAS 19: Clarification that the market volume of high-quality corporate bonds on the basis of the currency in which the obligation is made out, instead of on the basis of the country in which the obligation takes place, should be evaluated.
- IAS 34: Assimilation of additional guidance relating to the meaning of the information ‘elsewhere in the interim financial report’.

Implementation of the improvements of IFRS 2012-2014 is not expected to have substantial effects on the net assets, financial position and earnings situation of the Group.

IFRIC 21 was published in May 2013 and is to be applied for first time in the fiscal year beginning on or after 17 June 2014. The interpretation rules that an entity operating in a particular market is to recognise a liability for a levy to the authorities responsible for this market, when the activity that triggers the levy occurs. If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

Implementation of IFRIC 21 is not expected to have substantial effects on the net assets, financial position and earnings situation of the Group.

The following new regulations accepted by the EU are not applicable to the Sto Group and will therefore have no effects on the Group’s net assets, financial position and earnings situation:

- Amendments to IFRS 11 – Acquisitions of Interests in Joint Operations
- Amendments to IAS 19 – Employee contributions
- Amendments to IFRS 10, IFRS 12, and IAS 28 – Investment Entities
- Amendment to IAS 1 Presentation of Financial Statements

On 24 July 2014 the final version of **IFRS 9** Financial Instruments was published by the IASB. IFRS 9 replaces all earlier versions of the IFRS 9 project as well as IAS 39 Financial Instruments: Recognition and Measurement.

The standard comprises new rules and regulations on the classification and measurement of financial assets and financial liabilities, as well as on impairment and hedge accounting. According to the standard, debt instruments – depending on their respective characteristics and taking account the business model – are to be recognised either at amortised costs of acquisition or at fair value through profit or loss. Equity instrument must always be entered in the balance sheet at fair value. However, due to the instrument-specific optional selection, fluctuations in value of equity instruments may be recognised under other earnings. In this event, only certain dividend income will be recognised through profit or loss with respect to equity instruments. Exception: financial assets held for trading

and which are required to be measured at fair value through profit or loss. For financial liabilities, the standard provides for existing classification and valuation rules to be retained subject to the following exceptions: impacts of modifying own credit risk in the case of financial liabilities classified at fair value through profit or loss are required to be recognised as having no impact on profit or loss, and derivative liabilities on non-listed equity instruments may no longer be recognised at amortised cost.

It is to be applied for the first time in the fiscal year starting on 1 January 2018. Earlier application is permitted and retrospective application is obligatory. The standard has not yet been implemented in European law.

The standard is not expected to have a substantial effect on the measurement of financial assets within the Sto Group.

IFRS 15 was published in May 2014 and is to be applied for first time in the fiscal year beginning on or after 1 January 2017. Earlier application is permitted. The standard introduces a framework for turnover recognition which is based on five analysis steps. The standard rules that a company should recognise sales revenue in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The effective date of recognition is the time of transferring the goods and services.

Implementation of IFRS 15 is not expected to have substantial effects on the net assets, financial position and earnings situation of the Group. The standard has not yet been implemented in European law.

The following new regulations not yet accepted by the EU are moreover not applicable

to the Sto Group and will therefore have no effects on the Group's net assets, financial position and earnings situation:

- IFRS 14 – Regulatory Deferral Accounts
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendment to IAS 27 – Equity Method in Separate Financial Statements
- Amendment to IAS 16 and IAS 41 – Bearer Plants
- Amendment to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

4. Companies consolidated

The consolidated financial statement include Sto SE & Co. KGaA as well as the domestic and non-domestic subsidiaries on which 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.

When evaluating the companies consolidated, the joint control, or the type of joint control, no significant evaluations or assumptions were necessary, because the allocation was clear in the Sto Group without them.

At the beginning of February 2013, 100 % of shares and voting rights in Natursteinindustrie Johann Neumeyer & Brigl GmbH & Co. KG, Eichstätt, and Neumeyer & Brigl GmbH, Eichstätt, were acquired. With the acquisition, JMA Jura Marmor Abbau GmbH Verwaltungsgesellschaft, Eichstätt, and JMA Jura Marmor Abbau GmbH & Co. KG, Eichstätt, were included in the Group as associated companies. Natursteinindustrie Johann Neumeyer & Brigl

GmbH & Co. KG is a leading manufacturer of facade and floor slabs made of limestone. The company complements the activities of the Sto subsidiary VeroStone GmbH, Kirchheim. Thin natural stone slabs are used as cladding for ventilated rainscreen and insulated facades, thus ideally complementing the Sto product range and Group competence.

The fair values of identifiable assets and liabilities of the Neumeyer & Brigl companies at the time of acquisition are shown in the following:

in EUR K	Fair value as at the time of acquisition
Intangible assets and property, plant and equipment	4,543
Investments in associates	68
Inventories	912
Trade receivables	1,277
Other receivables and financial assets	155
Cash and cash equivalents	556
Total assets	7,511
Provisions	180
Deferred tax liabilities	20
Trade payables	698
None-current payables to banks	3,188
Other liabilities	425
Total liabilities	4,511
Total identifiable net assets at fair value	3,000
Goodwill from corporate acquisition	0
Total consideration	3,000

Transaction-related costs to the amount of EUR 108 K were included in other operating expenses.

On the reference date in 2013, 63 people were employed in the Neumeyer & Brigl companies. Turnover was at EUR 7.5 million, net profit for the year was at around EUR 0.7 million before taxes.

The net amount of the receivables corresponds to the fair values thereof. Adjustments of EUR 91 K were taken into account.

Deferred tax liabilities mainly include impact on accounting of the customer base and the different measurement of tangible fixed assets in the area of buildings and natural resources.

Cash outflow due to corporate acquisition is as follows:

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	-108
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	556
Outflow of cash and cash equivalents	-3,000
Actual cash outflow due to corporate acquisition	-2,552

In December 2013, the inactive OOO STOMIX Export, Orel/Russia was liquidated. The total assets of the company amounted to EUR 2 K at the date of deconsolidation. Deconsolidation yielded income of EUR 0.4 K.

With effect from 31 December 2013 the Sto Group acquired the remaining 40 % of Industrial y Comercial Sto Chile Ltda., Santiago de Chile/Chile as part of a transaction between the associates. Cash consideration amounting to EUR 941 K was paid to the holders of shares without a controlling influence. The difference

between the consideration and the proportion of the equity accounted for by the shares acquired, amounting to EUR 196 K, was recorded in equity of the Sto SE & Co. KGaA shareholders under revenue reserves.

During the last fiscal year of 2014, the companies consolidated changed as follows:

At the end of January 2014, 100 % of the equity shares as well as the voting rights to Argamont Revestimentos e Argamassas Ltda., Itaquaquecetuba/Sao Paulo, Brazil (Argamont Ltda.) were acquired by Sto Corp., USA. Subsequently the shares were transferred to the Brazilian holding Sto Brasil Revestimentos Participacoes Ltda.

Argamont Ltda. is a manufacturer and distributor of render systems. The head offices of the company, which had been family-owned at the date of acquisition, are located in the metropolitan area of Sao Paulo, the largest city in Brazil and the world's seventh largest urban agglomeration. At the point of acquisition Argamont Ltda. had been employing 58 people.

The turnover in 2013 amounted to EUR 4.3 million, with a net profit for the year of EUR 1.2 million. With the acquisition of this company, the Sto Group has entered the world's sixth largest national economy. The turnover and loss after taxes in the reporting period 2014 amounts to EUR 4.1 million and EUR 2.0 million respectively from the time of acquisition. If including the company into the complete reporting period, the turnover and loss after taxes would have amounted to almost constant monthly turnovers of EUR 4.5 million and EUR 2.1 million respectively due to the weather.

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

in EUR K	Fair value as at the time of acquisition
Intangible assets and property, plant and equipment	5,234
Inventories	246
Trade receivables	302
Other receivables and financial assets	47
Cash and cash equivalents	367
Total assets	6,196
Provisions	0
Trade payables	130
Borrowings	6
Other liabilities	180
Deferred tax liabilities	418
Total liabilities	734
Total identifiable net assets at fair value	5,462
Goodwill from corporate acquisition	1,341
Total consideration	6,803

The final purchasing price depends on the warranty claims within the next few years and lies between EUR 6,198 K and EUR 6,803 K. A purchase price payment amounting to EUR 4,989 K has already been made in accordance with the contract. Another EUR 1,209 K are to be paid by 30 June 2019 in biannual instalments plus interest. The payment of EUR 605 K is connected to future warranty claims. The Group assumes a total purchasing price of EUR 6,803 K.

The difference in amount between the assets identified at fair value and the consideration consists of the goodwill amounting to EUR 1,341 K. This amount was paid as consideration for the expected synergies from the integration of Argamont Revestimentos

e Argamassas Ltda. into the Sto Group. The customer base and brand were calculated as intangible assets amounting to EUR 1,230 K and EUR 907 K respectively.

Transaction-related costs to the amount of EUR 197 K were included in other operating expenses. The net amount of the receivables corresponds to the fair value thereof. Adjustments of EUR 66 K were taken into account.

The date of initial consolidation is the date of acquisition of control on 31 January 2014.

Cash outflow due to corporate acquisition is as follows:

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	-197
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	367
Cash outflow	-4,989
Actual cash outflow due to corporate acquisition	-4,819

In connection with the acquisition of all shares of Argamont Ltda., Sto Brasil Revestimentos Participacoes Ltda., Itaquaquetuba/Brazil was founded at the beginning of January 2014. Sto Corp. holds 100 % of its equity shares and voting rights and acts as a holding company from now on due to the transfer of all shares of Argamont Ltda.

After the balance sheet date, the companies consolidated changed as follows:

The property and buildings of WT Gebäude-management GmbH, Stühlingen, which does

not perform any other business activities other than real estate management, were sold by selling the company shares on 1 January 2015. The purchasing price amounts to EUR 3,124 K. The purchasing price is paid in full by the balance sheet date. By accumulating accruals and deferred income, the income from the sale is not included in the Sto Group's net profit for the year.

The companies consolidated are disclosed in Note (40) List of subsidiaries and investments.

The following fully-consolidated affiliated German companies organised as limited-liability entities or as partnerships satisfied the conditions set out in Section 264 (3) and/or Section 264b of the German Commercial Code and come under the exemption rules:

- StoCretec GmbH, Kriftel
- Innolation GmbH, Lauingen
- Sto BT GmbH, Stühlingen
- Verotec GmbH, Lauingen
- VeroStone GmbH, Kirchheim
- Natursteinindustrie Neumeyer & Brigl GmbH & Co. KG, Eichstätt
- Gefro Verwaltungs-GmbH & Co. KG, Stühlingen
- Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim

5. Consolidation principles

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

In case of financial assets measured using the equity method we apply the same accounting and valuation policies for determining the proportionate equity as for the fully consolidated companies.

When subsidiaries are consolidated for the first time, their assets, liabilities and contingent liabilities are measured at their fair value as of the date of acquisition. If the price paid for the investment exceeds the identified assets, liabilities and contingent liabilities, this difference is accounted for as goodwill. Such goodwill is submitted to testing at least once a year 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.

Receivables and liabilities as well as expenses and income between consolidated companies are netted. Intragroup balances and transactions are eliminated from Group inventories and assets. Consolidation transactions are subject to regulations on deferred taxes.

6. Presentation of material accounting and valuation policies

The consolidated financial statements are generally prepared according to the cost of acquisition principle, except for derivatives, financial instruments available for sale as well as assets recognised at fair value through profit or loss. In principle, these are measured at fair values. The consolidated financial statements are prepared in euros. Unless otherwise indicated, all values are rounded up or down in line with commercial usage to one thousand euros (EUR K).

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

Currency translation

Monetary items in foreign currency (in particular, cash and cash equivalents, receivables and liabilities) are translated for the first time at the rate prevailing on the transaction date and then measured at fair value through profit or loss as at the reference date. Non-monetary items car-

ried at historical cost of acquisition or production and denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

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

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

Assets and liabilities are translated at the closing rate and expenses and income at annual average rates. Equity capital is translated at historic rates. Any resultant currency translation differences are recognised separately under equity until such time as the subsidiary in question is deconsolidated.

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

EUR 1 =	Closing rate on		Average annual rate	
	31 Dec 2014	31 Dec 2013	2014	2013
BRL Brazil	3.2207		3.1211	
CHF Switzerland	1.2024	1.2276	1.2146	1.2311
CLP Chile	736.1344	724.4884	755.3216	661.7993
CNY People's Republic of China	7.5358	8.3491	8.1857	8.1646
COP Columbia	2,906.9462	2,655.1243	2,663.9828	2,488.7564
CZK Czech Republic	27.7250	27.4250	27.536	25.9800
DKK Denmark	7.4453	7.4593	7.4548	7.4579
GBP Great Britain	0.7789	0.8337	0.8061	0.8493
HUF Hungary	315.5400	297.0400	308.7100	296.8700
MXN Mexico	17.8679	18.0731	17.6550	16.9641
MYR Malaysia	4.2473	4.5221	4.3446	4.1855
NOK Norway	9.0420	8.3630	8.3544	7.8067
PAB Panama	1.2166	1.3767	1.3261	1.3292
PLN Poland	4.2623	4.1472	4.1843	4.1975
RUB Russia	68.3427	44.9699	50.9518	42.3370
SEK Sweden	9.3930	8.8591	9.0985	8.6515
SGD Singapore	1.6058	1.7414	1.6823	1.6619
TRY Turkey	2.8320	2.9605	2.9065	2.5335
USD USA	1.2141	1.3791	1.3285	1.3281

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. In the course of each corporate merger, the purchaser acquires 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 the business combination

are recognised as expenses and reported as administrative costs.

When the Sto Group acquires a company, it assesses the classification and designation of financial assets and liabilities in accordance with the contractual terms and conditions, commercial circumstances and conditions prevailing at the time of acquisition. This also includes a separation of derivatives embedded in underlying contracts.

In the case of successive corporate acquisitions, the equity share previously held by the pur-

chaser in the company acquired is remeasured at fair value at the time of acquisition and the result is recognised through profit and loss. The agreed contingent consideration is recognised at fair value at the time of acquisition. In accordance with IAS 39, any subsequent changes to the fair value of contingent consideration representing an asset or a liability are either recognised in the income statement or in other net income. Contingent consideration classified as equity is not remeasured, and its settlement at a later date is accounted for in equity.

Goodwill is measured at cost of acquisition on first-time recognition, calculated at the surplus of the consideration transferred and the amount of the share without a controlling influence on the Group's assets acquired and liabilities assumed. If such consideration is below the fair value of the net assets of the subsidiary acquired, then the difference is recognised with an impact on profit in equity.

Intangible assets

Intangible assets with a certain useful life acquired for good consideration are recognised at historical cost. Amortisation expense is calculated on a straight-line basis over the useful life of the assets in the absence of any impairment. This primarily comprises software, which is assumed to have a scheduled useful life of between three and eight years.

Non-scheduled depreciation/amortisation are explained under Note (7).

Goodwill is not subject to systematic amortisation. Instead, it is submitted to annual impairment testing ("impairment-only approach"). In doing so, it is determined whether goodwill has been impaired. Basically, the recoverable amount was determined to be the higher of the two amounts of the value in use or the net realisable amount of the respective cash-generating unit (CGU) as of 31 December 2014.

This recoverable amount is compared with the carrying amount of the respective CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. With the exception of Sto SE & Co. KGaA the cash-generating units identified for purposes of calculating goodwill are identical to the legal entities. The Sto CGU comprises Sto SE & Co. KGaA, Verotec GmbH, and StoCretec GmbH.

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

The starting point for the valuation of the CGUs is the 5-year planning of the respective legal entities as of 31 December 2014. This is based on forecasts derived from external estimates of the economic situation and market studies as well as internal maintenance investment plans.

The growth rates in sales implemented during the detailed planning period are based on expectations that the level of demand for thermal insulation will continue to grow in future. In the light of gross profit margin trends in the years prior to the commencement of the budget period, we expect the gross profit margins of all CGUs to remain unchanged. The weighted average capital costs (WACC) before taxes are determined by taking account of a risk-free basic interest rate, the respective country-specific risk, entrepreneurial risk (market risk premium multiplied by a beta factor calculated on the basis of a peer group analysis), a growth discount in perpetual annuity, and borrowing costs. As a matter of principle, cash flows are discounted using a uniform Group discount factor – WACC after taxes – which is adjusted

to allow for any differences in the base interest rates of the individual countries and in the respective country-specific risks. In the year under review, interest rates before taxes of between 8.5 % and 16.5 % arose (previous year: 9.0 % to 12.1 %). As in the previous year, the perpetual annuity for all CGUs is based on a growth rate of 1.0 %.

The following important parameters were made with regard to the CGUs Sto SE & Co. KGaA and Beissier S.A.S., La Chapelle la Reine/France, which are key CGUs in the sense of goodwill:

- Pre-tax interest rates: For CGU Sto: 10.2 % (previous year: 10.5 %), CGU Beissier S.A.S. 11.3 % (previous year: 11.3 %).
- Perpetual annuity: As in the previous year, the perpetual annuity is based on a growth rate of 1.0 % for both CGUs.
- Turnover trend: Due to the growing sales potential in the markets of the two CGUs, turnover growth is assumed to be a single-digit percentage.
- Margin changes: Owing to a further surge in procurement prices, slightly declining margins are assumed to apply to the Beissier S.A.S. CGU and stable margins to apply to the Sto CGU.

Argamont Revestimentos e Argamassas Ltda., Sao Paulo/Brazil was determined to be a cash-generating unit: the smallest identifiable unit that generates cash inflows and outflows separate from those of other assets. Due to the determination of the fair value less the cost of sale, the goodwill of the CGU to the amount of EUR 1,341 K was entirely written off. The brand was partly written off with EUR 459 K. Crucial factors for this adjustment were a poorer development of the result in 2014, a worse forecast for the detail planning period for the next 5 years, as well as a comparably higher discount interest rate after taxes of 12.4 %.

The determination of the fair value was carried out in accordance with the IFRS 13 specifications. Input factors from category 3 were used. With regard to the maintenance investment in particular, as well as to the increase in turnover expected in the future, the expectations reflected are those the comparable market operators are presumed to have had. The DCF method was used as the valuation method. Underlying the calculation are increasing EBIT and EAT margins, which will rise from -15.9 % and -22.0 % in 2015 to 11.9 % and 8.9 % respectively in 2019. For the time period thereafter a moderate increase of 1.0 % is assumed.

The CGU's fair value less cost of sale amounted to EUR 5.6 million on the balance sheet date.

If the discount rates used for the other impairment testing had been 1.0 % higher, this would have had no effect on the impairment of goodwill.

The essential goodwill items are listed in Note (13). Goodwill items in existence at the time of the changeover to IFRS are maintained in the Group's currency in accordance with the relief provided by IFRS 1.

The sensitivity analysis for the CCUs Sto and Beissier S.A.S., La Chapelle la Reine/France, revealed that if the EBIT had been 30 % below the target for a sustained period, goodwill would not have been impaired.

Research and development costs were taken to the income statement since capitalisation of the development costs in the form of internally generated intangible assets is not possible under IAS 38 where the requirements have not been met. The Research and Development department focuses on the identification of alternative materials, products and procedures.

Property, plant and equipment

Property, plant and equipment are recognised at historical cost less cumulative systematic depreciation and cumulative impairment losses.

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

The cost of self-constructed items of property, plant and equipment comprises the expenditure incurred in utilising goods and services for such construction. In addition to the directly attributable costs, this also includes a reasonable share of the necessary overheads.

Depreciations are calculated on a straight-line basis using the following estimated 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 life and residual carrying amounts are audited regularly.

Maintenance and small repairs are recognised immediately through profit and loss.

Building systems are assigned to property, plant and equipment and are recognised at their procurement and production costs. Assets under construction are recognised at historical cost under property, plant and equipment. They are only depreciated at such time as they become available for operation.

Borrowing costs

Borrowing costs capable of being directly assigned to the acquisition, construction or manufacture of 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. Debt capital costs are interest and other costs incurred by an entity in connection with taking on debt capital.

Borrowing costs for all qualified assets for which construction began on or after 1 January 2009 are required to be capitalised. The Group did not hold any qualifying assets for the direct allocation of borrowing costs. Only an insignificant proportion of the annual general borrowing costs of the Group cannot be directly allocated.

Leases

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

Leased property, plant and equipment satisfy the conditions for classification as finance leases in accordance with IAS 17 provided that all the risks and rewards incidental to ownership of these assets are transferred to the Group company in question. In this case, property, plant and equipment in question are recognised at the lower value, which is either the present value from the minimum lease payments or the activated fair value of the assets which is depreciated on a straight-line basis according to the economic useful life. The obligations

arising from future lease payments are carried as discounted liabilities.

In the case of operating leases, the lease payments are recognised directly in the income statement on a straight-line basis for the duration of the lease.

Impairment of assets

Property, plant and equipment and intangible assets are tested for any impairment whenever any events or changes in circumstances indicate that their carrying amount may no longer be recoverable. If, in the case of property, plant and equipment and intangible assets initially recognised at cost, the carrying amount exceeds its recoverable amount, the difference is recognised as an impairment loss in the income statement. The recoverable amount is the higher amount of fair value less cost of sale and the value in use.

The fair value less cost of sale is the amount which can be recovered from the sale of the asset under normal market conditions, whereas the value in use is the present value of the estimated future cash flows expected from the continued use of an asset and its disposal at the end of its useful life. The recoverable amount is either estimated for an individual asset or, if it does not generate any cash flows independently from other assets, for the cash-generating unit in total.

If the indication that an asset is impaired no longer exists or the impairment has decreased, the impairment loss is reversed and the proceeds taken to the income statement. No reversal is made to an impairment of goodwill.

Financial assets accounted for using the equity method

Financial assets accounted for using the equity method relate to a joint venture and two associ-

ated companies. An associate is an entity over which the Group has decisive control. In case of a joint venture there is a contractual agreement regarding the joint control of the company. Using the equity method, the shares are accounted for at their cost of acquisition the first time. The carrying amount is adjusted annually to allow for the shares in such associates' profit/loss, dividends received, any impairments and other changes to their equity.

Using the equity method, the Group determines whether it is necessary to recognise an additional impairment for the shares of the Group in associates measured according to the equity method. At each balance sheet date, the Group determines whether there are objective indications as to whether the share of an associated valued according to the equity method might have been impaired. If this is the case, then the difference between the recoverable amount and the carrying amount of the share is recognised as an impairment in profit and loss.

Financial instruments

Financial instruments are defined in accordance with IAS 39 as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

IAS 39 defines the following different categories for financial assets:

- Financial instruments measured at fair value through profit or loss (FVtPoL)
- Held-to-maturity financial assets (HtM)
- Loans and receivables (LaR)
- Available-for-sale financial assets (AfS)

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss comprise assets classified as held for sale as well as financial assets which are initially recognised at their fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of being resold in the near future. Derivatives are also classified as being held for trading except for those which are designated as hedges and are effective as such. Gains or losses from financial assets which are classified as held for trading are recognised through profit or loss.

Financial assets to be measured at fair value through profit or loss are analysed to establish whether the intention to sell them in the near future still is appropriate.

For financial assets that cannot be traded on account of inactive markets and the intention to sell them in the foreseeable future is abandoned, management may decide to reclassify such financial assets in certain circumstances. The reclassification to loans and receivables, to available-for-sale or to held-to-maturity assets depends on the nature of the asset. This measurement has no impact on financial assets that were valued and classified at fair value through profit or loss by exercising the fair value option.

Held-to-maturity financial assets

Held-to-maturity instruments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has the intention and ability to hold to maturity and there is an active market for such assets. After initial recognition, held-to-maturity financial assets are measured at amortised costs of acquisition using the effective interest method. Gains and losses are reported in the income statement for the period in which the assets are derecognised or impaired, and through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After

initial recognition, loans and receivables are measured at amortised costs of acquisition using the effective interest method net of any impairment losses. Gains and losses are reported in the income statement for the period in which the loans and receivables are derecognised or impaired.

In the case of current receivables and liabilities, amortised costs of acquisition fundamentally equals the nominal or settlement amount.

Available-for-sale financial assets

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

The Group accounts for financial instruments at amortised costs of acquisition or at fair value.

Financial assets or parts thereof are derecognised when the Group loses control over the contractual rights arising from the assets. Exceptions from this are passed on bills or trade notes receivable passed; these are cancelled only once they are settled by the drawee.

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

All purchases and sales of financial assets in accordance with normal market conditions are recorded on the day on which the Sto Group assumes the obligation to buy or sell the asset. These transactions are in accordance with nor-

mal market conditions if delivery of the assets takes place within a period defined by market regulations or conventions.

Financial liabilities are categorised as follows:

- Financial liabilities at fair value through profit or loss (Financial Liabilities Held for Trading = FLHfT)
- Financial liabilities measured at amortised cost (FLAC)

Financial liabilities at fair value through profit or loss

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

The Group has so far not made use of the option to initially recognise financial liabilities at fair value through profit or loss.

Financial liabilities measured at amortised cost

The financial liabilities measured at amortised acquisition costs are to be measured at fair value during initial assessment. These values are subsequently calculated using the effective interest method less adjustments, repayments and discounts or premiums on acquisition, including transaction costs and fees forming an integral part of the effective interest rate.

Profits and losses are only recognised through profit and loss upon derecognition.

A financial liability is derecognised if the obligation underlying the liability is fulfilled, terminated or extinguished.

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 materially 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 or loss.

Inventories

Inventories are recorded at the lower of cost and the net realisable amount. The net realisable amount is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

- Raw materials and supplies as well as assets held for sale in the ordinary course of business – Weighted average price
- Finished assets and assets under construction – Direct labour and material costs as well as a reasonable share of the production overheads are based on the normal capacity of the production equipment net of borrowing costs.

Trade receivables and other originated financial assets

Trade receivables and other original financial assets are recognised at amortised acquisition costs net of any individual value adjustments. Impairment losses in the form of individual or general adjustments, are recognised to reasonably allow for the risk of default, with the extent of the adjustment essentially being the overdue period. In the presence of objective indications of impairment, the latter is recorded via an adjustment account through profit or loss. In the Sto Group, the adjustment account is essentially

used for recognition of impairments of trade receivables. In the event of specific defaults, the receivable in question is derecognised.

All receivables and financial assets are tested for impairment.

Derivative financial instruments

In the Group, derivative financial instruments in the form of currency forwards are used for hedging of currency risks. These derivative financial instruments are recognised at their fair value as of the date on which the contract is entered, and measured in subsequent periods at their fair value. Derivative financial instruments are recognised as assets if they have a positive fair value and as liabilities if they have a negative fair value.

Gains and losses from changes in the fair value of derivative financial instruments which do not satisfy the conditions for recognition as hedges are immediately taken to the income statement.

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

For hedge accounting purposes, hedging instruments are recognised as follows:

- As fair value hedges if the instrument hedges the risk of a change in the fair value of a recognised asset or liability or an unrecognised firm commitment (excluding currency risk)
- As cash-flow hedges if the instrument hedges the risk of fluctuation in cash flows which can be allocated to a recognised asset or liability, the risk arising from a highly probable forecast transaction or the currency risk arising from an unrecognised firm commitment
- As hedges of a net investment in a foreign operation

At the beginning of hedging, both the hedging relationship and the Group's risk management goals and strategies regarding hedging are formally established and documented. The documentation contains the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are considered to be highly effective at successfully offsetting the risks arising from changes in the fair value or cash flow.

Hedges of cash flows which satisfy the strict hedge accounting criteria are accounted for as follows:

The effective portion of the gain or loss from a hedging instrument is recognised through other earnings in equity, whereas the ineffective portion is immediately recognised in profit or loss.

The amounts recognised in equity are reclassified in the income statement in the period in which the hedged transaction affects the income statement for the period, e. g. when the hedged income or expenditures are recorded or an expected sale is executed. If a hedge results in the recognition of a non-financial asset or a non-financial liability, the amounts recognised in equity become part of the acquisition costs as of the date on which the non-financial asset or non-financial liability is first recognised.

If the forecast transaction or firm commitment are no longer expected to occur, the amounts previously recognised under equity are reclassified into profit and loss. If the hedging instrument expires or is sold, terminated or exercised (not including the replacement or rollover of a hedging instrument into another hedging instrument), the cumulative gain or loss on the

hedging instrument that is recognised directly in equity from the period when the hedge was effective remains separately recognised in equity until the forecast transaction or firm commitment of the underlying transaction occurs.

In the Group, derivative financial instruments are essentially currency forwards. These are used to hedge currency risks.

In the fiscal years of 2013 and 2014 there have been no hedges satisfying the strict hedge accounting criteria.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and credit balance with banks including highly liquid deposits available at short notice, which can be converted quickly into cash and cash equivalents, with original settlement periods of three or fewer months and which are not additionally subject to any material fluctuation in value.

Available-for-sale assets

The Group classifies non-current assets as available-for-sale assets if the respective carrying amount is mainly realised through a sales transaction rather than through ongoing use. Financial assets classified as available-for-sale are measured at the lower of the carrying amount and fair value less costs of sale. Assets are only classified as available-for-sale if sale is probable. Management must have decided the sale and this sale must have been completed within a year from the corresponding reclassification.

Property, plant and equipment as well as intangible assets classified as available-for-sale are not subject to scheduled depreciation/amortisation.

Treasury stock

Sto SE & Co. KGaA's treasury stock is deducted from equity. The purchase, sale, issue and

redemption of treasury stock is not recognised in profit and loss.

Post-employment benefit provisions

Actuarial measurement of the post-employment benefit provisions is based on the projected-unit-credit method for defined benefit plans for pension schemes as defined in IAS 19. This method takes account of the benefit obligations and entitlement accruing on the balance sheet date as well as expected life expectancy, future salary and pension trends, the expected age of retirement and expected fluctuation.

Average life expectancy is estimated on the basis of acknowledged biometric models. Actuarial gains and losses are recognised in other income in equity with no impact on profit or loss after deferred taxes.

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.

These plan assets take the form of a qualifying insurance policy. Plan assets cannot be touched by creditors or directly paid out to the Group. Measurement is based on the fair value. Since this is a qualified insurance policy, fair value corresponds to the present value of the covered liability.

Other provisions

In accordance with IAS 37, provisions are recognised 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 reliably estimated.

Provisions are reviewed at each balance sheet date and adjusted in the light of the best current estimate.

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

If the conditions for recognising provisions are not met, the obligation in question is reported as a contingent liability provided that there is a reasonable likelihood of an outflow of resources embodying economic benefits.

Trade payables and other originated financial liabilities

Trade payables and other originated financial liabilities are measured at amortised costs of acquisition. Any differences between historical cost 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 taxes are recognised on tax losses provided that it is likely that they will be able to be used. They are not recognised if the temporary difference arises from goodwill or the initial recognition of other assets and liabilities in a transaction (other than a business combination) which affects neither accounting profit nor taxable profit (tax loss). Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences arising from shares in subsidiaries, associates 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 in the foreseeable future.

Deferred taxes are measured in accordance with the applicable national income tax rates expected as of the date of realisation, as well as on the basis of applicable or enacted tax law.

Deferred tax assets which are not expected to be recognised in a reasonable period of time are adjusted. Deferred tax assets are re-assessed at each balance sheet date. Deferred tax assets and liabilities are netted if the Group has a legally enforceable right to set off the recognised amounts and they relate to income taxes levied by one and the same taxation authority for one and the same tax payer.

Deferred taxes are recorded as tax income or expense in the income statement unless they relate to other income items recognised directly in equity that have no impact on profit or loss. In this case they are also recognised in equity with no impact on profit or loss.

Recognition of income and expenses

As a matter of principle, revenues are not recognised until the goods or services in question have been supplied, i.e. the risks and rewards of ownership have been transferred to the customer. Operating expenses are reported as expense upon utilisation of the service or on the date on which they are caused. Interest income and expenses are recorded in the period they are incurred. Dividends are recognised at the time when legal entitlement arises.

Government funding

Government funding is recognised in accordance with IAS 20 if it is certain that the conditions involved will be fulfilled and the government funding will subsequently be granted.

Earnings-related government funding is collected through profit or loss in the period in which the expenses to be defrayed are incurred.

Government funding is generally tied to a number of conditions imposed. Fulfillment of these conditions is also verified when disbursing such government funding because expenses are generally refunded only once the expenses to be subsidised have actually been incurred. This prevents later repayments.

Financial guarantees

Financial guarantees extended by the Group are contracts which obligate the making of payments and indemnify the guarantee holder for a loss arising from a specific debtor who does not meet his payment obligations on time according to the conditions of a debt instrument. These financial guarantees are treated as insurance contracts pursuant to IFRS 4, in other words they are accounted for as contingent obligations until it becomes probable that a claim will be filed. If such is the case, a corresponding obligation is included in the balance sheet.

Events after the balance sheet date

Events occurring after the balance sheet date which provide additional material information on the Group's condition at the balance sheet date are included in the financial statements. Events occurring after the balance sheet date impacting value are disclosed in the notes.

Discretionary decisions, estimates and assumptions by Management

The preparation of the consolidated financial statements requires the use of discretionary decisions, estimates and assumptions which affect the extent and disclosure of assets and liabilities reported, income and expenses recognised and contingent liabilities in the period under review. Uncertainties associated with these assumptions and estimates, however, may give rise to results leading to substantial adjustments to the carrying amounts of the assets or liabilities affected in future periods.

The assumptions and assessments are based on decisions which in turn reflect the knowledge available at that point in time. In particular, estimates concerning the Group's expected future economic performance are based on the circumstances known as of the date on which the consolidated financial statements are prepared as well as probable expectations as to future trends in business conditions both globally and in the Group's sector. Changes in these underlying conditions which deviate from these assumptions and are beyond management's control may cause actual amounts to vary from the original estimates. If actual trends deviate from those expected, the assumptions and estimates and if necessary carrying amounts of the assets and liabilities concerned are adjusted accordingly. The essential assumptions and estimates relate to:

- **Impairment of non-financial assets**

An impairment occurs if the carrying amount of the asset or of a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or of a cash-generating unit is the higher of the two amounts of fair value less cost of sale and value in use. The calculation of fair value less cost of sale is based on available 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. Cash flows are derived from the finance plan of the following five years, with material future investments that will increase the profitability of the cash-generating unit tested not being included. The value in use is still heavily dependent on the underlying discount, as well as on the growth rate used for extrapolation purposes.

- **Available-for-sale assets**

The property and buildings of WT Gebäude-management GmbH, Stühlingen, which does not perform any other business activities other than real estate management, were sold by sales contract together with the company shares on 1 January 2015. These assets therefore still meet the criteria of available-for-sale assets as they did at 31 December 2013.

- **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. Owing to the immense bandwidth of international business relations and the complexity of existing contractual arrangements, departures from the actual results and the assumptions made as well as future changes may call for adjustments to tax assets and tax liabilities already recognised.

On 31 December 2014, the deferred tax liabilities stood at EUR 1,039 K and the deferred tax assets at EUR 15,382 K. The income tax liabilities total EUR 4,089 K, the income tax receivables EUR 4,224 K.

- **Pension benefits**

The expense of defined benefit plans on termination of employment and the present value of pension obligations are determined by actuarial calculations. An actuarial evaluation is made on the basis of various assumptions that may deviate from actual developments in the future. These parameters include future discount rates, the mortality rate, the expected age of retirement and future pension increases. Owing to the complexity of the evaluation, of the underlying assumptions and their long-term nature, a

defined benefit-oriented commitment reacts extremely sensitively to any changes to such assumptions. All assumptions are reviewed at balance sheet date.

In determining the appropriate 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 by extrapolation to the expected running period of the defined benefit obligation.

The mortality rate is based on publicly accessible mortality tables for the country in question. Future increases in wages and salaries as well as pensions are based on expected future inflation rates for each country. The expected age of retirement is determined on the basis of company-specific data of the past few years as well as future expectations.

On 31 December 2014, the provisions for pensions and similar liabilities before offsetting plan assets totalled EUR 113,606 K. EUR 31,864 K of which are offset against the plan assets. Post-employment benefit provisions amount to EUR 81,742 K.

- **Fair value of financial instruments**

To the extent that the fair value of financial assets and financial liabilities recognised in the balance sheet 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 as far as possible on observable market data.

From the financial instruments valued at fair value at 31 December 2014, resulted a net receivable of EUR 498 K.

- **Receivables**

Allowances for bad debt are made in the Sto Group in order to take account of anticipated losses resulting from customers' insolvency. The basis for assessing the appropriateness of allowances for bad debt are the due dates of receivables and experience made in derecognising receivables in the past, as well as changes in payment behaviour. In the event of a deterioration of customer's financial condition, the extent of derecognitions actually made may exceed the extent of the anticipated derecognitions.

On 31 December 2014, the carrying amount of the trade receivables totalled EUR 116,457 K.

- **Provisions**

Management is required to make assessments, especially as regards recognition and valuation of guarantee provisions. Provisions for guarantee commitments are set up if the occurrence of a guarantee commitment is considered to be probable. For instance, the assessment of the degree of probability and the extent is based on past experience, external experts, and current information available. Owing to the associated uncertainties, the actual costs may differ from the original estimates and, therefore, from the amount provisioned.

The carrying amount of current warranty provisions on 31 December 2014 amounted to EUR 17,742 K. Non-current warranty provisions amount to EUR 4,893 K.

On the date of preparation of the consolidated financial statements there were no material risks to the underlying assumptions and estimates which would have required material adjustments of the carrying amounts of the assets and liabilities recognised in the consoli-

dated balance sheet in the following accounting period.

7. Adjustments in accordance with IAS 8

In accordance with IAS 8, an adaptation of the post-employment benefit provisions takes place on 1 January 2013 and 31 December 2013 with retrospective effect, due to a requalification of a defined contribution plan as a performance-based plan in Switzerland.

On 1 January 2013 the post-employment benefit provisions add up to EUR 5,366 K. The deferred tax assets amount to EUR 1,234 K. Equity is EUR 4,132 K lower than on 31 December 2012.

As of 31 December 2013 post-employment benefit provisions decreased by EUR 439 K and the deferred tax assets by EUR 101 K. Furthermore, there was an increase in the actuarial gains and losses by EUR 423 K, as well as in personnel expenditures by EUR 10 K, interest and similar expenditures of EUR 100 K, as well as a deferred tax income of EUR 25 K. In total, equity increased on 31 December 2013 by EUR 338 K.

Earnings per share thus decreased by EUR 0.01 to EUR 10.68 per ordinary share and EUR 10.74 per preference share.

The exchange rate of 31 December 2014 was used for adapting post-employment benefit provisions for the 2013 reporting period. This rate only differs immaterially from the 2013 rates. Therefore, information about the exchange rate as of 1 January 2013 is omitted.

Group segment reporting as at 31 December 2014

Information on geographic segments by sales markets in EUR K	Western Europe		Other			
			Northern/Eastern Europe		America/Asia	
	2014	2013*	2014	2013	2014	2013
External revenues	943,177	919,043	122,972	114,500	142,580	132,533
Inter-segment revenues	34,429	30,372	78	91	348	145
Segment revenues	977,606	949,415	123,050	114,591	142,928	132,678
EBITDA	108,388	111,175	4,098	4,366	14,686	13,660
Depreciation/amortisation	22,679	23,016	2,687	3,731	4,569	2,169
EBIT (Earnings before interest and taxes)	85,709	88,159	1,411	635	10,117	11,491
Interest income	2,219	2,196	275	296	774	399
Interest expense	3,423	3,450	263	325	308	36
EBT (Earnings before taxes)	84,505	86,905	1,423	606	10,583	11,854
Segment assets	587,705	564,117	60,618	58,854	83,415	66,816
Investments	30,881	27,395	3,373	1,760	4,878	3,200
Staff on balance sheet date	3,738	3,655	626	612	615	524

Notes on product groups in EUR K**	Facade systems		Facade coatings		Interiors	
	2014	2013	2014	2013	2014	2013
External revenues	608,807	586,948	280,631	267,957	155,024	149,036

Segment reporting is explained in Note (32).

* Some details differ from the details in the consolidated annual statement for the fiscal year of 2013 as certain adjustments were implemented.

For more details see the appendix – General part 7.

** Information on product groups was adapted for 2013.

Reconciliation/ consolidation booking entries		Group	
2014	2013	2014	2013*
0	-65	1,208,729	1,166,011
-34,855	-30,608	0	0
-34,855	-30,673	1,208,729	1,166,011
-313	-311	126,859	128,890
-32	90	29,903	29,006
-281	-401	96,956	99,884
-975	-720	2,293	2,171
-976	-726	3,018	3,085
-282	-378	96,229	98,987
19,606	13,815	751,344	703,602
0	0	39,132	32,355
0	0	4,979	4,791

Other product groups		Group	
2014	2013	2014	2013
164,267	162,070	1,208,729	1,166,011

Notes on the consolidated income statement

(1) Revenues

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

(2) Other internally generated assets

Other internally generated assets in the year under review, as in the previous year, comprise the required capitalisation of planning costs and internally generated assets for constructed buildings.

(3) Other operating income

in EUR K	2014	2013
Income from the reversal of provisions and accrued liabilities	11,978	13,006
Income from the reversal of value adjustments for receivables and other assets	3,136	2,964
Currency translation gains	2,682	1,813
Proceeds received towards derecognised receivables	398	633
Income from the disposal of assets	326	454
Income from recharged expenses to third parties	290	258
Government funding	182	368
Other operating income	5,115	6,339
Other operating income in total	24,107	25,835

Other operating income covers EUR 201 K (previous year: EUR 2,853 K) in connection with legal proceedings.

Public funding consists essentially 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	2014	2013
Raw materials and manufacturing supplies	243,201	235,463
Goods purchased	302,560	287,347
Total materials and supplies to be consumed in the production process and goods purchased	545,761	522,810
Temporary staff	7,520	5,961
Commission production	2,320	1,665
Total services purchased	9,840	7,626
Total cost of material	555,601	530,436

(5) Personnel expenditure

in EUR K	2014	2013*
Wages and salaries	253,672	243,974
Social security contributions and expenditure on old-age pensions and support	54,237	53,019
Total personnel expenditures	307,909	296,993

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

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 accounted for approx. EUR 12.9 million with an impact on profit and loss (previous year: approx. EUR 11.7 million).

Annual average headcount

Amount	2014	2013
Employees	4,809	4,626
Trainees/apprentices	191	197
Total no. of employees	5,000	4,823

(6) Other operating expenses

in EUR K	2014	2013
Sales	109,301	105,397
Administration costs	44,267	42,865
Rental and lease payments	29,519	29,273
Operating costs	28,395	28,252
Adjustments to receivables and other assets	8,052	10,284
Other staff costs	6,626	7,049
Currency translation expense	4,215	2,749
Losses from the disposal of non-current assets	127	369
Other expenses	14,343	8,343
Other operating expenses	244,845	234,581

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

Adjustments of receivables and other assets include allowance for irretrievable accounts which have not been adjusted as well as additions to adjustments.

(7) Depreciation/amortisation

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

In the year under review, the impairment test revealed an adjustment of goodwill of Argamont Revestimentos e Argamassas Ltda. of EUR 1,341 K (in the previous year the impairment test revealed an adjustment of goodwill of STOMIX spol. s.r.o. of EUR 62 K and of Sto Italia Srl of EUR 1,398 K).

Due to the conducted impairment test further impairments of intangible assets were made to the product brand of Argamont Revestimentos e Argamassas Ltda. to the amount of EUR 459 K (in the previous year due to the conducted impairment test further impairments of intangible assets were made at STOMIX spol. s.r.o. amounting to EUR 883 K. Of this amount, EUR 843 K were attributable to the customer base and EUR 40 K to the product brand.)

The discount rate before taxes used for the cash flow forecast for Argamont Revestimentos e Argamassas Ltda. is 16.5 %. The adjustment was caused by the reduced market expectations for business activities in Brazil.

Argamont Revestimentos E Argamassas Ltda. belongs to the America/Asia segment.

(8) Share in profits of associates

Earnings from financial investments valued at equity were accounted for by JMA GmbH & Co. KG and JMA GmbH. It includes the ongoing adjustment of the at-equity values of the fiscal year.

(9) Net interest income

in EUR K	2014	2013*
Other interest and similar income	2,293	2,171
Interest and similar expenditure	-671	-746
Interest expense for post-employment benefit obligations	-2,028	-1,965
Compounding interest of other non-current provisions and liabilities	-257	-280
Interest expense for finance leasing	-62	-94
Net interest income in total	-725	-914

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

(10) Other net financial income/ expense

in EUR K	2014	2013
Expense arising from value measurement of derivatives	0	-24
Income arising from value measurement of derivatives	0	42
Other net financial income/ expense in total	0	18

(11) Taxes on income and earnings**Breakdown of income tax expense**

in EUR K	2014	2013*
Actual domestic tax expense	16,976	17,955
Actual non-domestic tax expense	13,514	13,776
Actual tax expense	30,490	31,731
of which off-period tax expense	392	-609
Expense/Income from reversal of tax provisions (off-period)	6	-44
Actual taxes on income and earnings	30,496	31,687
Deferred tax income/liabilities, domestic	-822	-789
Deferred tax income/liabilities, non-domestic	560	-285
Deferred tax income/liabilities	-262	-1,074
Income tax expense reported	30,234	30,613

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

In the 2014 assessment period the statutory corporate tax in Germany was levied at a rate of 15.0 %. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 28.6 % (previous year: 28.6 %).

The local income tax rates for foreign companies ranged between 10.0 % and 37.6 % (previous year: 10.0 % to 37.6 %). Deferred taxes were measured using the tax rates valid or enacted as of the balance sheet date.

In 2014, the realisation of unused tax losses from previous years led to a reduction in current taxes on income and earnings of EUR 20 K (previous year: EUR 71 K).

Unused tax losses were valued at EUR 14,024 K (previous year: EUR 11,873 K). Unused tax losses of EUR 3,283 K (previous year: EUR 1,120 K) are available for an indefinite period, while EUR 7,010 K (previous year: EUR 8,216 K) may only be utilised within 5 years and EUR 3,731 K (previous year: EUR 2,537 K) only within 10 years.

Of the unused tax losses, a sum of EUR 12,957 K (previous year: EUR 11,788 K) is assumed to not be available for the time being. Unused tax losses of EUR 2,216 K (previous year: EUR 1,035 K) are available for an indefinite period, while EUR 7,010 K (previous year: EUR 8,216 K) may only be utilised within 5 years and EUR 3,731 K (previous year: EUR 2,537 K) only within 10 years.

Of the unused tax losses rated available, EUR 1,067 K (previous year: EUR 0 K) are attributable to companies whose year result for 2014 was negative. Because the earnings plans of the affected companies for the next three years are positive, the unused tax losses in the corresponding amount were classified as available.

EUR 76 K of deferred tax expenses accounted for temporary differences (previous year: deferred tax expense EUR 1,055 K).

Changes in tax rates resulted in a deferred tax income of EUR 18 K (previous year: EUR 8 K).

Deferred tax assets set up in equity without any impact on profit or loss amount to EUR 9,797 K at the balance sheet date (previous year: deferred tax assets EUR 4,844 K).

Recording actuarial profits and losses with no impact on profit or loss within equity in accordance with IAS 19 resulted in a decrease in equity of EUR 5,363 K in the current fiscal year (previous year: increase in equity to the amount of EUR 281 K due to the reversal of deferred tax assets) due to the addition of deferred tax assets.

No deferred taxes were recognised on the profits retained by subsidiaries of EUR 3,347 K (previous year: EUR 3,362 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.

In 2006, as a result of statutory amendments in Germany, a corporate tax reimbursement claim was recognised for the first time in the income statement and reported in the balance sheet at present value. The reimbursement claim had a present value of EUR 2,211 K at the balance sheet date (previous year: EUR 2,884 K).

The following deferred tax assets and liabilities are recognised to allow for recognition and measurement differences in the individual items of the balance sheet and the unused tax losses:

Balance sheet item

in EUR K	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2014	31 Dec 2013*	31 Dec 2014	31 Dec 2013
Intangible assets	369	271	516	263
Property, plant and equipment	293	248	6,739	7,511
Non-current financial assets	664	726	65	0
Inventories	1,620	1,598	147	153
Current trade receivables	1,418	1,283	298	299
Current financial assets	0	0	785	230
Other current assets	322	96	163	408
Cash and cash equivalents	61	10	101	0
Assets held for sale	0	3	9	0
Post-employment benefit provisions	13,863	7,996	385	116
Other non-current provisions	391	340	34	40
Non-current borrowings	157	410	0	0
Non-current liabilities	12	0	0	0
Current provisions	3,001	3,893	674	556
Current borrowings	246	242	0	0
Trade payables	57	0	47	0
Other current liabilities	1,483	1,254	7	0
Unused tax losses	355	14	0	0
Tax reimbursements not yet utilised	1	3	0	0
Gross amount	24,313	18,387	9,970	9,576
Offset	8,931	8,075	8,931	8,075
Amount recognised in the balance sheet	15,382	10,312	1,039	1,501

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

Deferred tax assets and deferred tax liabilities are netted if the Group has a legally enforceable right to set off the actual tax reimbursement claims against the actual tax liabilities, and the deferred tax assets and the deferred tax liabilities related to income taxes levied by one and the same taxation authority from the same tax payer.

Change in deferred taxes

in EUR K	Consideration in		Total
	Income statement	Equity capital	
Status of deferred taxes as at 1 January 2014*	3,967	4,844	8,811
Intangible assets	253	0	253
Property, plant and equipment	918	0	918
Non-current financial assets	-127	0	-127
Inventories	8	0	8
Current trade receivables	125	0	125
Current financial assets	-552	0	-552
Other current assets	487	0	487
Cash and cash equivalents	-49	0	-49
Assets held for sale	-12	0	-12
Post-employment benefit provisions	233	5,363	5,596
Other non-current provisions	58	0	58
Non-current borrowings	-254	0	-254
Non-current liabilities	13	0	13
Current provisions	-1,366	0	-1,366
Current borrowings	4	0	4
Trade payables	11	0	11
Other current liabilities	175	0	175
Unused tax losses	340	0	340
Tax reimbursements not yet utilised	-2	0	-2
Effects from first-time consolidation	0	-410	-410
Currency translation effects	315	0	315
Status of deferred taxes as at 31 December 2014	4,545	9,797	14,342

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

Reconciliation of expected and reported income tax expense

in EUR K	2014	2013*
Accounting profit	96,229	98,987
Expected income tax expense (tax rate: 28.6 %; previous year: 28.6 %)	27,521	28,310
<i>Reconciliation:</i>		
Tax-free income and permanent differences	2,177	2,876
Change in tax rate	-18	-8
Deviations of local tax rates from Group tax rate	-726	-657
Tax reduction for unused tax losses not yet recognised	-20	-71
Effects of non-recognition of unused tax losses	960	706
Off-period taxes	398	-654
Other effects	-58	111
Income tax expense reported	30,234	30,613
Effective tax rate (%)	31.4	30.9

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

(12) Earnings per share

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.

Basic earnings in accordance with IAS 33 amounted to EUR 26,265 K for limited pref-

erence shares (previous year: EUR 27,255 K*) and for limited ordinary shares EUR 40,003 K (previous year: EUR 41,519 K*).

In addition to shares outstanding, diluted earnings per share also include potential shares (e. g. from options). Both at 31 December 2014 and 31 December 2013 there were no potential shares. Accordingly, basic and diluted earnings per share are identical in both years.

Amount	Ordinary shares		Preference shares	
	2014	2013	2014	2013
Weighted average number of shares outstanding – basic/diluted	3,888,000	3,888,000	2,538,000	2,538,000

in EUR	2014	2013*	in EUR	2014	2013*
Share attributable to the shareholders of Sto SE & Co. KGaA	66,267,580	68,773,478			
Earning per share – basic/diluted of which:			Earnings per share – basic/diluted		
Limited ordinary shares	40,002,534	41,518,708	Limited ordinary share	10.29	10.68
Limited preference shares	26,265,046	27,254,770	Limited preference share	10.35	10.74

* Details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

In fiscal 2014, a dividend from the earnings of 2013 of EUR 4.81 per ordinary share (total of EUR 18,701 K), consisting of EUR 0.25 plus a bonus of EUR 4.56 and EUR 4.87 per preference share (total: EUR 12,360 K), consisting of EUR 0.31 plus a bonus of EUR 4.56 was distributed. In total, the dividend payout amounted to EUR 31,061 K.

In fiscal 2013, a dividend from the earnings of 2012 of EUR 4.81 per ordinary share (total of EUR 18,701 K), consisting of EUR 0.25 plus a bonus of EUR 4.56 and EUR 4.87 per preference share (total: EUR 12,360 K), consisting of EUR 0.31 plus a bonus of EUR 4.56 was distributed. In total, the dividend payout amounted to EUR 31,061 K.

Further notes on the income statement in accordance with IFRS 7

The Sto Group categorises financial instruments as follows:

- Financial instruments at fair value through profit or loss
- Financial assets measured at amortised costs of acquisition
- Financial instruments with a value recognition in the balance sheet according to IAS 17
- Financial instruments that are subject to Hedge Accounting and
- Financial instruments not coming within the scope of IFRS 7 (equity investments)

Net profit/loss from financial assets categorised in accordance with IAS 39

in EUR K	2014	2013
Assets		
Assets held for trading	193	383
Sum total of financial assets measured at fair value through profit or loss	193	383
Loans and receivables	-5,385	-7,331
Liabilities		
Financial liabilities measured at amortised cost	-957	-627

Net gains and losses from financial assets and liabilities at fair value through profit or loss include changes in the fair value as well as exchange-rate related expenditure and income in connection with these financial instruments. Interest expenses and income are not part of the net result.

Net gains and losses from loans and receivables are primarily derived from impairments and disposals.

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

in EUR K	2014	2013
Interest income	2,161	1,994
Interest expense	730	680
Net interest income	1,431	1,314

Impairment losses on financial assets by class

in EUR K	2014	2013
Measured at amortised costs of acquisition	8,052	8,256

The measurement of the portfolio of financial instruments at fair value as at 31 December 2014 resulted in a net income of EUR 242 K (previous year: expense of EUR 15 K).

Income and expenses from measurement at fair value are reported under other operating income and other operating expenses, respectively, or in net financial income under interest and similar expenses or in other financing expenses.

Notes on the consolidated balance sheet

(13) Intangible assets

Changes in intangible assets from 1 January to 31 December 2013

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	Total
Cost of acquisition/production				
01 January 2013	26,939	40,601	702	68,242
Additions	2,057	0	724	2,781
Change to companies consolidated	314	0	0	314
Disposal	996	0	0	996
Transfers	484	0	-667	-183
Exchange rate differences	-257	-98	-1	-356
31 December 2013	28,541	40,503	758	69,802
Cumulative depreciation and impairment losses				
01 January 2013	19,673	4,188	0	23,861
Depreciation for the year	2,857	0	0	2,857
Disposal	993	0	0	993
Impairment losses	883	1,460	0	2,343
Transfers	14	0	0	14
Exchange rate differences	-152	-3	0	-155
31 December 2013	22,282	5,645	0	27,927
Net carrying amount as at 31 December 2012	7,266	36,413	702	44,381
Net carrying amount as at 31 December 2013	6,259	34,858	758	41,875

Changes in intangible assets from 1 January to 31 December 2014

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	Total
Cost of acquisition/production				
01 January 2014	28,541	40,503	758	69,802
Additions	1,518	0	277	1,795
Change to companies consolidated	2,192	1,341	0	3,533
Disposal	1,038	0	0	1,038
Transfers	639	0	-770	-131
Exchange rate differences	65	-51	12	26
31 December 2014	31,917	41,793	277	73,987
Cumulative depreciation and impairment losses				
01 January 2014	22,282	5,645	0	27,927
Depreciation for the year	3,101	0	0	3,101
Disposal	1,032	0	0	1,032
Impairment losses	473	1,384	0	1,857
Transfers	27	0	0	27
Exchange rate differences	25	-43	0	-18
31 December 2014	24,876	6,986	0	31,862
Net carrying amount as at 31 December 2013	6,259	34,858	758	41,875
Net carrying amount as at 31 December 2014	7,041	34,807	277	42,125

Goodwill

Goodwill reported, amounting to EUR 34,807 K (previous year: EUR 34,858 K) breaks down as follows:

Cash Generating Units in EUR K	31 Dec 2014	31 Dec 2013
Sto SE & Co. KGaA	15,760	15,760
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim	2,780	2,780
Beissier S.A.S., La Chapelle La Reine/France	3,635	3,635
Beissier S.A.U., Erreterria/Spain	2,679	2,679
Sto – ispo Sp. z o.o., Warsaw/Poland	2,402	2,402
Sto Epitöanyag Kft., Dunaharaszti/Hungary	1,764	1,764
Sto Italia Srl, Empoli/Italy	0	0
Sto Isoned B.V., Tiel/Netherlands	1,189	1,189
Sto Norge AS, Oslo/Norway	1,056	1,107
Miscellaneous under EUR 1,000 K	3,542	3,542
Goodwill in total	34,807	34,858

With the exception of Sto SE & Co. KGaA, the cash-generating units (CGUs) identified for purposes of calculating goodwill are identical to the legal entities. The Sto CGU comprises Sto SE & Co. KGaA, Stühlingen; Verotec GmbH, Lauingen; and StoCretec GmbH, Kriftel.

(14) Property, plant and equipment**Changes in property, plant and equipment from 1 January to 31 December 2013**

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	Rendered advance payments and equipment under construction	Total
Cost of acquisition/production					
01 January 2013	278,110	167,750	166,582	13,366	625,808
Additions	6,676	3,471	11,582	7,845	29,574
Change to companies consolidated	3,598	569	63	0	4,230
Disposal	1,063	717	5,539	10	7,329
Transfers	8,521	933	3,348	-12,619	183
Exchange rate differences	-1,798	-1,074	-927	-76	-3,875
31 December 2013	294,044	170,932	175,109	8,506	648,591
Cumulative depreciation and impairment losses					
01 January 2013	146,293	129,234	139,608	3	415,138
Depreciation for the year	8,340	6,695	8,761	10	23,806
Impairment losses	0	0	0	0	0
Disposal	830	657	5,254	0	6,741
Change to companies consolidated	0	0	0	0	0
Transfers	0	248	-262	0	-14
Exchange rate differences	-719	-797	-746	1	-2,261
31 December 2013	153,084	134,723	142,107	14	429,928
Net carrying amount as at 31 December 2012	131,817	38,516	26,974	13,363	210,670
Net carrying amount as at 31 December 2013	140,960	36,209	33,002	8,492	218,663
of which leased assets classified as financial leases, carrying amount as at 31 December 2013	1,739	5	1,968	0	3,712

Changes in property, plant and equipment from 1 January to 31 December 2014

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	Rendered advance payments and equipment under construction	Total
Cost of acquisition/production					
01 January 2014	294,044	170,932	175,109	8,506	648,591
Additions	5,722	11,406	8,447	11,752	37,327
Change to companies consolidated	2,802	141	149	0	3,092
Disposal	488	2,165	6,085	40	8,778
Transfers	3,124	3,114	-143	-5,964	131
Exchange rate differences	1,494	2,273	555	36	4,358
31 December 2014	306,698	185,701	178,032	14,290	684,721
Cumulative depreciation and impairment losses					
01 January 2014	153,084	134,723	142,107	14	429,928
Depreciation for the year	8,481	6,584	9,644	3	24,712
Impairment losses	0	0	0	235	235
Disposal	406	2,012	5,776	0	8,194
Change to companies consolidated	0	0	0	0	0
Transfers	10	-22	-13	-2	-27
Exchange rate differences	1,023	1,918	499	-2	3,438
31 December 2014	162,192	141,191	146,461	248	450,092
Net carrying amount as at 31 December 2013	140,960	36,209	33,002	8,492	218,663
Net carrying amount as at 31 December 2014	144,506	44,510	31,571	14,042	234,629
of which leased assets classified as financial leases, carrying amount as at 31 December 2014	1,952	0	1,315	0	3,267

Property, plant and equipment with a carrying amount of EUR 25,950 K (previous year: EUR 29,421 K) serve to secure liabilities to banks. The land charges are valued on the balance sheet date at EUR 1,298 K (previous year: EUR 5,201 K).

Call options have mostly been agreed for the buildings and equipment leased under finance leases and these are expected to be exercised. Leases are based on a weighted interest rate of 2.9 %.

Future lease payments are set out in the following tables:

in EUR K	up to 1 year	1–5 years	5–10 years	2013-12-31
Lease payments	1,039	1,615	0	2,654
Interest portions	64	50	0	114
Carrying amount/ present value	975	1,565	0	2,540

in EUR K	up to 1 year	1–5 years	5–10 years	2014-12-31
Lease payments	932	655	0	1,587
Interest portions	31	13	0	44
Carrying amount/ present value	901	642	0	1,543

(15) Financial assets accounted for using the equity method

The carrying amount of investments in associates as at 31 December 2014 stands at EUR 75 K (previous year: in EUR 76 K).

The following amounts are attributable to the Group on account of the 45 % share in the joint venture Inotec GmbH:

in EUR K	2014-12-31	2013-12-31
Assets	683	1,171
Liabilities	1,005	1,393
Revenues	4,704	4,796
Net profit/loss for the period	–99	–222

The other companies measured at equity are a Kommanditgesellschaft (corresponds approxi-

mately to a limited partnership) and the related Komplementär-GmbH (corresponds approximately to a general partner) which both have a share of 50 %. The Kommanditgesellschaft owns a property with natural resources. These natural resources were neither exploited by the Group nor by the partner in 2014. Therefore, both companies had almost no activities. The values attributable to the Group are insignificant.

Distributing dividends or repaying loans of the investments in associates to the Sto Group requires the common approval of the shareholders of the respective associates.

The Group had no contingent liabilities as of the balance sheet date.

(16) Inventories

Inventories are measured at the lower of cost or the net realisable amount. Impairments in relation to the gross amount came to EUR 5,261 K (previous year: EUR 5,016 K). Of this, an amount of EUR 245 K reduced earnings (previous year: EUR 555 K reduced earnings).

Net carrying amounts are reported as follows:

in EUR K	2014-12-31	2013-12-31
Raw materials and manufacturing supplies	16,723	17,473
Work in progress	6,518	4,466
Finished products and goods	45,926	42,945
Payments made on account	580	574
Total inventories	69,747	65,458

Neither in the previous year nor in the last fiscal year inventories served to secure payables to banks.

(17) Current and non-current trade and non-trade receivables

in EUR K			Carrying amount as at 31 Dec 2014			Carrying amount as at 31 Dec 2013
	short-term	long-term		short-term	long-term	
from						
Third parties	115,672	779	116,451	115,952	925	116,877
Investments in associates	6	0	6	2	0	2
Trade receivables in total	115,678	779	116,457	115,954	925	116,879

The fair values of trade receivables equal their carrying amounts. Adjustments of EUR 21,753 K (previous year: EUR 20,821 K) were taken into account.

Trade receivables in excess of EUR 2,172 K (previous year: EUR 2,380 K) serve to secure payables to banks.

(18) Non-current and current financial assets

in EUR K			Carrying amount as at			Carrying amount as at
	short-term	long-term	31 Dec 2014	short-term	long-term	31 Dec 2013
Financial assets due from third parties	140,378	1,728	142,106	128,729	1,174	129,903
Other receivables and financial assets due from associates	400	0	400	300	500	800
Positive fair value of derivative financial instruments	480	227	707	14	28	42
Financial assets in total	141,258	1,955	143,213	129,043	1,702	130,745

Financial assets due from third parties include cash investments due for settlement in more than three months. In addition, this item includes receivables from suppliers amounting to EUR 5,101 K (previous year: EUR 5,129 K). Financial asset adjustments of EUR 401 K (previous year: EUR 338 K) were taken into account.

Derivative financial instruments have the following positive fair values:

in EUR K	31 Dec 2014	31 Dec 2013
Hedges against		
currency risks	707	42
Fair values of derivative financial instruments in total	707	42

Derivative financial instruments as a whole are described in greater detail in Note (33).

(19) Other non-current and current assets

in EUR K			Carrying amount as at 31 Dec 2014			Carrying amount as at 31 Dec 2013
	short-term	long-term		short-term	long-term	
Other receivables from third parties	1,064	36	1,100	706	109	815
Other tax reimbursement claims	3,733	0	3,733	2,513	0	2,513
Prepaid expenses	4,909	167	5,076	4,088	656	4,744
Other payments made on account	452	0	452	829	0	829
Other assets in total	10,158	203	10,361	8,136	765	8,901

Other tax reimbursement claims include VAT reimbursement claims of EUR 3,649 K (previous year: EUR 2,494 K). Other assets allowances of EUR 94 K (previous year: EUR 128 K) were made.

(20) Cash and cash equivalents

in EUR K	31 Dec 2014	31 Dec 2013
Credit balances with banks	112,370	102,889
Cheques, cash in hand	647	1,055
Cash and cash equivalents in total	113,017	103,944

Credit balances are held at various banks in different currencies.

(21) Available-for-sale assets

The assets held for sale refer to developed property of WT Gebäudemanagement GmbH, Stühlingen, which does not perform any other business activities than real estate management. The property and buildings were sold on 1 January 2015. On the balance sheet date an allocation was made to the Western Europe segment and the valuation was based on the carrying amount.

(22) Equity capital

Changes in equity capital and minority interests are analysed in the statement of changes in equity capital.

Subscribed capital

Since the conversion of Sto AG into Sto SE & Co. KGaA which had been decided at the annual general meeting of Sto AG on 12 June 2013 and registered in the trade register of Amtsgericht Freiburg (HRB 711236) on 26 March 2014, all business is conducted by the personally liable partner STO Management SE, Stühlingen (it does not hold a share in the capital of Sto SE & Co. KGaA).

The share capital of Sto SE & Co. KGaA on 31 December 2014 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 limited preference shares each beforehand bore a higher dividend than the limited ordinary shares by EUR 0.06. A minimum dividend of EUR 0.13 per limited preference share was guaranteed. If distributable profit is not sufficient to pay the priority dividend of at least EUR 0.13 per limited preference share in one or more fiscal years, then the missing amounts (without interest) are subsequently paid from the distributable profit of the following fiscal

years once the share in the profit for those fiscal years has been distributed to the limited preference shares and prior to a dividend being paid on limited ordinary shares.

Stotmeister Beteiligungs GmbH, Stühlingen, holds all but four of the limited ordinary shares of Sto SE & Co. KGaA not in the ownership of Sto SE & Co. KGaA. The personally liable partner, STO Management SE, Stühlingen, does not have an interest in the capital of Sto SE & Co. KGaA.

The limited preference shares of Sto SE & Co. KGaA are listed at the stock exchanges in Frankfurt/Main and Stuttgart in the “Regulated market” segment. The limited ordinary shares are not listed on the stock market.

The shares of STO Management SE, Stühlingen, are held to 100 % by Stotmeister Beteiligungs GmbH, Stühlingen.

Capital reserves

Capital reserves essentially comprise additions from premiums.

In the course of the conversion of Sto AG into Sto SE & Co. KGaA, Stotmeister Beteiligungs GmbH took over the pro rata formation costs amounting to EUR 155 K in its capacity as limited shareholder. Pursuant to Section 272, par. 2 no. 4 of the Handelsgesetzbuch, the amount paid was booked to the capital reserve.

Revenue reserves and other reserves

Revenue reserves and other reserves comprise the following items:

- Reserves for accrued profits
Revenue reserves include the current profits earned by Sto SE & Co. KGaA and its subsidiaries and those generated in previous years that were not distributed.

- **Currency translation reserve:**
The currency translation reserve is used to record any differences arising from the translation of the financial statements of foreign subsidiaries.
- **Reserve for pensions:**
The post-employment benefit reserve contains actuarial gains net of actuarial losses from the post-employment benefit provisions arising from differences between actual and assumed trends as well as changes in such assumptions.
- **Treasury stock:**
As at 31 December 2014, Sto SE & Co. KGaA, Stühlingen, holds treasury stock in the form of 432,000 registered limited ordinary shares with a notional par value of EUR 1,105,920.00. This is equivalent to 10 % of all ordinary shares or 6.3 % of the share capital of Sto SE & Co. KGaA. The treasury stock is not dividend-entitled.

Proposed dividend

In accordance with Sections 278, 58 (4) of the German Stock Corporation Act, the dividend distributed is based on the unappropriated surplus recorded in the financial statements

prepared according to German commercial law. The financial statements prepared by Sto SE & Co. KGaA according to German commercial law carry a distributable profit of EUR 163,732 K. The personally liable partner of Sto SE & Co. KGaA, STO Management SE, Stühlingen, will propose via their Executive Board at the Annual General Meeting of Sto SE & Co. KGaA, a dividend distribution of EUR 0.25 plus a bonus of EUR 25.14 for a total of EUR 25.39 per ordinary share, and EUR 0.31 plus a bonus of EUR 25.14 for a total of EUR 25.45 per preference share, i.e. a total distribution amount of EUR 163,308 K and the balance of EUR 424 K to be carried forward to 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 2014	31 Dec 2013*	Change in %
Equity attributable to the shareholders of Sto SE & Co. KGaA	505,355	479,945	5.3 %
Current borrowings	6,953	6,737	3.2 %
Non-current borrowings	1,320	2,393	-44.8 %
Less cash and cash equivalents	113,017	103,944	8.7 %
Net assets	104,744	94,814	10.5 %
% of equity capital	20.7 %	19.8 %	
Equity ratio	67.4 %	68.4 %	

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

In 2014, the equity capital attributable to the shareholders of Sto SE & Co. KGaA rose by 5.3 % over the previous year. This was essentially the result of the increase in revenue reserves. Financial liabilities were further reduced in the expired fiscal year.

As in the previous year, no net debt has been incurred in the current fiscal year.

Due to the new credit line arranged with a bank consortium in December 2012, the Group is constrained by external covenants. Any failure to comply with these financial covenants entitles the lenders to terminate the credit line for good cause. The conditions of these external covenants have been met.

(23) Share of minority interests

The shares of equity on the part of minority interests in the current financial year, as well as in the previous year, are attributable to shareholders of Sto Italia Srl, Empoli/ Italy.

(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 benefits provided by the Group vary according to the legal, tax and economic situation in the individual country and are based on the length of service and partially the salary employees. The Group pension scheme primarily comprises defined benefit obligation plans. In addition, there are also some defined contribution plans. In the case of defined contribution plans, the Company pays contributions into public or private pension funds in accordance with statutory or contractual obligations. Upon payment of these contributions, no further obligations

accrue for the Company. Current contribution payments (net of contributions to statutory pension funds) are reported as post-employment benefit expenses for the year in question and in 2014 were valued in the Sto Group at a total of EUR 1,311 K (previous year: EUR 777 K).

Contributions to statutory pension funds came to EUR 16,964 K (previous year: EUR 16,341 K*). The company pension schemes operated within the Sto Group are for the most part based on internally funded defined benefit plans.

Benefit obligations assumed by the German companies primarily exist for old-age, invalidity, widow's and orphan's pensions. Prerequisite for receiving benefits is that the following two requirements are met upon occurrence of the event

- a minimum period of service of 10 years after the age of 25
- the employee had been in an employment relationship with Sto or has a non-lapsable entitlement.

Old-age pension is granted with receiving state pension. The monthly old-age or invalidity pension amounts to between EUR 5.11 and EUR 9.20 per year of service and depending on the employee status. The widow's pension amounts to 60 % of the old-age and invalidity pension.

In Switzerland the current benefits agreements for employees are effected by plans which are regulated by Federal Law on Occupational Old-age, Survivor's and Disability Insurance (BVG). Pension plans in Switzerland are administered by collective foundations which are financed by regular employee and employer contributions. The final pension benefits are contribution-based with specific minimum guarantees. Due to these

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

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.

As the calculations are based on assumptions that are subject to uncertainties, the generally applicable calculation methods were used. The sensitivity analyses listed below show the impacts of potential deviations.

Post-employment benefit provisions are calculated in accordance with IAS 19 (Employee benefits) using the projected unit credit method,

which is the standard international method. For this purpose, future obligations are measured on the basis of the prorated benefits accruing at the balance sheet date. In making this assessment, assumed trends in the relevant determinants influencing the size of the benefits are taken into account. Actuarial calculations are necessary for all pension systems.

Actuarial gains or losses arise from changes in the plan assets or deviations in actual trends (e. g. income and pension increases, changes in interest rates) or from changes in the assumptions underlying calculations. All actuarial gains and losses are recognised in equity in full in the period in which they arise. Actuarial gains and losses reported within equity are presented in the following provisions table.

Summary of the post-employment benefit provisions

in EUR K	2014	2013*
Pension plan of the Euro companies	-70,828	-54,681
Pension plan of Sto AG Switzerland	-10,914	-4,928
Total	-81,742	-59,609

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

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
Status: 01 January 2013	-62,900	5,759	-57,141
Expenditure for post-employment benefit obligations recognised through profit and loss			
Current service cost	-2,256	0	-2,256
Interest expense/income	-2,076	190	-1,886
Revenue from plan assets	-770	0	-770
Sub-total recognised in the income statement for the period	-5,102	190	-4,912
Pension benefits paid	1,711	0	1,711
Profit/loss from reassessment recognised in other earnings			
Expenditure from plan assets (solely the amounts contained in the interest expense)	0	0	0
Actuarial gains and losses from changes in demographic assumptions	2,836	0	2,836
Actuarial gains and losses from changes in financial assumptions	3,115	-402	2,713
Experience-based adjustments	-658	0	-658
Sub-total contained in other earnings	5,293	-402	4,891
Employer contributions	0	770	770
Status: 31 December 2013	-60,998	6,317	-54,681

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
Status: 01 January 2014	-60,998	6,317	-54,681
Expenditure for post-employment benefit obligations recognised through profit and loss			
Current service cost	-2,146	0	-2,146
Interest expense/income	-2,137	224	-1,913
Revenue from plan assets	-163	0	-163
Sub-total recognised in the income statement for the period	-4,446	224	-4,222
Pension benefits paid	2,039	0	2,039
Profit/loss from reassessment recognised in other earnings			
Expenditure from plan assets (solely the amounts contained in the interest expense)	0	0	0
Actuarial gains and losses from changes in demographic assumptions	8	0	8
Actuarial gains and losses from changes in financial assumptions	-15,047	1,402	-13,645
Experience-based adjustments	-327	0	-327
Sub-total contained in other earnings	-15,366	1,402	-13,964
Employer contributions	0	0	0
Status: 31 December 2014	-78,771	7,943	-70,828

Current service costs are included in staff costs; interest expenses on the obligation is reported under interest expenses, Note (9).

Plan assets of the Euro companies refer to a qualifying insurance contract. This is an almost risk-free direct insurance.

The calculation of pension provisions was based on the following assumptions, with the predominant share of the amount recognised in the balance sheet being accounted for by Germany.

The Heubeck 2005 G tables have been used as the biometric basis for calculations for German companies since 31 December 2005.

in %	Germany		Non-Germany	
	2014	2013	2014	2013
Discount rate as at 31 December	2.15	3.55	2.15	3.30 – 3.55
Future pension increases	1.53	1.90	2.40	2.40
Age of retirement in years	65	65	62 – 65	60 – 67

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
Status: 01 January 2013*	0	0	0
Profit/loss from reassessment recognised in other earnings	-27,356	21,990	-5,366
Status: 01 January 2013*	-27,356	21,990	-5,366
Expenditure for post-employment benefit obligations recognised through profit and loss			
Current service cost	-899	0	-899
Interest expense/income	-520	418	-102
Revenue from plan assets	0	0	0
Sub-total recognised in the income statement for the period	-1,419	418	-1,001
Pension benefits paid	461	-461	0
Profit/loss from reassessment recognised in other earnings			
Expenditure from plan assets (solely the amounts contained in the interest expense)	0	0	0
Actuarial gains and losses from changes in demographic assumptions	0	0	0
Actuarial gains and losses from changes in financial assumptions	487	61	548
Experience-based adjustments	0	0	0
Sub-total contained in other earnings	487	61	548
Employer contributions	0	891	891
Employee contributions	-889	889	0
Status: 31 December 2013*	-28,716	23,788	-4,928

* Some details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

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
Status: 01 January 2014	-28,716	23,788	-4,928
Expenditure for post-employment benefit obligations recognised through profit and loss			
Current service cost	-827	0	-827
Interest expense/income	-657	542	-115
Revenue from plan assets	0	0	0
Sub-total recognised in the income statement for the period	-1,484	542	-942
Pension benefits paid	195	-195	0
Profit/loss from reassessment recognised in other earnings			
Expenditure from plan assets (solely the amounts contained in the interest expense)	0	0	0
Actuarial gains and losses from changes in demographic assumptions	0	0	0
Actuarial gains and losses from changes in financial assumptions	-5,777	-209	-5,986
Experience-based adjustments	0	0	0
Sub-total contained in other earnings	-5,777	-209	-5,986
Employer contributions	0	942	942
Employee contributions	947	-947	0
Status: 31 December 2014	-34,835	23,921	-10,914

Plan assets of Sto AG, Switzerland, refer to a qualifying insurance contract. All regulatory benefits such as disability, death and longevity are integrally covered in the insurance contract.

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

in %	Switzerland	
	2014	2013
Discount rate as at 31 December	1.00	2.30
Future pension increases	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 discount rate as at 1 January 2013 stood at 1.90 %.

The following shows a quantitative sensitivity analysis of the most important assumptions as on 31 December 2014:

in EUR K	Effects on the performance-based obligation of the Euro countries	in EUR K	Effects on the performance-based obligation of the Euro countries
Discount rate		Life expectancy	
Decline by 0.5 %	7,907	Decrease by 1 year	-2,161
Increase by 0.5 %	-6,556	Increase by 1 year	2,434
Pensions		Retirement age	
Decline by 1.0 %	-7,272	Decrease by 1 year	1,757
Increase by 1.0 %	9,090	Increase by 1 year	-1,555

in EUR K	Effects on the performance-based obligation of Sto AG Switzerland	in EUR K	Effects on the performance-based obligation of Sto AG Switzerland
Discount rate		Life expectancy	
Decline by 0.5 %	3,365	Decrease by 1 year	-581
Increase by 0.5 %	-2,920	Increase by 1 year	610
Salary adjustments			
Decline by 0.5 %	-426		
Increase by 0.5 %	428		

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. These provisions were then compared to the provision recorded on the balance sheet as of 31 December 2014.

The following contributions are expected to be paid over the next few years as part of defined-benefit liabilities:

in EUR K	Disbursements
within the next 12 months	3,571
between 2 and 5 years	14,026
between 5 and 10 years	20,992
Expected disbursements within the next 10 years	38,589

The term of the performance-oriented liability averages at 19.9 years at the end of the reporting period (2013*: 17.9 years).

*The details differ from the details in the consolidated annual financial statement of the Sto Group for the fiscal year of 2013 as certain adjustments were implemented. For more details see the appendix – General part 7.

(25) Non-current and current provisions

in EUR K	Staff division	Production division	Sales division	Other provisions	Total
As of 01 January 2013	7,492	1,073	36,414	1,697	46,676
Current differences	-12	0	-589	-1	-602
Consumption	-2,580	-122	-1,499	-381	-4,582
Netting of plan assets	0	0	0	0	0
Additions/formation	1,975	55	6,824	582	9,436
Actuarial gains	20	0	0	0	20
Change to companies consolidated	43	94	42	1	180
Interest cost	134	27	114	5	280
Reversal	-293	-8	-11,983	-180	-12,464
As of 31 December 2013	6,779	1,119	29,323	1,723	38,944
Current differences	1	0	1,347	16	1,364
Consumption	-2,324	-176	-1,586	-690	-4,776
Netting of plan assets	0	0	0	0	0
Additions/formation	1,972	48	4,337	992	7,349
Actuarial gains	20	0	0	0	20
Change to companies consolidated	0	0	0	0	0
Interest cost	118	11	112	6	247
Reversal	-316	-8	-10,786	-151	-11,261
As of 31 December 2014	6,250	994	22,747	1,896	31,887
of which current	2,614	592	17,854	1,511	22,571
of which non-current	3,636	402	4,893	385	9,316

Provisions in the staff area have been set aside for pre-retirement reduced working hours, anniversary expenses, termination settlements and similar obligations, among other things.

Provisions of the production division comprise, inter alia, asset retirement obligations and disposal costs.

Provisions in the sales area essentially comprise provisions for warranties, compensation claims of commercial representatives as well as provisions for litigation risks. Provisions for warranty obligations are carried as liabilities for individual cases in the Sto Group. The assumptions on

which the calculation of warranty provisions are based are experience statistics for complaints and the latest information available. Furthermore, uncertainties arise with regard to pending compensatory damages court cases in terms of compensation payments and the duration of the processes. We expect the provision to be utilised only after damage recovery.

In addition to provisions for acceptance obligations and safe-keeping obligations, the remaining other provisions comprise additional factual circumstances subordinate in nature in specific cases in terms of their recognition.

(26) Non-current and current borrowings

in EUR K			Carrying amount as at 31 Dec 2014			Carrying amount as at 31 Dec 2013
	short-term	long-term		short-term	long-term	
Payables to banks	3,086	638	3,724	4,881	706	5,587
Liabilities under finance leases	861	682	1,543	853	1,687	2,540
Other borrowings	3,006	0	3,006	1,003	0	1,003
Borrowings in total	6,953	1,320	8,273	6,737	2,393	9,130

The covenants applicable to finance leases are explained in Note (14).

(27) Trade payables

in EUR K	31 Dec 2014	31 Dec 2013
from		
Third parties	44,089	41,701
Investments in associates	122	380
Trade payables in total	44,211	42,081

The terms of the trade payables is completely short term.

The fair values of trade payables do not differ from the carrying amounts reported.

(28) Non-current and current financial liabilities

in EUR K			Carrying amount as at 31 Dec 2014			Carrying amount as at 31 Dec 2013
	short-term	long-term		short-term	long-term	
Other liabilities to investments in associates	15	0	15	0	0	0
Negative fair values of derivative financial instruments	201	8	209	57	0	57
Other liabilities						
liabilities towards customers	16,454	0	16,454	14,000	0	14,000
liabilities towards employees	708	0	708	1,145	0	1,145
miscellaneous	10,443	1,200	11,643	3,726	134	3,860
Financial liabilities in total	27,821	1,208	29,029	18,928	134	19,062

Derivative financial instruments have the following negative fair values:

in EUR K	31 Dec 2014	31 Dec 2013
Hedges against		
currency risks	209	57
Fair values of derivative financial instruments in total	209	57

Derivative financial instruments as a whole are described in detail in Note (33).

(29) Non-current and current other liabilities

in EUR K			Carrying amount as at 31 Dec 2014			Carrying amount as at 31 Dec 2013
	short-term	long-term		short-term	long-term	
Advance payment received on orders	1,469	0	1,469	732	0	732
Other liabilities						
from other taxes	7,596	0	7,596	7,523	0	7,523
social security liabilities	3,495	0	3,495	3,195	0	3,195
liabilities towards employees	25,420	0	25,420	26,922	0	26,922
miscellaneous	6,610	1	6,611	7,722	2	7,724
Other liabilities in total	44,590	1	44,591	46,094	2	46,096

(30) Further notes on financial instruments in accordance with IFRS 7**Reconciliation of balance sheet items with financial instrument categories as at 31 December 2013**

in EUR K	Measurement category acc. to IAS 39	Carrying amount 31 Dec 2013	Financial instruments				Not in the scope of application of IFRS 7/Hedge accounting	Non-financial instrument
			Amortised costs of acquisition		Fair value	Value recognition balance sheet acc. to IAS 17		
			Carrying amount	Fair value				
Assets								
Investments in associates	n.a.	76	0	0	0	0	76	0
Trade payables	LaR	116,879	116,879	116,879	0	0	0	0
Other receivables and financial assets								
- Available-for-sale financial assets	AfS	33	33	33	0	0	0	0
- Held-to-maturity investments	HtM	4,314	4,314	4,352	0	0	0	0
- Financial assets held for trading	FAHfT	0	0	0	0	0	0	0
- Derivative assets								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FAHfT	42	0	0	42	0	0	0
- Other assets	LaR/n.a.	135,257	126,356	126,452	0	0	0	8,901
Other receivables and financial assets in total		139,646	130,703	130,837	42	0	0	8,901
Cash and cash equivalents	LaR	103,944	103,944	103,944	0	0	0	0
Liabilities								
Borrowings	FLAC	6,590	6,590	6,590	0	0	0	0
Liabilities under finance leases	n.a.	2,540	0	0	0	2,540	0	0
Borrowings in total		9,130	6,590	6,590	0	2,540	0	0
Trade payables	FLAC	42,081	42,081	42,081	0	0	0	0
Other liabilities and financial liabilities								
- Derivative liabilities								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FLHfT	57	0	0	57	0	0	0
- Other liabilities	FLAC/n.a.	65,101	19,005	19,005	0	0	0	46,096
Other liabilities and financial liabilities in total		65,158	19,005	19,005	57	0	0	46,096

Reconciliation of balance sheet items with financial instrument categories as at 31 December 2014

in EUR K	Measurement category acc. to IAS 39	Carrying amount 31 Dec 2014	Financial instruments					Non-financial instrument
			Amortised costs of acquisition		Fair value	Value recognition balance sheet acc. to IAS 17	Not in the scope of application of IFRS 7/Hedge accounting	
			Carrying amount	Fair value				
Assets								
Investments in associates	n.a.	75	0	0	0	0	75	0
Trade payables	LaR	116,457	116,457	116,457	0	0	0	0
Other receivables and financial assets								
- Available-for-sale financial assets	AfS	45	45	45	0	0	0	0
- Held-to-maturity investments	HtM	11,703	11,703	11,756	0	0	0	0
- Financial assets held for trading	FAHFT	0	0	0	0	0	0	0
- Derivative assets								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FAHFT	707	0	0	707	0	0	0
- Other assets	LaR/n.a.	141,120	130,727	130,773	0	0	30	10,363
Other receivables and financial assets in total		153,575	142,475	142,574	707	0	30	10,363
Cash and cash equivalents	LaR	113,017	113,017	113,017	0	0	0	0
Liabilities								
Borrowings	FLAC	6,731	6,731	6,731	0	0	0	0
Liabilities under finance leases	n.a.	1,543	0	0	0	1,543	0	0
Borrowings in total		8,274	6,731	6,731	0	1,543	0	0
Trade payables	FLAC	44,211	44,211	44,211	0	0	0	0
Other liabilities and financial liabilities								
- Derivative liabilities								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FLHFT	209	0	0	209	0	0	0
- Other liabilities	FLAC/n.a.	73,410	28,819	28,819	0	0	0	44,591
Other liabilities and financial liabilities in total		73,619	28,819	28,819	209	0	0	44,591

The carrying amounts of the financial instruments are aggregated as follows in accordance with the categories stipulated in IAS 39:

in EUR K	31 Dec 2014	31 Dec 2013
Available-for-Sale (AFS)	45	33
Financial assets held for trading (FAhFT)	707	42
Held-to-Maturity Investments (HtM)	11,703	4,314
Loans and receivables (LaR)	360,231	347,179
Financial liabilities measured at amortised cost (FLAC)	79,761	67,676
Financial Liabilities Held for Trading (FLHFT)	209	57

Balance sheet items measured at fair value

in EUR K	31 Dec 2013	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss				
- Derivatives with no hedge relationship	42	0	42	0
Available-for-sale financial assets				
- Derivatives with a hedge relationship	0	0	0	0
Financial assets measured at fair value	42	0	42	0
Financial liabilities recognised at fair value through profit or loss				
- Derivatives with no hedge relationship	57	0	57	0
Financial liabilities recorded in other earnings with no impact on profit or loss				
- Derivatives with a hedge relationship	0	0	0	0
Financial liabilities recognised at fair value	57	0	57	0

in EUR K	31 Dec 2014	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss				
- Derivatives with no hedge relationship	707	0	707	0
Available-for-sale financial assets				
- Derivatives with a hedge relationship	0	0	0	0
Financial assets measured at fair value	707	0	707	0
Financial liabilities recognised at fair value through profit or loss				
- Derivatives with no hedge relationship	209	0	209	0
Financial liabilities recorded in other earnings with no impact on profit or loss				
- Derivatives with a hedge relationship	0	0	0	0
Financial liabilities recognised at fair value	209	0	209	0

The following financial assets and liabilities accounted for at fair value are structured according to the following valuation categories:

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. The derivative are currency hedges only. 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.

Level 3

The measurement is effected using valuation methods where the influential factors are not based exclusively on observable market data.

During the reporting period there were no transfers between measurements at fair value at Level 1 and Level 2 and no transfers to or from measurements at fair value at Level 3.

Trend relating to adjustments of financial instruments valued at amortised costs of acquisition (refers solely to trade receivables, other receivables and financial assets):

in EUR K	2014	2013
Status: 01 January	21,287	22,084
Exchange rate differences	4	-458
Additions	6,710	9,091
Consumption	2,683	6,557
Reversals	3,136	2,964
Change to companies consolidated	66	91
Status: 31 December	22,248	21,287

The following table shows the carrying amounts and fair values of the financial instruments as at 31 December 2014, excluding financial in-

struments which typically barely differ between carrying amount and fair values.

in EUR K	Carrying amount 31 Dec 2014	Fair value 31 Dec 2014
Financial assets		
non-current		
Investments	45	45
Loans	41	41
Forward exchange contracts	227	227
Financial investments	1,092	1,092
Other financial assets	550	550
Non-current financial assets in total	1,955	1,955
short-term		
Financial investments	130,619	130,719
Loans	403	403
Forward exchange contracts	480	480
Other financial assets	9,757	9,757
Current financial assets in total	141,259	141,359
Total financial assets	143,214	143,314
Financial liabilities		
non-current		
Borrowings	1,320	1,320
Other financial liabilities	1,200	1,200
Forward exchange contracts	8	0
Non-current financial liabilities in total	2,528	2,520
short-term		
Borrowings	6,953	6,953
Forward exchange contracts	201	201
Other financial liabilities	27,620	27,620
Current financial liabilities in total	34,774	34,774
Total financial liabilities	37,302	37,294

The carrying amounts of cash and cash equivalents, receivables and liabilities from deliveries and services correspond mainly to the fair values due to the short terms. The financial

investments are mainly borrower's not loans, money market funds and term deposits with short terms, so that their fair values only differ slightly from the nominal values.

Other disclosures

(31) 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 balance sheet that include financial investments with an original term of up to 3 months.

Based on earnings before taxes, the cash flow is indirectly derived from operating activities. Earnings before taxes are adjusted to take account of non-cash expenses (essentially depreciation) and non-cash income. Cash flow from operating activities reflects changes in working capital.

Cash inflows and outflows from investing and financing activities are calculated using the direct method. Investing activities comprise disbursements for additions to intangible assets and tangible fixed assets, payments arising from the acquisition of consolidated companies and other business fields, disbursements for the acquisition of consolidated companies and other business fields, interest received, payments arising from the disposal of intangible assets and property, plant and equipment, as well as disbursements for financial investments.

Financing activities comprise deposits from associates, cash outflows from payments to shareholders, payments for acquisition of minority interests, interest payments and the taking out and payment of loans, as well as changes to other borrowings. Changes in items of the balance sheet 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.

(32) Segment reporting

For the purpose of corporate management by the responsible corporate entity – until 26 March 2014 the Executive Board of Sto AG and after the conversion the personally liable partner STO Management SE – the Group is divided up into geographical business units. The geographical business fields were consolidated to form the segments of Western Europe and Other with the segment Other being broken down into the regions of northern/eastern Europe and the Americas/Asia. The business segment of Western Europe comprises the geographical business fields of the Euro zone (without Finland and Slovakia), Switzerland, as well as the United Kingdom.

Internal reporting is essentially carried out in accordance with IFRS.

The activities of all segments included the production and distribution of facade systems, facade coatings, interior products and other product groups.

The netting prices between segments conform to arms-length conditions. Transfers between business segments are eliminated on consolidation.

The segment results in the Sto Group are reported in the earnings categories of EBITDA, EBIT and EBT. The share of earnings from associates, amounting to EUR -1 K (previous year: EUR -2 K) has not been assigned to any segment and is reported in the reconciliation column.

Depreciation/amortisation and investments relate to property, plant and equipment and

intangible assets. In the previous year, the impairment test of STOMIX spol s.r.o., Skorosice/ Czech Republic resulted in a needed depreciation on intangible assets of EUR 945 K in the segment 'Other', including a goodwill of EUR 62 K, in the Northern/Eastern Europe area. In the Western Europe segment the goodwill of Sto Italia Srl to the value of EUR 1,398 K was written off.

In the 2014 reporting period, an impairment test of Argamont Revestimentos e Argamassas Ltda. resulted in a needed depreciation of EUR 1,800 K in the America/Asia area. This includes the full depreciation of goodwill amounting to EUR 1,341 K.

Segment assets essentially comprise property, plant and equipment, intangible assets,

inventories, trade receivables from third parties as well as other receivable and financial assets from third parties.

Income tax receivables and deferred tax receivables were listed in the "reconciliation/consolidation booking entries" column since they are not assigned to the individual segments. This column also includes the items which cannot be assigned to individual segments as well as the eliminations of results between the segments. No material adjustments were made to earnings.

Owing to the broad customer structure of the Sto Group, 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	2013			Total
	Germany	France	Others	
External revenues	534,735	130,040	501,236	1,166,011
Intangible assets, property, plant and equipment	171,296	18,367	70,875	260,538

in EUR K	2014			Total
	Germany	France	Others	
External revenues	549,243	127,367	532,119	1,208,729
Intangible assets, property, plant and equipment	172,216	26,162	78,376	276,754

(33) Financial risk management and financial instruments

Hedging policy

The Sto Group's international activities expose it to interest and currency risks in particular. The purpose of risk management is to minimise these risks. To this end, the usual instruments such as currency forwards, forward exchange, and interest rate swaps are used.

Hedging guidelines

Guidelines have been adopted to govern the scope for hedging and internal monitoring. As a matter of principle, the type and scope of hedging operations are determined by the hedged contract. Hedges are only used to protect existing or planned transactions. For this purpose, according to internal guidelines only financial

instruments with released counterparties may be transacted.

Liquidity risk

A liquidity forecast covering a defined period as well as unused credit facilities available to the Sto Group in addition to cash and cash equivalents ensure adequate liquidity at all times. The main credit facilities were established in connection with the syndicate finance agreement entered into in 2012 and expiring in 2017. The term of the usual credit lines runs until the year 2020 at the latest.

The following overview sets out the contractually agreed cash outflows from financial instruments, including interest, not including cash outflows from finance leasing contracts shown in Note (14).

in EUR K	Cash outflows			31 Dec 2013
	up to 1 year	1 – 5 years	5 – 10 years	
Borrowings	5,948	421	655	7,024
Trade payables	42,081	0	0	42,081
Other borrowings	22,071	134	0	22,205
Derivatives	15,742	338	0	16,080
Guarantees	169	0	0	169
Cash outflows in total	86,011	893	655	87,559

in EUR K	Cash outflows			31 Dec 2014
	up to 1 year	1 – 5 years	5 – 10 years	
Borrowings	6,235	130	505	6,870
Trade payables	44,211	0	0	44,211
Other borrowings	27,606	1,200	0	28,806
Derivatives	46,087	890	0	46,977
Guarantees	352	0	0	352
Cash outflows in total	124,491	2,220	505	127,216

Under guarantees the occurrence of an obligation is not anticipated at present.

The amounts of the derivatives shown correspond to the un-discounted cash flows. These payments can be processed on a gross or net basis. When levelling on a gross basis, only cash outflows are shown.

In the following table, the cash outflows are compared to the corresponding cash inflows.

in EUR K	Cash inflows/outflows as at 31 December 2013			Total
	up to 1 year	1 – 5 years	5 – 10 years	
Inflow	15,677	296	0	15,973
Outflow	15,742	338	0	16,080
Balance	-65	-42	0	-107

in EUR K	Cash inflows/outflows as at 31 December 2014			Total
	up to 1 year	1 – 5 years	5 – 10 years	
Inflow	46,248	932	0	47,180
Outflow	46,087	890	0	46,977
Balance	161	42	0	203

Credit and 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 holdings of derivative financial assets, the Group is exposed to credit risks in the event of

financial institutions failing to honour their obligations. The Sto Group seeks to mitigate such risks by means of diversification and the careful selection of counterparties. At the moment, no cash investments or derivative financial assets are overdue or impaired on account of defaults.

Allowance is made for risks from originated financial instruments by making adjustments to receivables. On account of its broad customer structure, there is no clustering of default risks within the Sto Group.

Presentation of net carrying amounts of financial instruments measured at amortised costs of acquisition:

in EUR K	not due, not value- adjusted	overdue, not value- adjusted	overdue, value-adjusted	Carrying amount 31 Dec 2013
Other financial assets	130,745	0	0	130,745
Trade receivables	72,402	15,424	29,053	116,879
Cash and cash equivalents	103,944	0	0	103,944
Financial assets measured at amortised costs of acquisition in total	307,091	15,424	29,053	351,568

in EUR K	not due, not value- adjusted	overdue, not value- adjusted	overdue, value-adjusted	Carrying amount 31 Dec 2014
Other financial assets	131,987	102	11,125	143,214
Trade receivables	74,237	22,267	19,953	116,457
Cash and cash equivalents	113,017	0	0	113,017
Financial assets measured at amortised costs of acquisition in total	319,241	22,369	31,078	372,688

The Sto Group assesses the credit rating of individual customers to reduce the risks arising from trade receivables. 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 732 K was held in the financial year for overdue and impaired trade receivables (previous year: EUR 0 K).

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

Maturity analysis of overdue and not value-adjusted financial instruments:

in EUR K	overdue				31 Dec 2013
	up to 30 days	more than 30 days up to 60 days	more than 60 days up to 90 days	more than 90 days	
Other financial assets	0	0	0	0	0
Trade receivables	10,003	2,087	1,036	2,298	15,424
Overdue and not value-adjusted financial instruments in total	10,003	2,087	1,036	2,298	15,424

in EUR K	overdue				31 Dec 2014
	up to 30 days	more than 30 days up to 60 days	more than 60 days up to 90 days	more than 90 days	
Other financial assets	0	0	0	102	102
Trade receivables	11,487	5,790	1,531	3,459	22,267
Overdue and not value-adjusted financial instruments in total	11,487	5,790	1,531	3,561	22,369

Currency risk

Foreign currency flows are determined in the budget phase for the following year. On the basis of the foreign currency payment flows, suitable hedging strategies are created, agreed upon with the relevant bodies, and implemented. Here the planned cash positions without exception are hedged through hedging instruments congruent to the time and economic state from the area of derivatives. The currency hedge affected CNY/EUR, CZK/EUR, HUF/EUR, RUB/EUR, SGD/EUR, TRY/EUR, USD/EUR as well as EUR/CHF, EUR/CZK, EUR/GBP, EUR/HUF, EUR/NOK, EUR/PLN, EUR/SEK und USD/CAD. The changes in fair value were recognised in the income statement with an impact on profit and loss.

The main operative currency risks in the Sto Group are due to the fact that most products

are manufactured in Germany and are then sold and delivered to foreign subsidiaries. Currency risks occurred due to business completed in Euros with subsidiaries outside the Euro zone, mainly in Poland, Russia, Switzerland, Sweden, the Czech Republic and Hungary.

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 in the Sto Group results from the change of the 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 176 K (previous year: EUR 152 K), or down by EUR 144 K (previous year: EUR 125 K).

Interest rate risk

The interest rate risk for the Sto Group results from changes in market interest rates, particularly for current and non-current liabilities subject to floating interest rates. Due to the decrease in liabilities to banks thanks to repayments of loans the interest rate risk has significantly diminished so that all existing interest rate swaps were dissolved in 2013.

The Sto Group identifies interest rate risks as defined in IFRS 7 by means of a sensitivity analysis. This sets out the effects of risk-relevant market interest rates on the Group's net borrowing costs and equity capital.

The volume of long-term, variable-rate borrowings is so low that a change of the market interest level by 100 basis points on 31 December 2014 would have had no significant impact on earnings (previous year: also insignificant).

Valuation of derivative financial instruments

The fair values of the derivative financial instruments are determined on the basis of the tradability based on reference prices and measurement models and is presented as follows:

in EUR K	31 Dec 2014		31 Dec 2013	
	Nominal volume	Market value total	Nominal volume	Market value total
Forward exchange transaction(s)/options	47,241	498	16,066	-15
Derivative financial instruments in total	47,241	498	16,066	-15

The nominal volume of a derivative hedge transaction is the notional 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 the exchange or interest rate change to which they refer. The fair value is the amount which the Sto Group would have paid or received at the balance sheet date if the hedge had been settled.

The increase in the nominal volume with the foreign currency forwards is based on a strengthened hedging of most associates of incoming or outgoing payments other than the functional currency.

The residual maturity of the currency derivatives as a rule lies within a year. Only the hedging of a loan in Turkish lira as well as the hedging of two loans in Russian rubles has a term of 2 years.

(34) Contingencies

in EUR K	2014	2013
Guarantees from us to third parties	351	169
Reserve liability to cooperatives	1	1
Contingencies in total	352	170

(35) Litigation

As at 31 December 2013, Sto AG was party to a legal dispute which was in the appeal process at Oberlandesgericht Karlsruhe and which regarded the legal validity of the conversion of Sto AG into Sto SE & Co. KGaA which had been decided at the annual general meeting on 12 June 2013. In the meantime, this legal dispute has been settled and the conversion was carried out with the registration of Sto SE & Co. KGaA in the trade register of Amtsgericht Freiburg on 26 March 2014.

Apart from that, neither Sto AG and now Sto SE & Co. KGaA nor any of the members of its Group were involved in any court litigation or arbitration proceedings which are liable to exert a material influence on the Group's economic situation or did so in the fiscal year of 2014. 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 other court litigation or arbitration proceedings.

(36) Other financial obligations

in EUR K	31 Dec 2013	Maturity between		
		within one year	1 – 5 years	after 5 years
Obligations under rental contracts and leases	67,915	18,883	38,480	10,552
Obligations under maintenance contracts	4,366	3,582	782	2
Acceptance obligations	6,008	5,911	97	0
Other obligations	556	243	313	0
Other financial obligations in total	78,845	28,619	39,672	10,554

in EUR K	31 Dec 2014	Maturity between		
		within one year	1 – 5 years	after 5 years
Obligations under rental contracts and leases	67,425	20,532	38,783	8,110
Obligations under maintenance contracts	5,131	3,950	1,176	5
Acceptance obligations	14,034	9,094	4,940	0
Other obligations	524	342	182	0
Other financial obligations in total	87,114	33,918	45,081	8,115

The obligations under rental contracts comprise primarily building rental contracts, while the obligations under leases relate to the vehicle fleet, equipment and IT hardware.

There are no purchasing intentions at the end of the leasing contracts. Insofar as final payments are to be expected resulting from damages, provisions have been made.

Of acceptance obligations, an amount of EUR 10,324 K (previous year: EUR 641 K) relates to items of tangible fixed assets.

(37) Auditors' fees

The following fees paid to the auditors of the consolidated annual financial statement of the Sto Group, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, for services provided are recorded as expenses in 2014:

in EUR K	2014	2013
Audits of financial statements	330	305
Tax consulting services	0	0
Other certification or valuation activities	5	5
Other services	25	21
Auditors' fees in total	360	331

(38) Events after the balance sheet date

On 27 March 2015 the Supervisory Board of STO Management SE, which manages Sto SE & Co. KGaA as personally liable partner, decided on further actions for restructuring the Executive Board, especially for the time after the departure of the Chief Executive Officer, Jochen Stotmeister.

– The Member of the Executive Board Rainer Hüttenberger is to be appointed spokesman of the Executive Board with effect from 1 July 2015.

– Michael Keller was appointed Member of the Executive Board with effect from 1 July 2015.

Furthermore there were no transactions of particular significance affecting the income, financial, or asset situation of the Sto Group after the end of the fiscal year up to the signing of this report.

For further details please see General Information, 4. Companies consolidated.

(39) 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 2014, 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		Payables to	
		2014	2013	2014	2013	2014	2013	2014	2013
Inotec GmbH, Waldshut-Tiengen/Germany	45 %	2	198	4,035	4,583	408	805	99	369
STO Management SE		600	16	4,597	11	13	17	3,159	0

The decrease of EUR 400 K in trade accounts receivable from Inotec GmbH is based on the amortisation of a loan.

In the reporting period a capital contribution of EUR 155 K was paid by Stotmeister Beteiligungsgesellschaft mbH as a related company to Sto SE & Co. KGaA. No goods or services were provided to or received from Stotmeister Beteiligungsgesellschaft mbH in the year under review or in the previous year. Similarly, there were no receivables or liabilities in the year under review and the previous year.

(40) List of subsidiaries and investments as at 31 December 2014

Germany	Capital share in %
Name, registered office	
Verotec GmbH, Lauingen/Germany	100
StoCretec GmbH, Kriftel/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 BT GmbH, Stühlingen/Germany	100
VeroStone GmbH, Kirchheim/Germany	100
Innolation GmbH, Lauingen/Germany	100
WT Gebäudemanagement GmbH, Stühlingen/Germany	100
Sto SMEE Beteiligungs GmbH, Stühlingen/Germany	100
Natursteinindustrie Johann Neumeyer & Brigl GmbH & Co. KG, Eichstätt/Germany	100
Neumeyer & Brigl GmbH & Co. KG, Eichstätt/Germany	100
JMA Jura Marmor Abbau GmbH & Co. KG, Eichstätt/Germany	50
JMA Jura Marmor Abbau GmbH, Eichstätt/Germany	50
Inotec GmbH, Waldshut-Tiengen/Germany	45

Non-Germany	Capital share in %
Name, registered office	
Sto Ges.m.b.H., Villach/Austria	100
Sto S.A.S., Bezons/France	100
Beissier S.A.S., La Chapelle La Reine/France	100
Innolation S.A.S., Amilly/France	100
Beissier S.A.U., Erreterria/Spain	100
Sto SDF Ibérica S.L.U., Mataró/Spain	100
Sto Isoned B.V., Tiel/Netherlands	100
Sto N.V., Asse/Belgium	100
Sto Italia Srl, Empoli/Italy	52
Sto Finexter OY, Vantaa/Finland	100
Sto Scandinavia AB, Linköping/Sweden	100
Sto Danmark A/S, Hvidovre/Denmark	100
Sto Norge AS, Oslo/Norway	100
Sto AG, Niederglatt, Switzerland	100
Sto Ltd., Paisley/Great Britain	100
Sto – ispo 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
STOMIX Slovensko s.r.o., Zvolen/Slovakia	100
OOO Sto, Moscow/Russia	100
OOO STOMIX Orel, Orel/Russia	100
Sto Yapi Sistemleri Sanayi ve Ticaret A.S., Istanbul/Turkey	100
Sto Corp., Atlanta/USA	100
Industrial y Comercial Sto Chile Ltda., Santiago de Chile/Chile	100
Sto Corp. 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 Participações Ltda., Itaquaquetuba/Brazil	100
Argamont Revestimentos e Argamassas Ltda., Itaquaquetuba/Brazil	100
Sto Corp. Latin America Inc., Panama/Panama	100
Shanghai Sto Ltd., Shanghai/China	100
Langfang Sto Building Material Co. Ltd., Hebei/China	100
Wuhan Sto Building Material Co. Ltd., Wuhan/China	100
Sto SEA Pte. Ltd., Singapore/Singapore	100
Sto SEA Sdn. Bhd., Masai/Malaysia	100

For changes in the current year, please refer to Note 4 “Companies consolidated”.

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

(41) German Corporate Governance Code

In December 2014, the Executive Board of the personally liable partner of Sto SE & Co. KGaA, STO Management SE, and Supervisory Board of Sto SE & Co. KGaA issued the declaration of conformance with the recommendations of the Government Commission on German Corporate Governance Code in accordance with Section 161 of the German Companies Act and made it available to shareholders on the Internet page of Sto SE & Co. KGaA.

(42) Remuneration of the Board of Directors and the Supervisory Board

The remuneration paid to the members of the Executive Board in the fiscal year of 2014 complies with the statutory provisions contained in the German Companies Act. In the fiscal year 2014, current remunerations of the Executive Board totalled EUR 4,301 K (previous year: EUR 4,229 K). Expenses for future benefits after terminating the employment relationship (current/past service cost in previous year) amounted to EUR 221 K (previous year: EUR 979 K). Executive Board remunerations thus totalled EUR 4,522 K (previous year: EUR 5,208 K). As at 31 December 2014, the post-employment benefit provisions for the current members of the Executive Board amounted to EUR 122 K due to offsetting against plan assets and non-current financial liabilities (previous year: EUR 126 K). Post-employment benefit provisions for former members of the Executive Board were valued at EUR 2,394 K as at 31 December 2014 (previous year: EUR 2,195 K). Remuneration paid to former members of the Executive Board and the Supervisory Board came to EUR 239 K (previous year: EUR 232 K). The statements above apply to the remuneration of the Executive Board of Sto AG until 26 March 2014 and to the Executive Board of the personally liable partner of Sto SE & Co. KGaA, namely STO Management SE, which, as stipulated in Section 6 Paragraph 3, receives

compensation of expenditure from Sto SE & Co. KGaA to the full amount since its conversion from Sto AG to Sto SE & Co. KGaA with effect on 26 March 2014.

The remunerations of the Supervisory Board of Sto SE & Co. KGaA and the compensation of expenditure in this regard as stipulated in Section 6 Paragraph 3 of Sto SE & Co. KGaA for the Supervisory Board of STO Management SE for the 2014 fiscal year amounted to EUR 522 K (previous year: EUR 509 K).

The members of the Supervisory Board will only receive currently due payments for their activities on the committee. Excepted 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.

The need for disclosure in accordance with Section 314 No. 6a sentence 5-9 of the German Commercial Code (HGB) has been dispensed with pursuant to Section 314 (2) sentence 2 HGB, read in conjunction with Section 286 (5) HGB.

**Members of the Executive Board of STO Management SE in the fiscal year of 2014
(personally liable partner of Sto SE & Co. KGaA):**

Jochen Stotmeister

Chairman of the Executive Board
Grafenhausen/Germany, Dipl.-Betriebswirt (FH)
Member of the BOD of Sto Corp., Atlanta/USA
Member of the Advisory Board of Karl Wörwag,
Lack- und Farbenfabrik GmbH & Co. KG,
Stuttgart/Germany
Member of the Advisory Board of Paul Bauder
GmbH & Co. KG, Stuttgart/Germany

Gerd Stotmeister

Deputy Chairman, Chief Technology Officer
Allensbach/Germany, Dipl.-Ing. (FH)
Member of the BOD of Shanghai Sto Ltd.
Shanghai/China
Member of the BOD Sto SEA Pte Ltd.
Singapore/Singapore
Curator of the Fraunhofer Institute for Building
Physics (IBP), Stuttgart/Germany
Member of the Advisory Board of Kliniken
Schmieder, Allensbach/Germany

Rolf Wöhrle

Chief Financial Officer
Bad Dürkheim/Germany, Dipl.-Betriebswirt (BA)
Member of the BOD Sto Scandinavia AB,
Linköping/Sweden
Member of the BOD Sto Norge AS,
Oslo/Norway
Member of the BOD Sto Finexter OY,
Vantaa/Finland
Member of the BOD Sto Danmark A/S,
Hvidovre/Denmark
Member of the BOD Sto Ltd.,
Paisley/Great Britain

Rainer Hüttenberger

Chief Marketing and Sales Officer
Stein a. Rhein/Switzerland, Dipl.-Betriebswirt (FH)
Chairman of the BOD of Shanghai Sto Ltd.,
Shanghai/China
Chairman of the BOD Sto Scandinavia AB,
Linköping/Sweden
Chairman of the BOD Sto Danmark A/S,
Hvidovre/Denmark
Chairman of the BOD Sto Yapi Sistemleri Sanayi
ve Ticaret A.S., Istanbul/Turkey
Member of the BOD Sto Norge AS, Oslo/Norway
Member of the BOD Sto Finexter OY,
Vantaa/Finland
Member of the BOD Sto SEA Pte Ltd.
Singapore/Singapore

Members of the Supervisory Board of Sto SE & Co. KGaA in the fiscal year of 2014:**Dr Max-Burkhard Zwosta**

Chairman of the Supervisory Board
 Wittnau, Chartered Accountant and Tax
 Consultant
 Chairman of the Supervisory Board of STO
 Management SE, Stühlingen/Germany
 Chairman of the Supervisory Board Brauerei
 Ganter GmbH & Co. KG, Freiburg/Germany
 Chairman of the Supervisory Board Brauerei
 Ganter Grundstücks GmbH, Freiburg/Germany
 Chairman of the Supervisory Board Freicon AG,
 Freiburg/Germany
 Chairman of the Advisory Board of alfer alumin-
 ium Gesellschaft mbH, Wutöschingen/Germany
 Chairman of the Advisory Board of Walter
 Maisch Familien Holding GmbH & Co. KG,
 Gaggenau/Germany

Holger Michel

Deputy Chairman of the Supervisory Board and
 employee representative, Dresden/Germany
 Trade union secretary IG BCE

Gertrud Eisele

Rottweil/Germany
 Publisher
 Member of the Supervisory Board STO
 Management SE, Stühlingen/Germany

Helmut Hilzinger

Willstätt/Germany
 Managing Shareholder of Hilzinger GmbH,
 Willstätt/Germany
 Member of the Supervisory Board STO
 Management SE, Stühlingen/Germany

Prof. Dr.-Ing. Klaus 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, Kassel,
 Nuremberg, and Rosenheim/Germany
 Member of the Supervisory Board STO
 Management SE, Stühlingen/Germany
 Deputy Chairman of the Supervisory Board of
 Calcon AG, Munich/Germany
 Member of the Supervisory Board RWE Effizienz
 GmbH, Dortmund/Germany
 Senator of the Fraunhofer Society, Munich/
 Germany

Charles Stettler

Stäfa/Switzerland
 Banker/freelance Administrative Board
 Deputy Chairman of the Supervisory Board of
 STO Management SE, Stühlingen/Germany
 Member of the Administrative Board of
 BZ Bank AG, Wilen/Switzerland
 Member of the Administrative Board of
 Lienhardt & Partner Privatbank AG, Zurich/
 Switzerland
 President of the Administrative Board Allco AG,
 Lachen-Zurich/Switzerland
 Member of the Administrative Board of
 Intershop Holding AG, Zurich/Switzerland
 Member of the Administrative Board ALL
 Swiss-Austria Leasing AG, Zurich/Switzerland
 Member of the Administrative Board of Gadola
 Holding AG, Grüningen-Zurich/Switzerland
 President of the Administrative Board of
 Sto AG, Niederglatt-Zurich/Switzerland
 Member of the Administrative Board of
 Wyler AG, Winterthur/Switzerland
 Member of the Administrative Board of
 InvestInvent AG, Zurich/Switzerland

Peter Zürn

Westernhausen/Germany
Member of the Management of the Würth Group, Künzelsau/Germany
Member of the Supervisory Board STO Management SE, Stühlingen/Germany
Chairman of the Administrative Board Inova-Chem Engineering AG, Wetzikon/Switzerland
Chairman of the Administrative Board Würth á Islandi ehf., Garðabær/Iceland
Chairman of the Supervisory Board Würth België N.V., Turnhout/Belgium
Chairman of the Supervisory Board Würth Norge AS, Hagan/Norway
Chairman of the Administrative Board Würth Phoenix S.r.l., Bolzano/Italy
Member of the Administrative Board of Auto-com Diagnostic Partner AB, Trollhättan/Sweden
Member of the Supervisory Board Wuerth India Pvt. Ltd., Mumbai/India
Member of the Board of Directors Tunap International Trading Co., Ltd., Shanghai/China
Member of the Administrative Board of Würth AG, Arlesheim/Switzerland
Member of the Advisory Board Würth Australia Pty. Ltd., Dandenong South/Australia
Member of the Administrative Board of Würth Hellas S.A., Athens/Greece
Member of the Administrative Board of Würth International AG, Chur/Switzerland
Member of the Administrative Board Würth Korea Co., Ltd., Chungung Dong/South Korea
Member of the Advisory Board Würth Técnica de Montagem Lda., Sintra/Portugal
Member of the Administrative Board of Würth Svenska AB, Örebro/Sweden
Member of the Board of Directors of Würth New Zealand Ltd., Auckland/New Zealand

Member of the Administrative Board of Würth Promotional Concepts AG, Chur/Switzerland
Member of the Administrative Board of Würth Logistics, Rorschach/Switzerland

Uwe Bruchmüller

Employee representative, Thalheim/Germany
Managing Director TVF Waste Solutions GmbH, Boxberg/Germany
Chairman of the Advisory Board of TDE Mitteldeutsche Bergbau Service GmbH, Espenhain/Germany

Wolfgang Dell

Employee representative, Hattersheim/Germany
Responsible for Maintenance Plant Technology, Sto SE & Co. KGaA

Lothar Hinz

Employee representative, Reutlingen/Germany
Chairperson of the General Works Council and Chairman of the Works Council for the Baden-Württemberg sales region
Baden-Württemberg, Sto SE & Co. KGaA

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

Jan Nissen

Employee representative, Trossingen/Germany
Head of Materials Management within the Sto Group
Member of the Advisory Board of Inotec GmbH, Waldshut-Tiengen/Germany

**Members of the Supervisory Board of STO Management SE in the fiscal year of 2014
(personally liable partner of Sto SE & Co. KGaA):**

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

Charles Stettler
Deputy Chairman of the Supervisory Board
Stäfa/Switzerland

Gertrud Eisele
Rottweil/Germany

Helmut Hilzinger
Willstätt/Germany

Prof. Dr.-Ing. Klaus Sedlbauer
Rottach-Egern/Germany

Peter Zürn
Westernhausen/Germany

Stühlingen/Germany, 13 April 2015

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



Jochen Stotmeister
(Chairman)



Gerd Stotmeister
(Deputy Chairman)



Rolf Wöhrle



Rainer Hüttenberger

Audit certificate

Based on the final results of our audit of the consolidated financial statements and the Group management report we have issued the following auditors' report.

"We have audited the consolidated annual financial statement prepared by Sto SE & Co. KGaA (until 26 March 2014 Sto Aktiengesellschaft), Stühlingen, comprising the income statement, the statement of recognised income and expenses, the balance sheet, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements, together with the Group management report for the fiscal year from 1 January until 31 December 2014. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as they are to be applied in the EU and additionally Section 315a (1) of the German Commercial Code are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the consolidated management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures.

The effectiveness of the accounting-related

internal control system and the evidence supporting the disclosures in the books and records, the consolidated financial statement and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the general partner, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as they are to be applied in the EU and additionally Section 315a (1) of the German Commercial Code (HGB).

The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Villingen-Schwenningen/Germany,
17 April 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr Wetzel
Chartered
accountant

Greiner
Chartered
accountant

Responsibility statement by the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stühlingen/Germany, 13 April 2015

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



Jochen Stotmeister
(Chairman)



Gerd Stotmeister
(Deputy Chairman)



Rolf Wöhrle



Rainer Hüttenberger

Financial calendar 2015

Electronic publication of the annual financial statements for 2014.....	30 April 2015
Interim report on the first half of 2015	13 May 2015
Annual General Meeting 2015	16 June 2015
Report on the first half of 2015	28 August 2015
Interim report on the second half of 2015	19 November 2015
Electronic publication of the annual financial statements for 2015.....	29 April 2016

The annual financial statements of Sto SE & Co. KGaA (HGB) are available in electronic form at www.unternehmensregister.de. In addition, they are published on the website www.sto.de or may be requested in writing by post:

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This report contains forward-looking statements which are based on Management's current assumptions and estimates concerning future developments. Such statements are subject to risks and uncertainties which Sto cannot control or estimate precisely. If any uncertainty arises or the assumptions on which these statements are based prove to be incorrect, actual results may differ materially from these statements. Sto is under no obligation to update forward-looking statements to incorporate any events which come to light after the publication of this report.

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