



# Sto at a glance

Sto Group	2012	2013	2014	2015	2016	2017	Changes in % 17/16
<b>Turnover</b>	1,141.7	1,166.0	1,208.7	1,216.6	1,230.7	1,277.4	3.8 %
Germany	524.7	534.7	549.2	535.4	548.7	562.8	2.6 %
Non-Germany	617.0	631.3	659.5	681.2	682.0	714.6	4.8 %
<b>Investments</b> (not including financial assets)	36.3	32.4	39.1	35.8	37.5	32.7	-12.8 %
<b>Depreciation/amortisation</b> (without financial assets)	25.9	29.0	29.9	31.0	32.7	33.3	1.8 %
<b>EBITDA</b>	121.1	128.9	126.9	112.6	103.0	117.3	13.9 %
<b>EBIT</b>	95.3	99.9	97.0	81.5	70.3	84.0	19.5 %
<b>EBT</b>	94.6	99.0	96.2	81.2	68.1	82.2	20.7 %
<b>EAT</b> (earnings after taxes)	65.4	68.4	66.0	55.7	45.7	55.8	22.1 %
Earnings per limited ordinary share (EUR)	10.11	10.68	10.29	8.71	7.14	8.62	20.7 %
Earnings per limited preference share (EUR)	10.17	10.74	10.35	8.77	7.20	8.68	20.6 %
<b>Cash flow from current operating activities</b> per share (EUR)	71.8	80.9	93.9	78.9	95.4	86.5	-9.4 %
<b>Total assets</b>	684.2	703.6	751.3	641.9	714.2	749.6	5.0 %
<b>Equity capital</b> in % of total assets	448.8	481.4	506.5	404.7	425.2	450.1	5.9 %
<b>Employees</b> (year end)	65.6	68.4	67.4	63.0	59.5	60.1	
of which in Germany	4,689	4,791	4,979	5,032	5,251	5,308	1.1 %
of which non-Germany	2,482	2,586	2,623	2,652	2,895	2,884	-0.4 %
	2,207	2,205	2,356	2,380	2,356	2,424	2.9 %

Sto SE & Co. KGaA	2012	2013	2014	2015	2016*	2017*	Changes in % 17/16
<b>Turnover</b>	587.9	589.1	604.2	598.8	610.7	627.0	2.7 %
Export ratio in %	17.4	16.8	17.4	18.7	20.5	19.9	
<b>Investments</b> in property, plant, and equipment, and Intangible assets	17.3	12.3	11.6	20.1	15.5	9.5	-38.7 %
in financial assets	3.9	6.1	6.4	9.6	14.7	18.4	25.2 %
<b>Depreciation/amortisation</b> (without financial assets)	12.2	12.8	13.4	13.4	12.7	12.8	0.8 %
<b>Earnings before income taxes**</b>	78.2	88.8	79.1	64.6	56.5	62.0	9.7 %
<b>Net profit for the year</b>	62.9	71.7	62.8	48.2	45.4	45.8	0.9 %
<b>Cash flow from current operating activities***</b>			35.1	41.9	35.6	47.6	33.7 %
<b>Dividend</b> per limited ordinary share (EUR)	0.25/4.56	0.25/4.56	0.25/25.14	0.25/4.56	0.25/3.00	0.25/3.78	
per limited preference share (EUR)	0.31/4.56	0.31/4.56	0.31/25.14	0.31/4.56	0.31/3.00	0.31/3.78	
<b>Total assets</b>	497.2	526.0	560.6	446.0	475.2	508.2	6.9 %
<b>Equity capital</b> in % of total assets	361.4	402.0	433.9	318.7	333.1	357.9	7.4 %
<b>Employees</b> (year end)	72.7	76.4	77.4	71.5	70.1	70.4	
	2,100	2,118	2,134	2,148	2,133	2,102	-1.5 %

(figures in EUR million)

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

\*\* Until 2015 earnings on ordinary activities

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

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

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

## Picture caption for title page:

In 2017, the Sto Group invested a total of EUR 15.7 million in expanding Verotec GmbH in Lauingen/Germany. Alongside a new production hall with cutting-edge digital technology for manufacturing lightweight construction boards made of expanded glass granulate, a logistics hall, an administration building, and new application engineering systems have also been built. The subsidiary thus doubles its capacities. The construction period for the project was only nine months. Verotec GmbH is part of the Sto Group and at the same time operates independently on the market with the aim of tapping into new markets and fields of application.

## Foreword



Rainer Hüttenberger, Spokesman of the Executive Board

### Dear Shareholders,

In 2017, the Sto Group was able to initiate a change in direction and return to the road to success. For the first time in three years, the consolidated EBIT significantly increased in comparison to the previous year's value, and the increase in turnover was exclusively achieved from within the Group. The development shows that the New Balance programme produces the expected effects. In addition to cost savings, which sometimes required painful cuts from our workforce but simultaneously led to a visible improvement in profitability, it contains long-term measures that we will continue in the next few years. Among other things, we have defined promising growth fields for Sto in which we are making targeted investments. Further main focuses are an even stronger, target-group-oriented segmenting of our worldwide sales activity as well as efficiency increases in our core processes.

In the year under review, consolidated turnover increased to EUR 1,277.4 million and was 3.8 % higher than the previous year's value.

We slightly exceeded our forecast growth of 3 %. EBIT improved to EUR 84.0 million and thus fell within the targeted range of EUR 80 million to EUR 90 million. In comparison to 2016, a plus of 19.5 % was achieved, even though the procurement prices, which had considerably increased in the year under review, could not be compensated for with corresponding price increases on the customer side. Despite the lower gross profit margin, we achieved our planned values for 2017.

The growth in our core business of facade systems, which had been under considerable pressure in recent years, was particularly pleasing in the year under review. In 2017, the general conditions remained a challenge: Although politics generally promote efficient building insulation, the necessary support measures are still in the future, and the volume in the German EWIS market, which has been shrinking for years, continued to decrease. We still sense a strong unease, especially among private building owners. The main reason is the controversial discussion on the use of thermal insulation in buildings that has been going on for several years, resulting from contradictory and partly very exaggerated media reports. On an international level, the atmosphere was further heightened by the fire at the Grenfell Tower in London, where reporting unfortunately spread emotions and fears rather than objective facts. However, it is important to know that no external wall insulation system was used on the Grenfell Tower. The fact that we were able to increase our volume in the area of facade systems in 2017 despite these negative conditions is above all due to our versatile range of insulation systems. Our products and systems meet the very highest demands in terms of insulating performance, ecology, cost-effectiveness, durability, fire protection, and design freedom and offer top-class solutions for nearly all customer needs.

In addition, we have prepared an extensive package of measures to counteract the uncertainty of potential building owners. This includes a quality-focused campaign to make the high quality of Sto systems even better known. In addition, we have already started numerous awareness and information activities several years ago to make the discussion on the topic of thermal insulation in buildings more objective and to counteract concerns with objective arguments and facts.

Public perception and political processes are very important for Sto. On the one hand, it is undisputed that the bindingly agreed global climate protection goals can only be achieved when the energy efficiency in new buildings and in existing buildings is considerably improved as quickly as possible. On the other hand, the required steps are implemented by the government only half-heartedly or not at all. To accelerate the processes at this point and to incorporate the expert knowledge of our sector in the area of thermal insulation, we created the "Public Affairs" position within the Sto Group in 2017. The office of the new position is based in Berlin, in direct vicinity of the decisive political authorities.

The Bundesverband energieeffiziente Gebäudehülle (Federal Association for Energy-efficient Building Envelopes, BuVEG), whose Executive Board we are on, deals with the enormous potentials of the building envelope and an economical energy management. This association, established in 2017, pursues an entirely new perspective – for the first time, the building envelope is considered across all trades and the interests of the entire sector are correspondingly represented – from facade and insulation specialists to window and door manufacturers. As is the case with the other associations in which Sto is active, the BuVEG engages in an open dialogue with politics, media, other associations and non-governmental organisations in order to demonstrate the importance of the building envelope for achieving the climate objectives.

We are confident that the numerous measures inside and outside the Group will boost the business volume in the facade area in the long term – the positive trend in 2017 underscores the outlook. In the short term, we have to accept that the reluctance in the EWIS market will continue. Until the uncertainty and reluctance have been completely eliminated, we probably will have to have patience.

We also see challenges in relation to the global economic development, which contains numerous factors of uncertainty despite the currently good economic outlook on the whole. In addition to the risky political developments in various parts of the world, such as North Korea and Turkey, the refugee issue and the threat of terrorism, we are particularly concerned about protectionist tendencies, which can also be seen in several European countries. Sto unconditionally supports the European idea and advocates free trade, unlimited cross-border cooperation and the free movement of persons. Open borders, legal security, and a monetary union have made Sto what it is today. We want to build on this, as Europe is still our core market.

For the year of 2018 as a whole, we expect a 4.4 % growth in turnover to around EUR 1,333 million in the Group and an EBIT operating result of between EUR 80 million and EUR 90 million. Earnings before taxes (EBT) are likely to fall between EUR 78 million and EUR 88 million, and we expect return on sales to come in between 5.9 % and 6.6 %.

We are thus moving in the right direction in 2018 as well and have to increase the speed of the upward trend for our long-term objectives: By the year 2022, turnover in the Group is to increase to EUR 2 billion and the profitability is to improve further. In addition to organic growth, we intend to make selective acquisitions where the right opportunities arise.

The basis for these ambitious objectives is solid: Sto is strongly positioned in all product areas, benefits from its Group competence, the

diversification of the range, and the acquisitions in recent years that have additionally expanded the spectrum. Moreover, we have an excellent brand reputation, a good international structure, a broad sales base, and our position as a technological pacemaker in the industry. We will continue to reinforce these success factors. Furthermore, we actively use trends such as digitisation which substantially determine our environment and the orientation of the Group, and exploit the resulting opportunities as optimally as possible.

Another asset of Sto is its qualified and committed workforce. On behalf of the entire Executive Board, I would like to thank our employees for their dedication and constructive cooperation, especially against the backdrop of the cost-cutting measures in the personnel area that had to be implemented in 2017 in order to bring profitability back on track. Our employees are the basis for the progress of the Group and future success.



**Rainer Hüttenberger**

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



## Report of the Supervisory Board



Dr Max-Burkhard Zwosta, Chairman

### Members of the Supervisory Board

**Fritz Stotmeister**,  
Öhningen/Germany | Honorary Chairman

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

**Lothar Hinz\***, Reutlingen/Germany,  
Chairman of the Group Works Council and Chairman of the  
Works Council for the Baden-Württemberg sales region of  
Sto SE & Co. KGaA and StoCretec GmbH | Deputy Chairman  
(since 14 June 2017)

**Holger Michel\*** (until 14 June 2017), Dresden/Germany,  
Pensioner | Deputy Chairman

**Maria H. Andersson**  
(since 14 June 2017),  
Munich/Germany,  
Managing Director of N4  
Beteiligungsgesellschaft mbH

**Gertrud Eisele**  
(until 14 June 2017),  
Rottweil/Germany, Publisher

**Dr Renate Neumann-Schäfer**  
(since 14 June 2017), Über-  
lingen/Germany, Managing Direc-  
tor, Member of the Supervisory  
Board and Foundation Council

**Cornelia Reinecke**  
(since 14 June 2017),  
Emmendingen/Germany,  
Head of Human Resources and  
Member of the Management  
Board of Sick AG

**Prof. Dr.-Ing. Klaus Peter  
Sedlbauer**, Rottach-Egern/Ger-  
many, Chairholder at the Insti-  
tute of Building Physics at the  
Technical University of Munich,

and Head of the Fraunhofer  
Institute for Building Physics

**Charles Stettler**  
(until 14 June 2017),  
Stäfa/Switzerland,  
Banker/freelance member of  
the Administrative Board

**Jochen Stotmeister**  
(until 14 June 2017),  
Grafenhausen/Germany,  
Dipl.-Betriebswirt (FH)

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

**Uwe Bruchmüller\***  
(until 14 June 2017), Thalheim/  
Germany, Freelance consultant

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

**Frank Heßler\***  
(since 14 June 2017), Mann-  
heim/Germany, Trade Union  
Secretary and Deputy regional  
manager IG BCE of the regional  
district of Baden-Württemberg

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

**Roland Schey\***  
(since 14 June 2017), Tengen/  
Germany, Head of Finance and  
Accounting of the Sto Group

**Martina Seth\***  
(since 14 June 2017), Uelzen/  
Germany, HR Development  
Manager and Trade Union  
Secretary of IG BCE, Head office  
in Hanover/Germany

\* Employee representatives

**Dear Shareholders,**

In the 2017 fiscal year, the Supervisory Board of Sto SE & Co. KGaA focused on the positioning and development of the Group. We have conscientiously fulfilled the duties incumbent upon us by law, regulations, the German Corporate Governance Code and the rules of procedure. We have advised the personally liable partner in the management of the company and continually monitored its work.

The cooperation with the personally liable partner STO Management SE was always constructive, open, and based on trust. The personally liable partner STO Management SE briefed the Supervisory Board on a regular, timely, and comprehensive basis on all issues relating to Sto. In particular, these included issues relating to the strategy, planning, operational business development, and the Group's situation including the risk situation, risk management, and compliance. In the cases where business development departed from the forecast planning, the Executive Board of the personally liable partner clarified these in detail and explained the causes. Measures taken as a result were discussed with the Supervisory Board and its committees. All important matters were discussed in detail at the Supervisory Board meetings.

The Executive Board of the personally liable partner STO Management SE remained in close contact with the Supervisory Board even outside the meetings. The Chairpersons of the company's Supervisory Boards and its personally liable partner STO Management SE as well as its Executive Board also conferred with each other on specific matters when a need for coordination arose. During the reporting period, there were no conflicts of interests affecting the Supervisory Board members' abilities to perform their duties.

**Key issues dealt with by the Supervisory Board**

During the fiscal year 2017, the Supervisory Board held five regular meetings, on 26 April, 14 June (constituent meeting following the election of the Supervisory Board), 27 July, 12 October, and 21 December. The Supervisory Committee constituted a quorum at all of the meetings. The members of the Executive Board of the personally liable partner STO Management SE were present at all the meetings unless topics had to be discussed in their absence.

Aspects that were regularly discussed at all meetings included the current economic and business development, financial, investment, and personnel planning; operational targets; and the effectiveness of the risk management strategies. The New Balance programme, designed to increase profitability and further growth of the Sto Group, was also a continuous subject of consultation.

At the meeting held on 26 April 2017, attended in part by the auditor, the main topics were the 2016 annual financial statement and consolidated annual statement of Sto SE & Co. KGaA, plus the dependent company report in accordance with Section 312 ff. of the German Companies Act (AktG). Following a comprehensive consultation and review by the Supervisory Board of Sto SE & Co. KGaA, the statements, dependent company report, and risk report were approved without any objections. The committee also finalised the report of the Supervisory Board for the 2016 fiscal year and the agenda for the Annual General Meeting on 14 June 2017. The appropriation of earnings proposed by the personally liable partner was approved by the Supervisory Board. The shareholder representatives on the Supervisory Board approved the proposed nomination for the Supervisory Board members to be elected as shareholder representatives at the company's Annual General Meeting. A further item on the agenda of the meeting held on 26 April 2017

was the 2017-2021 five-year plan for the Sto Group which the Supervisory Board debated intensively before finally proposing its adoption.

Following the election of the Supervisory Board members at the Annual General Meeting on 14 June 2017 and the election of the employee representatives on 4 May 2017, the constituent meeting of the Supervisory Board was held on 14 June 2017. The composition of the Supervisory Board following the elections is reported on below. The Supervisory Board unanimously elected Dr Max-Burkhard Zwosta as the Chairman of the Supervisory Board representing the shareholders and Lothar Hinz as the Deputy Chairman representing the employees. In addition, the Supervisory Board adopted its rules of procedure and determined the members of the Supervisory Board committees to be formed.

At the Supervisory Board meeting on 27 July 2017, the committee focused, among other items, on the current business development, the projections for 2017 as well as scheduled investment projects. The Executive Board of the personally liable partner STO Management SE also took the opportunity to explain its announced cooperation with a paint manufacturer in Germany. The Supervisory Board discussed the opportunities and risks of this cooperation, which also involves investing in this company.

On 12 October 2017, we focused in depth on the new version of the German Corporate Governance Code and deliberated on the revision of the Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG). The Corporate Governance Report contains more details on this subject. At the meeting, the focal points of discussion were the market and price developments on the markets where Sto is active and digitisation in the construction industry.

Planning for 2018 for both Sto SE & Co. KGaA and the Sto Group was the main item on the agenda to be deliberated at the Supervisory

Board meeting held on 21 December 2017. The draft of the 5-year plan for 2018–2022 was also debated and is expected to be adopted in the meeting scheduled for April 2018. Other important topics were the auditor's preliminary audit of the 2017 annual financial statement of Sto SE & Co. KGaA and the adoption of the Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG).

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

#### **Work of the committees**

The Supervisory Board of Sto SE & Co. KGaA has formed an Audit Committee and a Finance Committee as well as a Nomination Committee. These bodies make preparations for the agenda items to be discussed by the Supervisory Board and the decisions which need to be taken.

In 2017, the Audit Committee and Finance Committee held four meetings each. They primarily focused on the 2016 annual financial statement of Sto SE & Co. KGaA, the consolidated annual financial statement, the management reports, the dependent company report, and the auditor's report. The interim reports and the half-year report were also reviewed in detail. Furthermore, the committee members discussed the 2017 Declaration of Compliance, the effectiveness of the internal control and risk management system, as well as the internal audit. The Finance Committee examined the key management strategies carried out by STO Management SE, particularly its management measures and the New Balance programme.

In April 2017 prior to the Supervisory Board meeting on 26 April 2017, the Nomination Committee prepared the proposed nomination for the Supervisory Board members to be elected as shareholder representatives at the

company's annual general meeting on 14 June 2017 and held talks with possible candidates.

### **Corporate Governance and Declaration of Compliance**

During the 2017 fiscal year, the Supervisory Board once again discussed Corporate Governance at Sto and took its lead from the German Corporate Governance Code. The Declaration of Compliance in accordance with Section 161 of the German Companies Act (AktG) was updated in December 2017. Details on this can be found in the chapter on Corporate Governance.

### **Audit of the annual financial statement**

On 14 June 2017, the Annual General Meeting of Sto SE & Co. KGaA appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, to act as the auditor for the 2017 fiscal year. It has audited the annual financial statement of Sto SE & Co. KGaA, prepared by the personally liable partner STO Management SE, the management report, the consolidated annual financial statement, and the Group management report for the 2017 fiscal year as well as the dependent company report in accordance with Sections 312, 278 of the German Companies Act (AktG). The relevant audit partners with respect to Section 319a paragraph 1 sentence 4 of the German Commercial Code (HGB) were Dr Eckart Wetzel and Stephan Busser. The auditors confirmed that the management reports appropriately describe the situation of Sto SE & Co. KGaA and the Sto Group as well as the opportunities and risks associated with future development. Additionally, the quality of the risk management system also received a positive rating. The auditors awarded an unqualified Audit Certificate.

The annual financial statements of the company and the Group, the management reports, and the auditor reports as well as statements to be published in the Annual Report which were not to be reviewed by the auditor – in

particular, the statement on sustainability and Corporate Social Responsibility – were distributed to all Supervisory Board members in a timely manner. The Audit Committee pre-examined these documents in its meeting held on 18 April 2018. Other preliminary examinations and explanatory meetings were held in advance of the committee and Supervisory Board meeting between the personally liable partner STO Management SE, the Chairman of the Supervisory Board, and the Chairman of the Audit Committee to discuss key audit matters and non-financial statements.

At the ordinary Supervisory Board meeting on 19 April 2018, the statements and reports as well as declarations were discussed and reviewed in detail. Auditor representatives were present at both meetings to report on the audit results and provided additional information when requested. They confirmed the effectiveness of the risk management and internal control systems to the Supervisory Board. The auditors also confirmed in writing that, apart from the audit, they did not provide the company with any other significant services in the fiscal year and that there were no circumstances that could impair their independence as auditors.

The auditors from Ernst & Young GmbH issued the dependent company report with the following audit certificate: "In our opinion, based on the examination which we have carried out in accordance with professional standards, the factual information contained in the report is correct, and the consideration given by the Company for the legal transactions referred to in the report was not unreasonably high."

The Supervisory Board carried out its own in-depth audit of the annual financial statements, the management reports of Sto SE & Co. KGaA and the Sto Group as well as of the statements to be published in the Annual Report which were not to be reviewed by the auditor, and did not have any objections. The Supervisory Board has approved the annual financial statement of

Sto SE & Co. KGaA prepared by the personally liable partner STO Management SE, the consolidated annual financial statement of the Sto Group for 2017, and the dependent company report, and will accordingly propose the approval and consent of the annual financial statements at the Sto SE & Co. KGaA Annual General Meeting to be held on 21 June 2018. The non-financial statements, in particular those statements and data on sustainability and Corporate Social Responsibility, have been reviewed by the Supervisory Board and have been judged to be accurate in its analysis and objective.

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

#### **Personnel matters**

On 1 January 2017, Jan Nissen transferred to the Executive Board of STO Management SE and, in doing so, resigned from his position as representative of management employees on the Supervisory Board of Sto SE & Co. KGaA on 31 December 2016. As there was only a short time between this date and the scheduled election of the new employee representatives on 14 June 2017, the employee representatives of the Supervisory Board declared that it would not fill Jan Nissen's mandate within this period.

At the annual general meeting on 14 June 2017, the following members were elected as shareholder representatives to the Supervisory Board: Maria H. Andersson, Dr Renate Neumann-Schäfer, Cornelia Reinecke, Prof. Dr.-Ing. Klaus Peter Sedlbauer, Peter Zürn, and

Dr Max-Burkhard Zwosta. Charles Stettler, Stäfa/Switzerland, was appointed as the substitute member for all Supervisory Board members acting as shareholder representatives. The employee representatives elected by the company employees on 4 May 2017 are Wolfgang Dell, Frank Heßler, Lothar Hinz, Barbara Meister, Roland Schey, and Martina Seth.

The Supervisory Board would like to thank the departing members for their constructive cooperation at all times. It would also like to express its thanks and appreciation to all employees of Sto SE & Co. KGaA and members of the Executive Board of the managing STO Management SE for their work and dedication over the past fiscal year. We would like to wish the Executive Board members and all employees every success for the 2018 fiscal year and for the tasks that lie ahead.

Stühlingen/Germany, April 2018



**Dr Max-Burkhard Zwosta**  
Chairman of the Supervisory Board

# Corporate Governance Report/ Declaration on management of the company

## Corporate Governance at Sto

This next section contains a report from Sto SE & Co. KGaA and its personally liable partner STO Management SE on the company's Corporate Governance in accordance with Item 3.10 of the German Corporate Governance Code (also referred to as the Code). In addition, the declaration on our key company management practices in accordance with Section 289f of the German Commercial Code (HGB) is integrated in the summarised document. As a component of the 2017 Annual Report, this chapter is published on the website [www.sto.de](http://www.sto.de) under "Company" in the "Investor Relations" section. The supplementary remuneration report is part of the Notes of the Group annual financial statement.

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

Statutory regulations, ethical standards, a sound financial policy, a strategy geared to sustainability, and the German Corporate Governance Code are the basis for Corporate Governance of the company. Departures from the Code arise regarding issues that concern the specific requirements of a medium-sized family business or the legal form of a partnership limited by shares (Kommanditgesellschaft auf Aktien). In these cases, adapted standards are applied. Deviations from the recommendations of the Code in its current version of 7 February 2017 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). This is available in the current as well as in older versions on the Internet.

## Bodies

Sto SE & Co. KGaA is managed by the personally liable partner STO Management SE. The cor-

porate bodies of the company also include the Supervisory Board of Sto SE & Co. KGaA and the Annual General Meeting. In accordance with the statutory regulations for a German public limited company (Aktiengesellschaft), the management of the company and the monitoring of the Management Board are thus separated in terms of personnel. Both the personally liable partner and the Supervisory Board of Sto SE & Co. KGaA consistently abide by the standards of proper corporate management at all times and collaborate closely for Sto's benefit.

## Shareholders and the Annual General Meeting

At the end of 2017, Sto SE & Co. KGaA's subscribed capital amounted to an unaltered figure of EUR 17.556 million. It is divided into 4.32 million registered limited ordinary shares ("ordinary shares") and 2.538 million limited preference bearer shares ("preference shares"). Each ordinary share always grants one vote. Preference shares do not have voting rights but take priority for the purpose of profit distribution and are entitled to a higher dividend. There were no shares with multiple or preferential voting rights.

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

At the Annual General Meeting, the personally liable partner presents the annual financial statements of Sto SE & Co. KGaA, the consolidated annual financial statement as well as the management/Group management report for the previous fiscal year and explains the key events. The annual financial statement is then ascertained by the Annual General Meeting.

For shareholders who are unable or unwilling to exercise their voting rights themselves, a proxy of the company is available who is bound by instructions.

### **Supervisory Board**

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

In accordance with the German Co-Determination Act, the Supervisory Board is composed of an equal number of shareholder and employee representatives, i.e. six shareholder and six employee representatives. The term of office of the members appointed up to then ended with the conclusion of the Annual General Meeting on 14 June 2017. Following the election of the shareholder representatives at the Annual General Meeting and the election of the employee representatives on 4 May 2017, the new Supervisory Board was constituted on 14 June 2017. The members of the Supervisory Board are introduced in the report of the Supervisory Board. Information on remuneration of the Supervisory Board is contained in the Notes to this Annual Report as well as in the Declaration of Compliance in accordance with Section 161 of the German Companies Act (AktG).

When appointing new members to the Supervisory Board of co-determined listed companies, it must be ensured that at least 30 % of the Supervisory Board consists of women or men respectively in accordance with Section 96 Paragraph 2 Sentence 1 of the German Companies Act. The minimum percentage must be fulfilled by the Supervisory Board on the whole unless the shareholder or the employee representatives object to the overall fulfilment in accordance

with Section 96 Paragraph 2 Sentence 3 of the German Companies Act. A corresponding objection was agreed upon and declared unanimously by both the shareholder and the employee representatives on the Supervisory Board. The Supervisory Board must thus be composed of at least two women or two men respectively on both the shareholder and employee representatives' sides. Currently, three of the six shareholder representatives on the Supervisory Board and two of the six employee representatives are women.

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

When proposing new members, the Supervisory Board must ascertain that the candidates can invest the necessary time involved and are willing to make their personal and business affairs known to the company, corporate bodies, and major shareholders.

The Supervisory Board is directly involved in all decisions that are of fundamental importance to Sto SE & Co. KGaA. In the 2017 fiscal year, the committee held a total of five ordinary meetings. The report of the Supervisory Board provides more information on these meetings. Details on the main focuses of the meetings in the year 2017 as well as particulars on changes in the composition of the committee are explained at length.

Beyond the regular meetings, the Supervisory Board is briefed by the personally liable partner STO Management SE on a regular, timely, and comprehensive basis about the corporate strategy, planning, business development, the financial and earnings situation, the employee situation, as well as the risk situation, and risk management. Any departures in the business development from defined plans are discussed. The Supervisory Board is provided with all relevant 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 also maintains close contact with the members of the Executive Board of the personally liable partner STO Management SE between meetings, discussing issues relating to the strategy, business development, and risk management.

The annual financial statements of the Sto Group and Sto SE & Co. KGaA are reviewed by the Supervisory Board on the basis of the findings of the auditor. Prior to the publication of the half-year financial report and the interim reports within the first and second half of the year, the Executive Board discusses these reports with the Chairman of the Supervisory Board who consults with the other members of the Supervisory Board.

The Supervisory Board regularly checks the efficiency of its work. To increase the efficiency of the Supervisory Board work, technically qualified committees are formed. Sto SE & Co. KGaA features an Audit Committee and a Finance Committee. In the periods leading up to the Supervisory Board meetings, these committees examine complex issues and prepare the findings for the full Supervisory Board meetings. The respective committee chairperson reports to the Supervisory Board on the work of the committee. 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.

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

#### **Personally liable partner**

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

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

Without exception, the personally liable partner STO Management SE complies with statutory regulations, and observes the Code, as well as other recognised external standards, and company regulations. Information about the applicable remuneration system of the STO Management SE Executive Board is summarised

in the Notes to the consolidated annual financial statement.

As the successor to Gerd Stotmeister, who left the Executive Board of STO Management SE at his own wish at the year end of 2016, Jan Nissen has been responsible for the Technology division of the Executive Board since 1 January 2017. Most recently, Jan Nissen had been Head of Materials Management within the Sto Group and had also been a member of the Supervisory Board of Sto SE & Co. KGaA, acting as a representative of management employees.

### **Diversity**

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

The Executive Board of the personally liable partner STO Management SE has established the goal of achieving a quota of 0 % for management positions a level below the personally liable partner, i.e. the division manager level, and of 10.2% for the department manager level by 30 June 2017. On 31 December 2017, 0 % of the division manager positions and 8.9 % of the department manager positions were held by women. By 31 December 2020, these percentages are to be at 0 % and 12.0 % respectively.

Despite the relevant requests having been submitted during the process of searching for candidates when making new appointments at the second management level below the Executive Board, it was not possible to find any suitable female candidates during the 2017 fiscal year. This means that the proportion of women at this level is still below the quota target to be reached by 30 June 2017.

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

### **Key practices of Corporate Governance/ Compliance**

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

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

Compliance with laws, internal and external regulations, as well as responsible handling of risks is part of the Corporate Governance at Sto. Our procedures and systems for compliance are linked to the risk and opportunity management of the company. In the framework of compliance, Sto creates the prerequisites for making internal regulations and directives known throughout the company and our business practices legally compliant. This illustrates our strong commitment to ethical and fair behaviour in our own organisation and creates the framework for how we deal with our environment. Our systems for compliance ensure legally compliant, risk-aware, opportunity-oriented, and informed action in a dynamic business environment, in order to guarantee Sto's competitiveness and sustainable success.

### Transparency

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

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

All key dates for publications and functions are listed in the calendar of financial events, which is announced well in advance. The financial calendar, valid as of the end of March 2018,

can be found both in the 2017 Annual Report and on the company's website.

### Share trading

Persons with management functions at STO Management SE or Sto SE & Co. KGaA must disclose any private transactions involving Sto limited preference shares to the German Federal Financial Supervisory Authority (BaFin) and to Sto SE & Co. KGaA in accordance with Art. 19 of the MAR (Directors' Dealings). No notifications of Directors' Dealings occurred in fiscal 2017.

### Accounting and auditing of financial statements

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

The annual financial statement of Sto SE & Co. KGaA as well as the statement of the Sto Group, including the 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 are ruled out at an early stage. The auditing company commissioned by Sto, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, has issued a corresponding statement in this regard. The auditor responsible takes part in the deliberations of the Supervisory Board of Sto SE & Co. KGaA concerning the annual financial statement and the consolidated annual financial statement as well as in the corresponding Audit Committee meeting where he reports on the key findings of his audit.

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

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

**Composition of subscribed capital**

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

**Restrictions on voting rights or the transfer of shares**

To the knowledge of the personally liable partner STO Management SE, there are no restrictions relating to the transfer of preference shares. In accordance with Sections 4 Paragraph 1, 16 of the articles of association of Sto SE & Co. KGaA, the preference shares do not confer any voting rights.

Of the 4,320,000 ordinary shares, the Stotmeister family holds a total of 3,888,000 shares (Stotmeister Beteiligungs GmbH 3,887,996 shares, Jochen Stotmeister 1 share, Gerd Stotmeister 1 share, Helga Stotmeister 1 share, Heidi Heimbürger 1 share), while 432,000 shares are held by Sto SE & Co. KGaA. The ordinary shares held by the family are limited in their transferability due to the fact that they are registered shares and hence require the consent of the company, represented by the personally liable partner (furthermore by family-internal agreements), and are not traded on the capital market.

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

The 432,000 ordinary shares held by Sto SE &

Co. KGaA do not have any voting rights. As described above, the remaining ordinary shares are held by the Stotmeister family who thus holds 90 % of the voting rights.

**Holders of shares with special rights**

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

**Type of control of voting rights in case of employee shareholdings**

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

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

In the legal form of a 'Kommanditgesellschaft auf Aktien' (KGaA, partnership limited by shares), the personally liable partner has the legal authority to manage and represent the company. The personally liable partner of Sto SE & Co. KGaA is STO Management SE. It acts through its Executive Board. The co-determined Supervisory Board of Sto SE & Co. KGaA is not authorised to appoint or dismiss the personally liable partner or its Executive Board. Rather, the personally liable partner has joined the company by means of a corresponding declaration.

The appointment and dismissal of the Executive Board of STO Management SE is carried out by the Supervisory Board of STO Management SE in accordance with the provisions of the articles of association and the law.

Amendments to the articles of association of Sto SE & Co. KGaA require a resolution of the Annual General Meeting of Sto SE & Co. KGaA

in accordance with Sections 278 Paragraph 3, 133, 179 of the German Companies Act (AktG). This resolution requires a majority of at least three quarters of the voting share capital represented at the adoption of the resolution. Furthermore, amendments to the articles of association also require the consent of the personally liable partner STO Management SE in accordance with Section 285 Paragraph 2 of the German Companies Act (AktG).

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

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

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

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

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

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

## Management Report for the Sto Group (IFRS)



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

### **Members of the Executive Board of STO Management SE in the fiscal year of 2017** (personally liable partner of Sto SE & Co. KGaA)

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

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

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

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

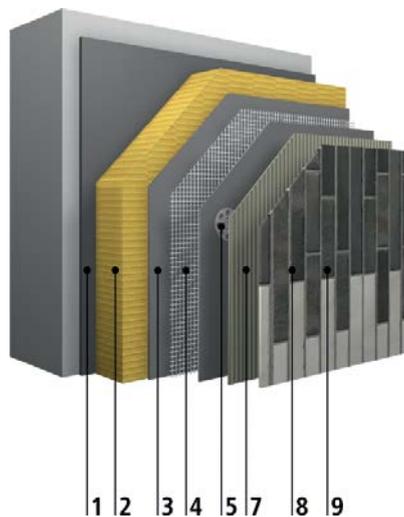
## The 2017 fiscal year at a glance

- Turnover within the Group increases by 3.8 % to EUR 1,277.4 million due to organic growth
- Business volume increases by 2.6 % to EUR 562.8 million on a domestic level, and abroad by 4.8 % to EUR 714.6 million
- Consolidated EBIT improves by 19.5 % to EUR 84.0 million; EBT stands at EUR 82.2 million
- Return on sales rises from 5.5 % to 6.4 %
- Dividend of EUR 0.31 per limited preference share and EUR 0.25 per limited ordinary share plus a bonus of EUR 3.78 per share
- Cash flow from operating activities amounts to EUR 86.5 million (previous year: EUR 95.4 million)
- Group's workforce grows by 57 employees to 5,308 employees
- Outlook for 2018: increase in turnover of 4.4 % to around EUR 1,333 million and an EBIT of between EUR 80 million and EUR 90 million expected

## A. Group fundamentals

### Business model

The Sto Group is a major international manufacturer of products and systems for building coatings. The product range is divided into four product groups: the core business of **facade systems** encompasses external wall insulation systems (EWIS), a segment in which our company occupies a leading position, and rainscreen cladding facade systems (RSC). In 2017, this product group accounted for 47.1 % of the total Group turnover. **Facade coatings**, which include external render and paint systems, accounted for 24.1 % of turnover in the year under review, and **products for interiors**, such as plaster and paint systems for home and office interiors, decorative coatings, interior claddings, and acoustic systems for regulating sound, reported a turnover share of 14.6 %. Furthermore, Sto produces and sells high-quality floor coatings and products for concrete repair, which are attributed to the **Other product groups** category.



- 1 Bonding
- 2 Mineral-fibre insulation (thermal conductivity group 035)
- 3 Base coat
- 4 Reinforcement
- 5 Fixing
- 6 Mineral smoothing coat – if required (not illustrated)
- 7 Adhesive
- 8 Pointing mortar
- 9 Brick slips

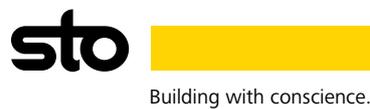
The Sto Group benefits from its **comprehensive expertise**. We can provide our customers with everything relating to facades from a single source, thanks to the Sto range which offers products that complement one another perfectly, and that give building owners maximum freedom to create their own designs. We boast extensive knowledge not only on our core business of facade systems, but also on related areas

StoTherm Mineral, which features a stone wool insulation board with a thermal conductivity of 0.035 W/(m\*K), is Germany's only facade insulation system with national technical approval for ceramic claddings to provide such outstanding insulating performance. It has been awarded the Blue Angel eco-label.



such as design and consultancy services and the use of alternative coating materials or claddings such as brick slip and stone facades. The individual components of our range of services also work in perfect harmony with one another, boosting efficiency during the application process and maintaining value in the long term.

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

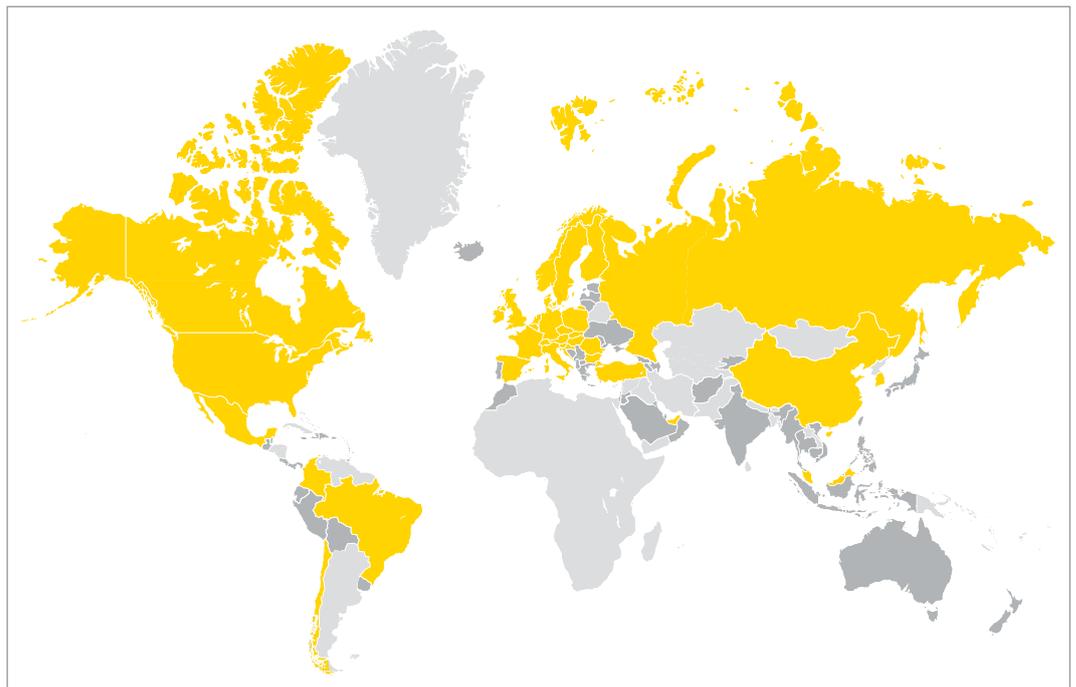


The Group's **innovative strength** is one of the keys to its corporate success and the positive image its brand has cultivated. Sto is regarded worldwide as a technological pacesetter in its industry sector, establishing trends in the areas of products, systems, and services. To consolidate this leading 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. Worldwide."

**Sales markets**

The Sto Group's business activities are divided into the regional segments of **Western Europe** and **Other**, with the latter broken down into **Northern/Eastern Europe** and **America/Asia** for internal reporting purposes. Our corporate management is primarily focused on these regions. The most important market is Western Europe, which includes Germany.

- Sto subsidiaries
- Sto partners



Here, Sto achieved 76.0 % of its consolidated turnover in the year under review. 12.1 % was attributed to America and Asia, while Northern and Eastern Europe generated 11.9 % of the business volume in 2017. The most significant individual market is Germany. In the year under review, it contributed around 44.1 % to the consolidated turnover.

By systematically targeting and tapping into selected regions, we have managed to secure additional sales potential worldwide, spread the business risk and compensate for fluctuations in individual countries. For this reason, internationalising our business activities is one of Sto's key strategic aims. At the end of 2017, the Group was represented in 36 countries with 49 subsidiaries of our own and their operating sites. In addition, we are in supplier relationships with distribution partners in many other countries.

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. Renovation business generates the majority of Group turnover worldwide.

### Customers and distribution system

The range of the Sto brand is targeted at professional applicators such as painters and building contractors, as well as architects and planning offices. These target groups are supported on site by means of a **direct distribution system** which, in the core market of Germany, covers almost the entire country. In addition to this, Sto has been developing **multi-stage distribution** as a second distribution channel for a number of years now. This involves wholesalers and specialist retailers providing selected products that we have clearly defined as distinct from our core business and that have their own market niche, such as lacquers and fillers. Since we see additional potential in this channel, we

intend to expand two-stage distribution gradually over the coming years.

### Corporate structure

Sto SE & Co. KGaA, headquartered in Stühlingen/Germany, 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.

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

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

**Abroad**, the Group's business is largely handled by national companies operating independently, with the service spectrum offered in each case being tailored to suit local conditions and specific requirements. For the most part, the products are either produced on site 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.

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

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

#### **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. 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. Additionally, ROCE is used as a key figure for monitoring return on capital employed. It is based on the EBIT divided by the average capital employed. These key figures are also 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. This control system used by Sto SE & Co. KGaA strengthens the decentralised entrepreneurial responsibility of our employees at a local level while also guaranteeing a high degree of transparency within the Group.

In addition to internal parameters, we also regularly monitor external early indicators as part of our planning processes and as a means of 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.

The specifications relating to the Declaration on management of the company, as outlined in Section 315d of the German Commercial Code (HGB), can be found in the "Corporate Governance Report" chapter of the Annual Report and online at [www.sto.de/Unternehmen/Investor Relations](http://www.sto.de/Unternehmen/Investor-Relations). The non-financial statement in line with Section 315b of the German Commercial Code (HGB), provided as a supplement to the 2017 Group management report, can be found in the "Sustainability and Corporate Social Responsibility" chapter of the Annual Report, and is also available to view online at [www.sto.de/Unternehmen/Investor Relations](http://www.sto.de/Unternehmen/Investor-Relations). It provides information about key considerations in five areas: environmental matters, employee matters, social matters, respect for human rights, and combating of corruption and bribery.

#### **Fundamentals of the remuneration system**

The remuneration of the members of the Executive Board consists of a fixed component and a variable component, which can carry

significantly more weight, but is capped. The variable element comprises a long-term incentive, based on the turnover development of the Sto Group and the ROCE key figure, as well as an earnings-oriented short-term incentive. No stock options are granted.

The members of the Supervisory Board of Sto SE & Co. KGaA are provided with fixed remuneration and a compensation for costs incurred. The Chairman of the committee 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, it is remunerated on a pro rata basis.

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

### Strategic objectives

Sto's business model is geared towards long-term success and pursues the goal of global technology leadership in the sustainable design of living space tailored to human needs. This corporate vision, along with the other principles on which our practice is based, is anchored in the Sto Guiding Principles, which provide all employees and managers with guidance on making strategic and operational decisions. The key foundation for long-term success are sustainable and solid economics, constant progress and a financially sound footing. Our guiding principles define our strategy, which contains the following core components:

- **Earnings-oriented growth** – We align our decisions with this overarching corporate objective.
- **Internationalisation** – By systematically developing and penetrating selected regions, we increase our sales opportunities and reduce our dependency on individual countries.

- **Development of alternative distribution channels** – Sto's proven direct distribution system is being expanded to include a multi-stage distribution concept, which is being developed gradually. This will enable us to attract additional groups of customers and widen 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 develop 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 and underpin the vision as a technology market leader. Additionally, we take an active role in trade associations and interest groups, so that we can contribute to the process of shaping general conditions within the industry and the technology it uses.
- **Corporate Social Responsibility** – By consistently implementing and developing our strategy of sustainability, we take responsibility towards customers, the company, employees, other stakeholders, shareholders, and the environment.

## B. Financial report

### Overview of business performance in 2017 and general statement on economic development

As a major international manufacturer of products and systems for building coatings, in the 2017 fiscal year Sto SE & Co. KGaA was able to consolidate its market position and increase both the Group's turnover and, in particular,

its earnings. This was in line with expectations. There were two main reasons for this positive development: the improvement in the Group's profitability, and the overwhelmingly favourable weather conditions that prevailed in key markets, enabling outside application work in particular to continue almost uninterrupted throughout the entire course of the year. Our business development exceeded expectations particularly during the first half of the year, although it did experience a temporary yet significant drop during the third quarter. It then rallied in the final quarter of the year thanks to the good weather conditions.

In total, 2017 saw the Sto Group achieve an increase in turnover of 3.8 % to EUR 1,277.4 million (previous year: EUR 1,230.7 million). Turnover hence slightly exceeded the forecast increase of 3 %. The resulting growth was achieved entirely organically: the positive consolidation effects of around EUR 5.3 million from the Hesselberg Bygg Group – which has been included in the consolidated annual financial statement of the Sto Group since the second half of 2016 – were overcompensated by the net negative currency translation effects of EUR -6.7 million. Adjusted for these factors, Group-wide turnover is up on the previous year by 3.9 %.

In particular, the core business of facade systems experienced a positive development in 2017 although the very controversial discussion on the use of external wall insulation systems (EWIS) of the past few years has continued. This debate was fuelled by information, initially of an incorrect nature, that emerged following the catastrophic Grenfell Tower fire in London. The event sparked international discussion about the fire protection abilities of insulated facades, even though no external wall insulation systems had actually been installed on Grenfell Tower. Despite all this, we managed to achieve an increase in turnover in this product area – something that was also down to our successful efforts to diversify our products and the broader

range of facade systems we were able to offer as a result. Positive results were also seen from the quality campaign that we launched in 2016 with the aim of not only emphasising the outstanding quality standards found in Sto products, but also refocusing the reporting of the EWIS debate on objective facts by engaging in education and communication activities.



Consolidated earnings in 2017 improved even more significantly than turnover. This was the result of both volume-related effects and cost reductions that were achieved despite a battle against hefty price increases in procurement activities. In total, the Group's EBIT increased by 19.5 % to EUR 84.0 million, falling within the forecast range of EUR 80 million to EUR 90 million. Earnings before taxes (EBT) rose to EUR 82.2 million (forecast: EUR 78 million to EUR 88 million), and return on sales to 6.4 % (forecast: 6.2 % to 6.9 %). Consolidated net profit for the year grew by 22.1 % to EUR 55.8 million in the year under review. At 16.1 %, return on capital employed (ROCE) was also within the forecast range of 15.8 % to 17.8 %.

The Sto Group's financial and asset situation remained solid, with the equity ratio increasing to 60.1 % (previous year: 59.5 %) and cash and cash equivalents to EUR 84.4 million (previous year: EUR 70.1 million). Taking borrowings into account, net financial assets stood at EUR 72.6 million (previous year: EUR 55.5 million). Cash flow from operating activities stood at EUR 86.5 million (previous year: EUR 95.4 million).

At the Annual General Meeting on 21 June 2018, the Executive Board of the personally liable partner STO Management SE will propose a dividend distribution of EUR 26,049,060.00. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31

and a bonus of EUR 3.78 per share, and limited ordinary shareholders an ordinary dividend of EUR 0.25 plus a bonus of EUR 3.78 per share.

The current reporting period started below expectations, particularly due to the effects of the weather. January achieved the highest average temperatures since records began, initially allowing construction activities – including those taking place outdoors – to continue largely without interruption. The return of winter weather in February and March, however, resulted in a significantly weakened performance in key markets in comparison to the previous year. In total, consolidated turnover was below the previous year's level during the first three months of 2018.

For 2018 as a whole, we expect to see growth in consolidated turnover of 4.4 %, up to around EUR 1,333 million. As things stand, we anticipate consolidated earnings before interest and taxes (EBIT) to amount to between EUR 80 million and 90 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. The expected development of the Sto Group is discussed in more depth in the "Outlook report" section of this report.

## Overall economic and industrial sector-related general conditions in 2017

### Global economic development

In 2017, the global economy recorded a more dynamic performance than originally expected. Over the course of the year, the International Monetary Fund (IMF) revised its forecasts upwards several times; its latest estimations from January 2018 state that the global gross domestic product (GDP) is expected to have grown by 3.7 %, and hence significantly exceeding the

previous year's value of 3.2 %. At the start of 2017, an increase of only 3.4 % was forecast. Industrial production as well as global trade and investment activity all gained momentum.

Once again, the strongest sources of this development in 2017 were in developing and newly industrialised nations, which are estimated to have expanded by 4.7 % (previous year: 4.4 %). The main drivers were China, with an increase of 6.8 %, and India, which grew by 6.7 %. Additionally, Brazil and Russia were both able to emerge from their periods of recession and begin achieving positive growth rates once again.

According to the IMF, the industrialised nations whose performance exceeded expectations were Germany, Japan, South Korea, and the USA; in total, the GDP of these nations increased by an estimated 2.3 % in 2017 (previous year: 1.7 %). The economy grew in both the eurozone and the USA, by approximately 2.4 % and 2.3 % respectively.

The German economy recorded a stronger performance in 2017 than it had in the six years prior. According to calculations by the German Federal Statistical Office (Destatis), the country's gross domestic product was 2.2 % higher than the previous year in real terms. This represented yet another increase on the results of previous years (2015: +1.7 %; 2016: +1.9 %). The robust upturn was driven primarily by increased consumer spending on a domestic level, an increase in investments made by many companies, and a strong performance by the global economy.

### International trends for the construction sector

The volume of construction in **Europe** grew significantly in 2017. According to data from the industry network EUROCONSTRUCT, it was 3.5 % higher than the previous year's value – representing the strongest growth since 2006, shortly before the onset of the international financial and economic crisis. For the first time,

demand for construction in fact grew in all 19 of the countries that are members of EUROCONSTRUCT, without a single exception. The key drivers behind this positive trend were the sturdy economic growth experienced in Europe and the rise in household incomes that resulted from this, as well as increased corporate profits and healthy public finances. An extremely low interest rate, immigration and internal migration, as well as an accrued backlog of investments since the financial crisis were all contributing factors too.

Once again, the strongest sources of momentum were to be found in residential construction: accounting for some 47.4 % of the total volume of construction in Europe, in 2017, this area recorded a 4.7 % growth. New building projects were chiefly responsible for this rise, and once again demonstrated a significantly increased growth rate of 8.9 %. Meanwhile, maintenance and modernisation measures on existing residential buildings, rose by just 1.6 % above the previous year's level. Non-residential construction, where the volume of construction services rose by 2.8 %, was responsible for 32.1 % of total revenues, and civil engineering services for 20.5 %, representing a 2.2 % growth.

Throughout the course of the year as a whole, **Germany's main construction sector** experienced high levels of demand in residential, commercial, and public sector construction projects alike. Preliminary figures from the Central Federation of the German Construction Industry indicate that overall turnover in 2017 grew by approximately 5 % in real terms. The Federation is anticipating growth of 4 % in the area of residential construction, with larger businesses that employ more than 20 people achieving a disproportionate increase of around 10 %. Businesses of this nature represent a third of the residential construction industry's total turnover. They are more active in the growing multiple-dwelling construction segment than smaller companies, which tend to focus on the detached house and semi-detached house segment. This latter

category only achieved turnover on a par with the previous year. Additionally, investments in residential construction were made overwhelmingly in new building projects, resulting in less focus on renovation work. For 2017, Germany's commercial construction sector is expected to see an increase in turnover of 6 %, while a 5.5 % growth is anticipated for public-sector construction.

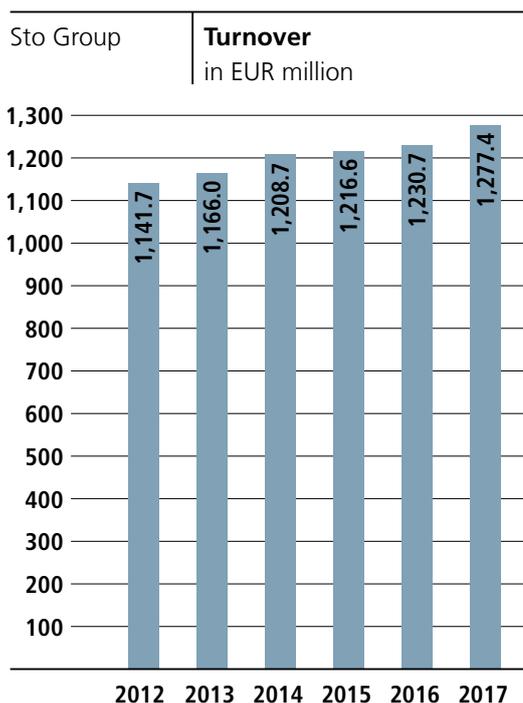
According to data from Germany Trade and Invest (GTAI), expansion in the **US construction sector** slowed down in 2017, especially in the area of infrastructure. Residential construction recorded a growth of 9.0 % during the first half of the year. In the non-residential sector, meanwhile, investments grew by just 1.5 % compared with the same period in 2016, although office building and commercial building projects both experienced double-digit growth rates of 11 % and 13 % respectively. Some areas saw a considerable decline in spending, including the manufacturing industry (-7.3 %). In autumn 2017, numerous sources of uncertainty began to have an impact on the US construction industry; these included rising costs for construction materials and inadequate numbers of skilled specialists. As well as this, Hurricane Irma and Hurricane Harvey brought their own negative consequences. For 2017 as a whole, the analyst firm FMI is forecasting growth of approximately 5 % in total investments in the construction industry.

Following in the footsteps of the previous year, the **Chinese construction industry** continued to show clear signs of less strained conditions in 2017. According to figures from GTAI, property investments in the first seven months of the year grew by 7.9 % as compared with 6.9 % during the same period in 2016. The number of construction projects that started in 2017 (measured in terms of square metres) increased by 7.6 % in the period leading up to the end of August, and primarily took place in the residential sector (+11.6 %). However,

declines were recorded in projects focusing on office space (-6.4 %) and retail space (-7.0 %). The energy efficiency construction sector in China is gaining momentum only very hesitantly. So far, low-energy and passive houses have only been built to serve as showcase projects. Demand in the area of renovations also remained weak during the reporting period, particularly those involving energy-related measures.

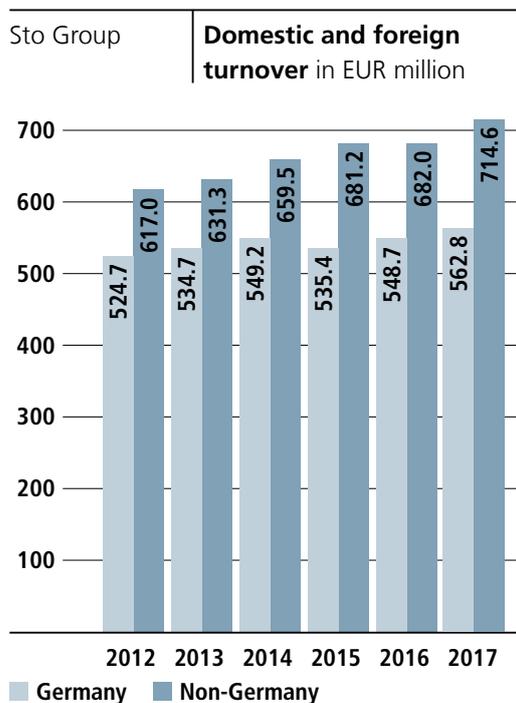
## Business performance and development of turnover

In 2017, the **consolidated turnover** achieved by Sto SE & Co. KGaA grew by 3.8 % to EUR 1,277.4 million (previous year: EUR 1,230.7 million). This growth was achieved organically. After taking into account a positive initial consolidation effect of EUR 5.3 million resulting from the inclusion of the Hesselberg Bygg Group as of 1 July 2016, and the overall negative effects of currency translations, amounting to EUR -6.7 mil-



lion, a 3.9 % increase in turnover was achieved across the Group as compared with 2016.

In Germany, 2017's consolidated turnover increased by 2.6 % to EUR 562.8 million (previous year: EUR 548.7 million). Abroad, Sto recorded an increase of 4.8 % to EUR 714.6 million (previous year: EUR 682.0 million), which meant that Group turnover generated abroad was slightly higher than the previous year: 55.9 % as compared to 55.4 %.

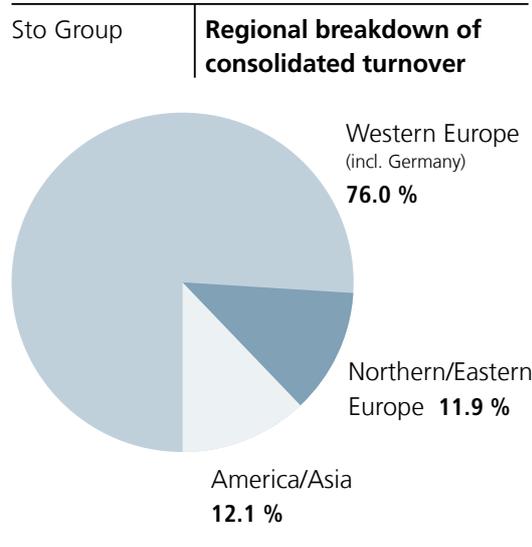


Turnover in the **Western Europe segment** (including Germany) grew by 2.8 % on 2016 to EUR 970.8 million (previous year: EUR 944.0 million). While demand was strong in the German-speaking countries and Italy in particular, it was countered by factors such as stagnating business development in France.

In the **Northern/Eastern Europe segment**, Sto demonstrated strong growth of 10.7 %, taking the turnover figure to EUR 151.5 million (previous year: EUR 136.9 million). When adjusted for the consolidation of the Hesselberg

Bygg Group, which took place in mid-2016, the increase comes to 6.8 %. In Northern Europe, Sto was able to benefit from a healthy market environment and recorded growth in every Scandinavian country with the exception of Norway. However, the business volume in the Eastern Europe region suffered negative consequences as a result of the challenging general conditions that are prevailing in Turkey.

The **America/Asia segment** recorded a 3.5 % increase in turnover to EUR 155.1 million (previous year: EUR 149.8 million). Each of the two regions showed a positive trend, although business in the individual companies developed at different rates.



#### Performance of product groups

One of the key drivers of growth in 2017 was above all the core business of facade systems, although the volume in the German EWIS market, which has been shrinking for years, also declined in the year under review according to preliminary estimates, albeit only slightly. In addition to the largely good weather conditions, particularly during the winter months where turnover is otherwise weak, factors that contributed to this growth were the increased range of products

and services available, and the New Balance programme measures that had been designed to boost turnover. These measures focused on consolidating product groups with potential for expansion, and developing initiatives targeted towards growth. Opportunities arising from areas such as digitisation or new product applications are also being tapped more consistently. The interiors business field also saw a healthy development. In the facade systems product group, which contributed 47.1 % of total volume, the Sto Group was able to achieve a total growth in turnover of 6.3 % to EUR 601.5 million. In the area of facade coatings, the volume increased by 1.2 % to EUR 307.6 million, with the corresponding share in Group turnover amounting to 24.1 %. Turnover relating to interior products increased by 1.9 % to EUR 186.1 million (share: 14.6 %) in 2017, and by 2.4 % to EUR 182.2 million in the other business fields (share: 14.2 %).

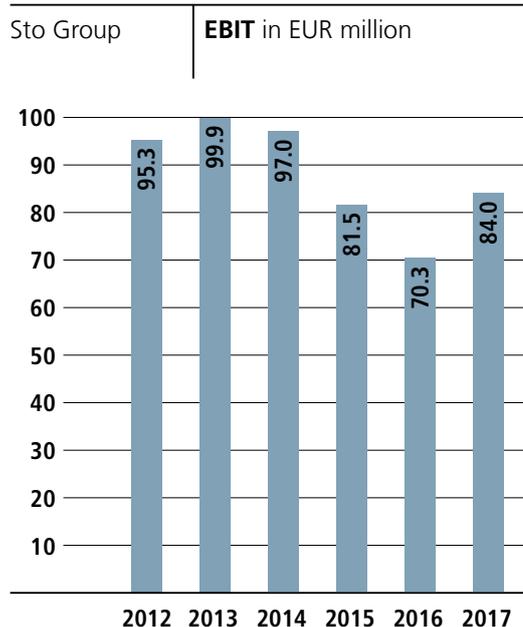
#### Earnings situation

2017 saw a considerable increase in the Sto Group's **material costs**, which ultimately came to EUR 570.6 million and were hence 6.7 % above the 2016 value. The primary reason driving this significant hike in raw material and procurement costs was the healthy economic situation prevailing worldwide, which led to bottlenecks and longer lead times in key markets. This stressful situation was exacerbated by a number of unexpected production downtimes experienced by downstream suppliers, as well as environmental effects such as Hurricane Harvey and Hurricane Irma in the USA. The global supply of petrochemical products from the USA suffered negative effects as a result of this. In turn, this situation led to hefty purchasing price increases, which could not be compensated for by adjusting sales prices accordingly. This meant that the Sto Group's cost of sales percentage grew from 43.4 % in the previous year to 44.7 %.

**Personnel costs** in 2017 dropped by 2.0 % to EUR 341.8 million. In some cases, increases resulting from collective bargaining agreements were compensated by the positive results of the New Balance programme; this was in contrast to the previous year, which had felt the effects of one-off expenses relating to the programme.

The other operating expenses in 2017 reached EUR 274.8 million and was hence 1.9 % above the previous year's level (previous year: EUR 269.7 million). Other operating income, which grew by 7.9 % to EUR 27.3 million (previous year: EUR 25.3 million), was boosted by an extraordinary source of income amounting to EUR 3.8 million (US\$ 4.3 million); this came as part of a settlement following the conclusion of a court litigation proceeding in the USA. The balance of **other operating income** and **other operating expenses** stood at EUR -247.5 million as compared to EUR -244.4 million in the previous year.

In comparison to the previous year, earnings before interest, taxes, and depreciation/amortisation (**EBITDA**) grew by 13.9 % from EUR 103.0 million to EUR 117.3 million.

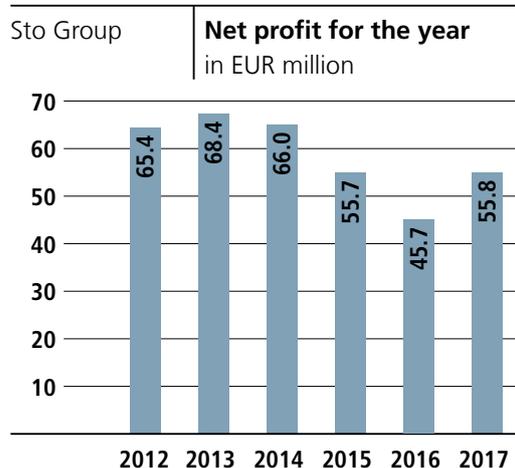


**Depreciation and amortisation** of intangible assets as well as property, plant, and equipment amounted to EUR 33.3 million and was hence 1.8 % above the previous year's value (EUR 32.7 million). This resulted in consolidated earnings before interest and taxes (**EBIT**) of EUR 84.0 million compared with EUR 70.3 million in the previous year (+19.5 %).

Broken down by **segment**, the clearest improvement in earnings was recorded in Western Europe in 2017, where EBIT rose from EUR 57.0 million to EUR 77.1 million. Owing to preventative measures that became necessary in Sweden, Northern/Eastern Europe recorded an EBIT figure of EUR -1.4 million (previous year: EUR 5.7 million). The America/Asia segment contributed EUR 7.9 million to the consolidated EBIT (previous year: EUR 7.1 million).

In 2017, **income from financial investments and investment property** in the Sto Group totalled EUR -1.8 million, following EUR -2.2 million in the previous year. Interest income fell from EUR 1.0 million to EUR 0.7 million due to persistently low market interest rates, and interest expense was also lower – in this case falling from EUR 2.8 million to EUR 2.5 million, mainly as a result of the lower interest rate affecting post-employment benefit provisions.

The Sto Group recorded an improvement in total consolidated earnings before tax (**EBT**):



These rose by 20.7 % to EUR 82.2 million (previous year: EUR 68.1 million), with a return on sales of 6.4 % following 5.5 % in the previous year. The tax rate fell from 33.0 % in the previous year to 32.1 %, returning to the level at which it had been in earlier years before its increase in 2016. In 2017, the Sto Group's **net profit for the year** rose by 22.1 % from EUR 45.7 million to EUR 55.8 million.

Diluted and basic earnings were EUR 8.68 per limited preference share (previous year: EUR 7.20) and EUR 8.62 per limited ordinary share (previous year: EUR 7.14).

As at 31 December 2017, the **ROCE** (Return on Capital Employed) figure had risen from 13.9 % in the previous year to 16.1 %.

#### Sto SE & Co. KGaA – Dividend

The parent company Sto SE & Co. KGaA experienced an increase in **earnings before income taxes**, determined in accordance with the German Commercial Code (HGB), from EUR 56.5 million to EUR 62.0 million, and in the **net profit for the year** from EUR 45.4 million to EUR 45.8 million. The financial and asset situation of Sto SE & Co. KGaA remained extremely solid, with an equity ratio of 70.4 % (previous year: 70.1 %).

Through its Executive Board, the personally liable partner STO Management SE will propose a total dividend distribution of EUR 26,049,060.00 to the Annual General Meeting on 21 June 2018. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and a bonus of EUR 3.78 per share. Limited ordinary shareholders will be paid an ordinary dividend of EUR 0.25 as well as a bonus of EUR 3.78 per share. In the previous year, a bonus of EUR 3.00 per share was paid out.

#### Financial situation

The most important objectives of **financial management** in the Sto Group are to ensure the Group's liquidity worldwide, optimise

financial expenses and income, and control and minimise currency and interest risks. We use a wide range of financial instruments in order to ensure as little dependence as possible on individual markets and methods of financing. When working with banks, we look for those which enjoy the highest credit ratings and are able to build long-term relationships characterised by mutual trust.

We aim to establish a balanced relationship between equity and debt capital in order to ensure a long-term financing scope. Our current financial requirements – which can fluctuate significantly with the seasons over the course of the year – are mainly covered using operating cash flow and available liquidity. Where necessary, we also make use of temporary credit facilities based on a syndicated loan agreement, which had an original term of five years and was extended during the year under review by one additional year, taking it to 2022. Furthermore, we made use of leases during the year under review. At the 2017 year end, the present value of disbursements due from finance leases in the future stood at EUR 0.6 million (previous year: EUR 0.7 million).

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

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

able as possible to improve our net interest income.

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

#### Liquidity movements in 2017

In 2017, **cash flow from operating activities** within the Sto Group fell to EUR 86.5 million, following EUR 95.4 million in the previous year. While earnings improved and income tax payments were lower, these trends were counteracted by effects from the change in provisions and the higher amount of capital that was, by necessity, tied up in net current assets. Net interest and other net financial income/expense remained stable at EUR -1.8 million. The cash flow margin fell from 7.8 % to 6.8 %.

**Cash flow from investment activities** in 2017 stood at EUR -45.0 million (previous year: EUR -61.4 million). Disbursements resulting from the acquisition of an investment that was

consolidated at equity amounted to EUR 11.0 million. In the previous year, disbursements for the acquisition of consolidated companies amounted to EUR 10.9 million. Outflows relating to investments in property, plant, and equipment as well as intangible assets fell in comparison to the previous year, from EUR 37.5 million to EUR 32.4 million. In 2017, funds amounting to EUR 49.7 million (previous year: EUR 27.7 million) also became available after the end of the period, while a sum of EUR 54.0 million was reinvested (previous year: EUR 42.2 million). **Cash flow from investment activity adjusted** for deposits and disbursements for financial investments amounted to EUR -40.7 million (previous year: EUR -46.9 million).

The decline in **cash flow from financing activities** from EUR 34.6 million to EUR 24.9 million was principally the result of the reduced dividend distribution to shareholders, which was adjusted from EUR 31.1 million to EUR 21.0 million. In 2017, changes related to the exchange rate had an impact of EUR -2.3 million (previous year: EUR -0.1 million).

In total, the Sto Group's **cash and cash equivalents** in 2017 rose by EUR 14.4 million to EUR 84.4 million, once again considerably exceeding the borrowings of EUR 11.8 million (previous year: EUR 14.6 million) recorded as at the balance sheet date of 31 December 2017.

At the 2017 year end, current and non-current credit/guarantee facilities totalling EUR 135.2 million (previous year: EUR 137.3 million) were available; of these, a sum of EUR 12.8 million (previous year: EUR 17.0 million) was used.

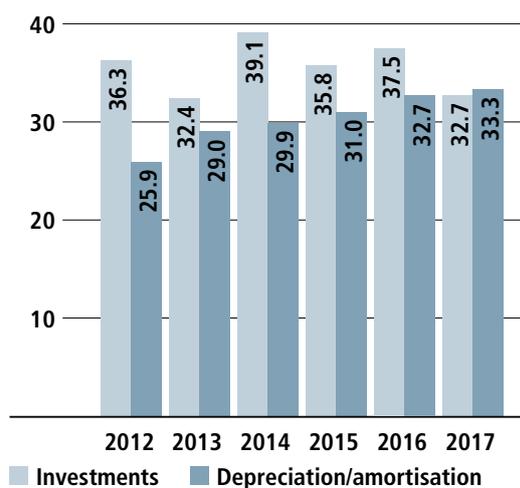
#### Investments continue at a high level

In 2017, investments in property, plant, and equipment as well as intangible assets in the Sto Group amounted to EUR 32.7 following EUR 37.5 million in the previous year. An amount of EUR 27.4 million (previous year: EUR 31.1 million) was invested in the Western Europe

Sto Group	Cash flow statement in EUR K	
	2017	2016
<b>Cash flow</b>		
from operating activities	86,478	95,391
from investment activities	-44,965	-61,443
from financing activities	-24,852	-34,605
Change in cash and cash equivalents from changes in exchange rates	-2,310	-134
<b>Cash and cash equivalents at beginning of period</b>	<b>70,071</b>	<b>70,862</b>
Change in cash and cash equivalents	14,351	-791
<b>Cash and cash equivalents at the end of period</b>	<b>84,422</b>	<b>70,071</b>

segment, EUR 1.8 million (previous year: EUR 1.9 million) in the Northern/Eastern Europe segment, and EUR 3.5 million (previous year: EUR 4.5 million) in the America/Asia segment. This accounted for almost the full, provisioned budget of EUR 35 million. In addition, investments in financial assets totalling EUR 11.0 million (previous year: EUR 0.3 million) were spent on an investment consolidated using the equity method.

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



Intangible assets accounted for EUR 2.1 million (previous year: EUR 2.0 million) of the total investments. Reaching EUR 30.6 million, investments in tangible assets fell below the previous year's level of EUR 35.5 million. Among the focal points of the investment activities were the construction measures at Verotec GmbH in Lauingen/Germany, where the logistics and office capacity was expanded and the production capacity was almost doubled. This work was completed in 2017. Various investments were also made in replacement and expansion measures within the Group, such as modernising hardware and software equipment, and a range of activities were carried out as part of

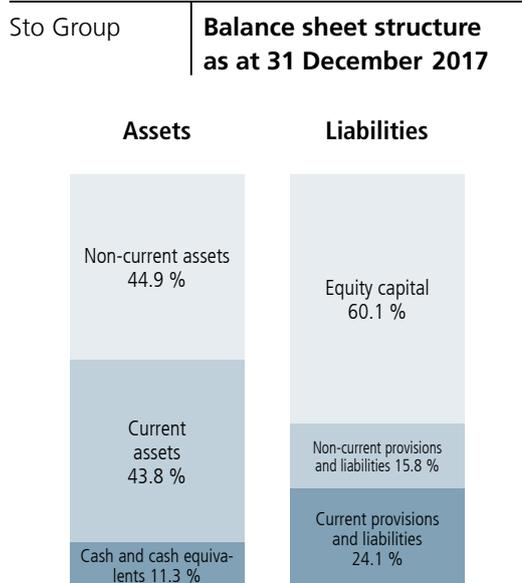
the ongoing Retrofit programme, whose aim is to replace older production plants within the Sto Group or bring them up to the latest standards of technology.

### Asset situation

As at the reference date of 31 December 2017, the **consolidated balance sheet** of Sto SE & Co. KGaA witnessed an increase of 5.0 % to EUR 749.6 million. In the category of **non-current assets**, which rose by a total of 2.6 % to EUR 336.8 million, assets increased year-on-year by 2.0 %, reaching EUR 314.4 million. The principal reason behind the increase was the investment made in the financial assets balanced in accordance with the equity method. In comparison to the same day of the previous year, intangible assets as well as property, plant, and equipment changed very little, amounting to EUR 49.1 million (31 December 2016: EUR 49.8 million) and EUR 254.3 million (31 December 2016: EUR 258.5 million) respectively.

Among the other non-current assets – which increased by 11.4 % to EUR 22.4 million – it was the higher deferred tax assets that had the most impact, rising from EUR 17.3 million to EUR 19.6 million.

**Current assets** demonstrated a year-on-year gain of 7.0 % to EUR 412.8 million. This included an inventory increase to EUR 96.7 million, 4.5 % above the previous year's level. The primary factors driving this were the amplified efforts to carry out strategic provisioning of materials, as material procurement is likely to become even more expensive in the future. Trade receivables grew by 2.0 % to EUR 125.0 million. The item of current financial assets, which increased by 5.4 % to EUR 76.5 million, includes funds that had been invested with a time to maturity of more than three months to one year. The 25.9 % increase in other current assets to EUR 27.7 million was mainly the result of refund claims. Cash and cash equivalents rose year-on-year from EUR 70.1 million to EUR 84.4 million.



On the **liabilities side, equity** rose to EUR 450.1 million thanks to the positive earnings trend that the Group experienced, resulting in a figure that was 5.9 % above the value at the 2016 year end. The item of share of minority interests, accounting for EUR 7.8 million (31 December 2016: EUR 7.4 million), primarily related to the proportion of minority shareholders with a stake in Ströher. On 31 December 2017, the **equity ratio** in the Sto Group stood at a robust 60.1 % (31 December 2016: 59.5 %).

The total **non-current provisions and liabilities** in 2017 rose by 7.4 % to EUR 118.7 million. Post-employment benefit provisions experienced a 6.3 % increase to EUR 99.1 million, primarily due to the necessary adjustment in the discount rate, while other non-current provisions rose by 9.8 % to EUR 14.6 million. Deferred tax liabilities also went up, in this case by 9.5 % to EUR 2.3 million, and non-current borrowings by EUR 0.9 million to EUR 2.0 million. Meanwhile, non-current financial liabilities and other non-current liabilities remained at approximately the same level as they had in the previous year, amounting to EUR 0.3 million and EUR 0.01 million respectively.

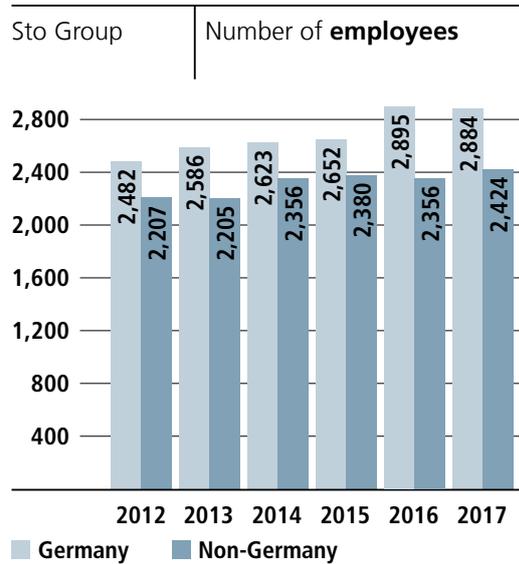
The total **current provisions and liabilities** changed only slightly, reaching EUR 180.7 million compared to EUR 178.5 at the previous year end. Other current provisions rose by 10.1 % to EUR 48.9 million due to necessary risk provisioning. The most significant item in this case, recorded in the area of warranty provisions within sales, relates to insurance refund claims that are included on the assets side as other current assets. Year-on-year, trade payables remained virtually unchanged at EUR 46.0 million (31 December 2016: EUR 46.4 million), while current borrowings decreased by 27.4 % to EUR 9.8 million and current income tax liabilities from EUR 3.0 million to EUR 2.2 million. Current financial liabilities grew by 2.5 % to EUR 28.5 million and other current liabilities by 4.4 % to EUR 45.3 million.

At the end of December 2017, total borrowings amounted to EUR 11.8 million after EUR 14.6 million in the previous year. Taking into account cash and cash equivalents of EUR 84.4 million, net financial assets stood at EUR 72.6 million (31 December 2016: EUR 55.5 million).

## C. Other performance indicators

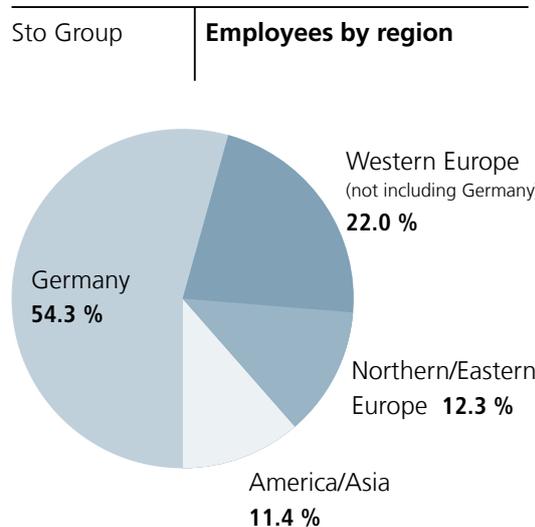
### Employees

At the 2017 year end, the Sto Group had 5,308 employees worldwide as compared to 5,251 on the same day of the previous year (+57 employees; +1.1 %). While positions were cut at Sto SE & Co. KGaA's German locations as part of the New Balance programme, amongst others, there was an increase in staff employed at individual domestic subsidiaries. The net number of domestic employees fell by 11, taking the total to 2,884 (previous year: 2,895). Abroad, the Sto workforce grew to 2,424 employees (previous year: 2,356), an increase of 68. Targeted restructuring measures in regions battling difficult



economic conditions were contrasted with new appointments in countries with short and medium-term growth prospects. Year-on-year, the percentage of the Group's workforce employed abroad rose from 44.9 % to 45.7 %.

At the end of December 2017, there were 4,050 employees in the Western Europe segment (which includes Germany), 652 in the Northern/Eastern Europe segment, and 606 in America/Asia.



The average age of the Sto workforce in 2017 was 43.4 (previous year: 43.1), and the proportion of female employees in the Group amounted to approximately 25 %, a figure similar to the previous year's. Sto recognises that teams with a heterogeneous make-up have shown themselves to be better at solving complex tasks, and it therefore considers diversity to be one of the keys to the company being successful in the future. We are constantly examining the extent to which diversity is present within the company, which enriches our corporate culture.

In the area of human resources, one of the main focal points in 2017 was implementing the measures that had been developed on the basis of the New Balance programme. Following several months of negotiations with the General Works Council, the employer and employee representatives of Sto SE & Co. KGaA came together at the end of June and drew up the key figures for the areas in which it had been deemed necessary to make savings. Primarily, this means reducing the number of jobs at Sto SE & Co. KGaA across Germany by 53, with 28 of the cuts taking place at the company headquarters in Stühlingen-Weizen, plus amending or removing selected components of the remuneration and social security benefits that are provided, and reducing material costs. In return, the workforce at Sto SE & Co. KGaA has been guaranteed job security until the end of 2018 subject to certain requirements being met. These requirements have been agreed with the Works Council. The managerial staff given responsibility for job reductions have received substantial support from the Human Resources division, as well as appropriate training and, where necessary, information on matters relating to labour law.

**HR strategy**

Additional work on implementing the human resources strategy was carried out during

the year under review. The most important, unchanged goals that determine our corporate culture include exploiting and developing the potential available in the company, creating a positive working environment and positioning the Sto Group as an attractive employer. Specifically, we focus on the following areas:

- **Promoting the Sto culture:** This culture is based on mutual respect, enables our workforce to play their part in shaping the company, and encourages our employees to take responsibility for ambitious targets. We are constantly developing the Sto culture while at the same time upholding its core values. One of the most important items in our personnel development toolbox are our employee appraisals, which were completely overhauled during the previous year. In Germany, Sto SE & Co. KGaA and StoCretec GmbH have already launched a successful pilot project.
- **Professional personnel and managerial development:** Customised qualification programmes are our way of ensuring that our workforce is constantly prepared for the demands of the future, and systematically developing our stock of expertise. Additionally, we want to discern specific areas of management potential that are present in the Group. We offer our managers attractive promotion opportunities and provide them with support in both developing their employees and honing their own skills.
- **Employer attractiveness and securing the next generation of employees:** We are consistently working to boost our attractiveness as an employer and add talented young professionals to our team. We do this to ensure that the Group can keep expanding at all its locations around the world, and to play an active role in combating the shortage of young talent and skills. We also establish attractive general conditions for applicants and employees, as well as a solid vocational

training programme. In 2017, we were able to enhance the quality of our personnel recruitment process by making more use of assessment centres and launching an IT system for online recruitment.

- **Creating competitive employment conditions:** Our aim is to give our employees an attractive working environment that affords them a great deal of flexibility, and at the same time ensure that the Group is taking advantage of efficient cost structures. That is why we have competitive remuneration systems in place and provide excellent opportunities for promotion, flexible working hours models, and an environment that fosters respectful corporate communication.

### Working safety

A 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 each year. In 2017, we were able to reduce the rate at Sto SE & Co. KGaA slightly in comparison to the previous year, from 12.9 to 12.6. The accidents that did occur were primarily the results of inattentiveness or inappropriate practice. As a means of

At the end of 2017, the Sto Group had 5,308 employees worldwide.



preventing accidents, both managers and employees receive ongoing training in occupational safety, and we raise their awareness on the subject. In 2017, we launched new modules designed to provide managers with more training in this area. In the event that serious accidents do occur, they are systematically subjected to an investigation and the relevant risk assessment is adapted and revised in the light of the findings.

Our aim is to keep our fluctuation rate low within the Sto Group – that is, in the lower single-digit percentage range where possible. During the year under review, it amounted to 2.9 % (as compared to 3.1 % in the previous year). We calculate the 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. The figure reveals that Sto is still an attractive employer to work for.

#### **Health management**

We believe that ensuring the well-being of our employees includes establishing an environment that promotes health and enhances performance. We support this through a health management programme that is structured around our target groups. Once again, 2017 focused on preventative measures relating to healthy eating, immunisation, and sports programmes. There are also programmes provided for people with specific medical conditions. As well as this, the year under review saw us draw up our first set of ideas for launching a digital health management initiative.

#### **Further education and training activities**

With the aim of fostering the skills and interests of our workforce as well as preparing them for the requirements they will need to fulfil in the near future, the Sto Group offers a comprehensive range of opportunities for gaining qualifications and further training. In the year under review, its focus was influenced by the job

reductions as part of the New Balance programme. With the aim of giving our managers the best possible preparation for the new tasks they were required to undertake, a specifically designed set of training courses was held, and a telephone hotline staffed by specialists was set up in order to provide employees with any support they needed. In 2017, we also established a programme that aims to equip managers with better ways of identifying and tapping into areas of potential for boosting efficiency within their departments. The manager development programme, which has been in place for some years now, encompassed five German groups and one international group for new candidates in 2017.

A mentoring programme was launched as a new addition to our strategies for nurturing up-and-coming talent. This involves experienced managers passing on their expertise to talented employees and helping them to take on more responsibility at Sto. In 2017, we integrated an above-average number of female mentees into the programme. We are specifically seeking to support women in furthering their careers and are therefore using targeted methods such as this to increase the number of female managers in the Sto Group.

#### **Training at Sto**

At the start of the new training year in September 2017, 72 young people started their professional training at Sto in Germany. In addition to the 25 trade and commercial training paths that we offer, there is also the option of completing an integrated work/study programme within the Group.

At the year end, the number of trainees and work/study programme students in Germany totalled 199 (previous year: 196). There were also two participants in a retraining programme and one in an entry-level qualification programme. In relation to the total German workforce, this equates to a share of 6.9 %. As a result, Sto far exceeds the 4.8 % training rate



In autumn 2017, Sto trainees renovated an inn in Stühlingen-Mauchen/Germany, as part of a social initiative by the association “Jung & Alt – Attraktives Dorfleben” (Young & Old – Attractive village life).

of all the businesses working in the chemical industry in Germany.

A special page dedicated to providing extensive information about professional training can now be found on the Sto Group website. It underwent a full redesign during the previous year and is now able to address its target audience more directly. Additionally, in 2017 we once again took part in several education fairs and careers days within Germany. These events provide prospective employees with the opportunity to gain an in-depth insight into the Sto Group as an employer and find out more about the company.

## Research and development

Through the intensive and continuous R&D work, we are consistently enhancing the skills that are present in the Sto Group, securing the position we are aiming for as a technology leader in our industry sector, and opening up opportunities for tapping into new markets and finding new customers. Our in-depth R&D activities also enable us to ensure that our products meet certain quality standards.

Our Group-wide development activities take place predominantly at our Stühlingen headquarters. We also have R&D departments at

domestic and non-domestic locations that focus on specific product groups, such as insulants, paints, or gypsum fillers, and on market-based product adaptations and developments. In 2017, research and development costs accounted for EUR 14.1 million in total (previous year: EUR 14.3 million), corresponding to 1.1 % (previous year: 1.2 %) of consolidated turnover with an impact on profit and loss.

The regulatory requirements surrounding research and development activities became significantly more stringent during the year under review. The changes included the introduction of more extensive labelling regulations for raw materials as well as stricter fire protection requirements. Thanks to our additional laboratory building, completed in 2016 and located at our headquarters in Stühlingen, we have established an excellent set of conditions for ensuring that we can adhere to these higher standards. The new premises allow us to carry out informative tests on reaction to fire at an early stage of the development process, as well as tests that closely imitate real-life conditions. As a result, we are ensuring that our Sto systems remain safe and that our products can be launched on the market more quickly.

### Product innovations

In 2017, our **product innovations** focused on expanding StoColor Dryonic, our biomimetic facade paint. A protective exterior paint with a water-repellent functional principle inspired by nature, it is now available for wooden substrates too. **StoColor Dryonic Wood** is specifically designed to suit the properties of organic materials, and it keeps wooden facades dry as well as providing them with reliable protection against damage caused by weathering and UV radiation. Additionally, it dries very quickly and hence prevents the formation of algae and fungi.

**StoSustain R**, our recyclable facade insulation system, has aroused significant interest. Its components are installed using an innovative

A school in the Netherlands shows off its amazing facade. The highly insulated building was rendered and, in part, shaped using Sto-Ecoshapes prefabricated render elements.



grip fixing system, and can be separated into more or less individual parts – most of which can then be recycled – once they reach the end of their useful life. The system was showcased at the BAU 2017 trade fair and received the “Special Award” as part of the Innovationspreis Architektur + Bauwesen (Architecture + Construction Innovation Prize).

Our **StoReno Safe** retrofitting system has enabled us to stay on top of developments in the industry, particularly the more stringent requirements that now apply to fire protection for external wall insulation systems. In projects involving facade renovation, this crack-bridging and fire-retardant render system works in conjunction with the new **StoArmat Graphite** base coat to ensure safety in the event of a fire – without the need to make any concessions in the facade design.

**StoAirtherm Control** is our new ventilation concept which can be integrated into facade systems. It brings fresh air into thermally insulated buildings, protecting the building fabric as a result. A pilot project was started in 2017 with the aim of preparing the product for its market launch.

The **StoSignature** Collection focuses on render design in internal and external areas, and was also expanded in 2017. It enables cus-

tomised rendered facades to be created using a sophisticated, systematic approach to material combinations and techniques – providing architects and tradesmen with a constant source of inspiration in their interpretations of surfaces and allowing them to put their own stamp on facades.

**Sto-Ecoshapes** are prefabricated render elements for facades. Mineral components account for over 90 per cent of their composition, and they can be custom-designed despite being prefabricated using mass-production methods. Incorporating these elements speeds up construction site processes and delivers consistent standards of surface quality.

**StoSilent Modular 300**, the sound-absorbing acoustic ceiling element that received the German Design Award in 2017, features outstanding functions and an equally winning design. It can be installed on walls and ceilings alike, and is an extremely useful addition to projects whose aim is to optimise room acoustics.

The new **StoColl Mineral HP** high-performance adhesive has opened up yet more applications for bonding systems to substrates that are difficult to work with, such as bitumen or engineered wood boards. This enables us to raise our profile in the growing timber frame construction sector.

The new **StoPox TU 100** coating system delivers outstanding benefits, particularly when it comes to cleaning tunnel structures. The surface protection satisfies every applicable safety requirement, protects the building fabric, and ensures that surfaces are extremely easy to clean. This results in a significant reduction in the maintenance costs associated with tunnels.

In addition to creating new products and developing existing ones, much of the R&D team's work in 2017 was taken up with securing a reliable supply of raw materials for the Group. The supply was affected in some cases by prolonged lead times and unforeseeable events, such as a fire in the plant of one of our key suppliers, and these circumstances required us to change over to different materials for a short time. We were able to overcome these issues without any dips in quality or workmanship.

#### **Fundamental research**

An important element of our R&D activities is fundamental research, which aims to unlock new and improved technologies. In 2017, this work focused primarily on the reaction to fire demonstrated by insulants. Furthermore, we developed ideas for preserving dispersion-based products. Our work has enabled us to not only respond to the increasingly restrictive regulations that apply in this area, but also create more flexible conditions in our storage methods and logistics processes for paste-form end products.

To ensure that as much expertise as possible feeds into our research, our R&D team regularly works with universities and external partners as well. We have continued to participate in the Smart-Deck project, which is funded by the German Federal Ministry of Education and Research and run jointly between us and the Institute of Building Materials Research and Chair of Building Materials (IBAC) at Aachen University. The project's focus is on continually monitoring infrastructures so that renovation measures can

be introduced as quickly and inexpensively as possible in the event that damage occurs.

## **Production and procurement**

The basis for the reliable, high quality of Sto products is the company's high level of competence in the production area. We are continually seeking to enhance our production skills in applications and processes alike.

The Sto Group primarily produces coating materials such as renders and paints, which are made in specialised production facilities, as well as adhesive and reinforcing compounds. Moreover, we produce some of our polystyrene (EPS)-based insulants exclusively for supply within the Group. This allows us to develop our technical expertise specifically in an area that has sensitive needs, and reduce the extent to which we are dependent on suppliers. Production takes place under the overall responsibility of Innolation GmbH at the locations in Lauingen/Germany and Amilly/France. Moreover, our Swedish subsidiary produces special insulants based on EPS.

#### **International production network**

At the 2017 year end, the Sto Group's production network worldwide comprised 30 facilities, of which 11 were located in Germany and 19 abroad. These figures are unchanged from the previous year. In 2017, all of Sto's factories operated on a demand-based schedule in two- or three-shift operation. As in the previous year, the utilisation of the machines was mostly good.

The Group continually makes efforts to modernise and expand its capacity. The year under review also included projects with this as their focus, such as the start of modernisation work on the electronic system controls at the Stühlingen headquarters. In addition, we installed new compressors with improved energy efficiency credentials in Stühlingen and Tollwitz/Germany,

and we commissioned additional large-scale silos and mixers for manufacturing paste-form products at our Spanish plant in Errenteria. The expansion measures at Verotec GmbH, which involved significantly expanding the plant in Lauingen, came to a successful end at the close of 2017. The work included building additional production and logistics halls, office space, and raw material silos in order to expand capacity, particularly with regard to the production of lightweight construction boards.



From left: Lauingen's mayor Wolfgang Schenk; Jochen Stotmeister, Chairman of the Supervisory Board at STO Management SE; Jan Nissen, Chief Technology Officer; Stefan Jurock, Commercial Director at Verotec; Managing Director Dirk Franz, and Operations Manager Gerhard Datismann push the button during the inauguration ceremony for Verotec's new production hall.

The rate of defective batches is a good measure of the efficiency of production facilities within the Sto Group. We aim to keep this ratio of the total production volume that cannot be delivered due to defects below 0.1 % across the Group. In the European Sto factories, this quality target has already been met more or less consistently. Our employees across the globe receive training on this subject and action is taken to raise awareness, which in turn enables the employees to identify any potential weaknesses as early as possible and eliminate them immediately.

Customer orders with short lead times account for the majority of orders that the Sto

Group receives, due to the market conditions and our customer structure. Sto keeps its customers satisfied by ensuring a high level of goods availability – which also helps the company to maintain flexible production conditions – and through the fast delivery service it provides. For this reason, the Sto Group does not consider key figures relating to order receipt and backlog to be significant.

### Tested quality management

All activities of the Sto Group that focus on quality, the environment, safety, and energy management are conducted as an integrated management system in which all key production facilities are registered and internally audited. Additionally, the majority of the Group's plants are certified in accordance with external standards. At the 2017 year end, 24 out of a total of 30 locations had been assessed in accordance with the international quality management standard ISO 9001, with 15 also receiving ISO 14001 certification for their environmental management system. During the course of the year, ISO 9001:2008 and ISO 14001:2008 monitoring audits took place at several locations in Germany: Stühlingen, Rüsselsheim, and Tollwitz, part of Sto SE & Co. KGaA, and StoCretec GmbH in Kriftel. Internal audits were performed at Sto SE & Co. KGaA in Donaueschingen and Kriftel, Verotec GmbH and Innolation GmbH in Lauingen, plus Sto Ges.m.b.H. in Villach/Austria.

In the area of EPS insulation board production, Sto is enhancing its existing quality management strategy by implementing advanced measures beyond the standard that has been in place to date. These are designed to ensure that a high level of product quality is maintained by all the suppliers involved in the manufacturing process. Also holding certification in accordance with the quality and environmental management standards ISO 9001 and 14001, Innolation GmbH acts as a Group-wide centre of expertise for insulants.

In addition to this, Sto has introduced the ISO 50001 energy management system at several of its locations. As at the end of 2017, Sto SE & Co. KGaA's headquarters in Stühlingen, all the production sites and SalesCentres, and five subsidiaries had received certification. During the year under review, monitoring audits in line with ISO 50001:2011 were performed at Sto SE & Co. KGaA's locations in Stühlingen, Rüsselsheim, and Kriftel, at Verostone GmbH in Eichstätt and Verotec GmbH in Lauingen, and at the Augsburg, Berlin, Erfurt, Leipzig, Munich, and Wolfratshausen SalesCentres.

The three factories of the US subsidiary, Sto Corp., have been tested in accordance with the local certification "Safety & Health Achievement Recognition Program" (SHARP), while the subsidiary in Sweden was tested in accordance with OHSAS 18001 (Occupational Health & Safety Assessment Series). Both programmes are designed to maintain high standards of health and safety. Verotec GmbH has received OHRIS (Occupational Health and Risk Management System) certification in recognition of its occupational health and safety system, and is thus meeting global standards concerning health and safety at work, while Sto Sp. z o.o. in Poland is operating in line with the AQAP (Allied Quality Assurance Publications) standard.

### Procurement

The key raw materials sourced by the Sto Group include base materials such as sand, cement, and lime, as well as speciality chemicals and crude oil based raw materials. Examples of other items that are procured include insulants, mesh, and containers. Insulants based on mineral wool played a more prominent role than in the previous year, while there was a drop in the amount of EPS insulation boards that were procured.

The supply of the most important materials was ensured throughout the Group during the entire reporting period. The global procurement

situation concerning titanium dioxide became more critical when production in a supplier's plant was forced to stop following a major fire. This led to supplies of titanium dioxide becoming more and more scarce on the global market, in turn resulting in longer lead times and significant price hikes. It was also necessary to absorb the effects of price increases – which in some cases were significant – in the purchase of other raw materials or their pre-products. Styrene, which is used for manufacturing insulants, was one example of a material affected by this.

Advance procurement, long-term arrangements, a multi-supplier strategy, changes to formulations, and strategic partnerships were all tools that Sto used to keep its supplies to customers consistent. However, it was only able to compensate for some of the negative impacts on costs that resulted from this. In total, the Sto Group's cost of sales percentage in 2017 rose by 1.3 percentage points, from 43.4 % to 44.7 %.

The area of transport suffered from some bottlenecks in capacity, particularly during the second half of the year. The primary reason for this was the positive growth in the economy, which led to freight volumes increasing sharply as a whole. A shortage of drivers in shipping companies, as well as a huge rise in demand in the areas of e-logistics and package shipment, also had a negative impact on freight carriage. Overall, the Sto Group also experienced increases in costs in the logistics sector.

### Procurement management

The basis for uninterrupted security of supply at all production locations of the Sto Group is proactive procurement management. This is based on many years of close cooperation with our suppliers. As part of the New Balance programme, 2017 saw the introduction of measures designed to optimise material management and strategic purchasing, plus the

In the development laboratory for mineral products, high-quality raw materials are used to bring innovative renders and paints to life.



redistribution of product groups. Increased automation in shipping and ordering processes in particular led to an increase in efficiency. In addition to this, the introduction of cross-departmental project teams allowed us to identify areas in which savings could potentially be made and introduce measures that would enable us to do this.

Twice a year, we perform a systematic supplier evaluation at our key European Sto companies. This involves assessing the companies based on the criteria of price, quality, commercial cooperation, sustainability, and supply conditions. The results are weighted in different ways and are condensed into a single key figure. The maximum score is 100; in the case of Sto SE & Co. KGaA, the target score was 90.0, as was the case in the previous year. Its result of 87.5 (previous year: 88.5) meant that it fell slightly below this value in the year under review. The primary reason for failing to meet the target was a reduction in the ability of downstream suppliers to adhere to deadlines, something which in turn was caused by the bottlenecks on procurement markets referred to

earlier. In addition, capacity bottlenecks on the transport market resulted in longer lead times.

As a means of identifying price fluctuations and supply bottlenecks early on, we systematically monitor the supply chain at every stage, from the purchase of raw materials to storage and all the way through to the customer. We use special software to assist us in this process. As a result, we are able to generate forecasts for every single item at every plant, and can even account for changes in demand within a month. Coupled with our ongoing efforts to optimise inventory data, this enables us to maintain an outstanding delivery service for our customers. As a result of all these actions, in 2017 we were able to handle the significant rise in demand that we experienced during the spring and expand the range of products we offered at the same time.

Inventory ratios (average inventory in relation to annual sales) are agreed with the Sto subsidiaries as part of Group-wide **stock management**. Depending on whether the company is a production and/or sales company, this figure was between 2.0 % and 38.0 % in 2017. The process of agreeing upon and defining these targets takes into account the results of analysing any conditions that are particular to the market concerned, as well as any customer requirements for logistics services and expectations. During the year under review, the targets were largely met thanks to consistent, ongoing monitoring of materials with greater ranges. Any deviations from the targets were analysed and, where necessary, adjustments were made in order to prevent supply bottlenecks.

The new version of our internal ordering system, Sto-eProcure, was launched at Sto SE & Co. KGaA, StoCretec GmbH, and Innolation GmbH on schedule at the start of 2017. Reworked during the previous year and now offering enhanced features, the software system has incorporated numerous suggestions for improvements from users. The search function,

shopping cart function, and system stability have all been optimised. The transparent ordering process, with a standardised approval procedure and a direct interface to the Group-wide SAP system, was also rolled out to Verotec GmbH in Germany and Sto AG in Switzerland at the end of 2017.

## D. Events after the reporting period

Between the end of the 2017 fiscal year and the point at which this report was signed off, there were no other events with a significant impact on the earnings, financial, and asset situation of the Sto Group.

## E. Risks and opportunities report

### Risks and opportunities

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

The significant economic improvements that we are currently experiencing in our key markets as a whole are enabling us to generate

additional growth using our own resources. Thanks to our excellent positioning in terms of technology combined with a product pipeline that we have once again managed to improve in comparison with the previous year, plus our close proximity to customers and high customer retention level we have what it takes to develop more strongly than the market as a whole.

### Risk management system

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

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

The managing director of the respective business unit is required to notify the central investment controlling department immediately of any new risks which are identified in the course of the year.

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

#### **Internal control system**

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

The digitised accounting process is controlled using the ERP software SAP, which is implemented in the vast majority of Sto companies. It records and processes all issues and data relevant to accounting. Sto SE & Co. KGaA has

an electronic workflow in place for centralised invoice processing and archiving, and we began gradually rolling out this system to our subsidiaries in 2012. Access to various types of data is clearly regulated and corresponding access restrictions are in place.

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

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

We also ensure the correctness and reliability of our accounting processes by applying specific key figure analyses, and through the processing and control of complex business transactions by different persons. The separation of administrative, executing, accounting, and approval functions and the performance of these functions

by multiple persons (“dual control principle”) reduces the attendant risks.

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

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

The transparency required for the increasingly complex corporate processes is ensured by the Internal Audit department, which also makes allowance for the growing compliance requirements. As an independent department, Internal Audit reports directly to the personally liable partner and to the Chairman of the Supervisory Board. The extensive company compliance system for monitoring adherence to legal requirements and internal corporate guidelines is part of our risk management strategy. We are in the advanced stages of publishing the principles of our compliance management system, working on the basis of the latest recommendations of the German Corporate Governance Code (HGB), and hope to complete this work during the 2018 fiscal year.

The end of 2017 saw the launch of a standardised whistle-blower system for compliance infringements. This is now publicly accessible via our website, [www.sto.de](http://www.sto.de), and not only gives whistle-blowers the necessary protection

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

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

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

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

#### **Dependence on weather conditions**

A major proportion of Sto’s products is used on the exterior. This means that their application is dependent on weather conditions, something that Sto is unable to influence. In particular, 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.

#### **Sales risks**

As things currently stand, we do not expect future sales of Sto products to present any significant risks over the long term, as the sales potential of facade systems should in principle remain high thanks to a healthy stock of older buildings. Nevertheless, the public debate being held in Germany on the general advantages of facade insulation systems and their ecological impact, has caused investors and, in particular, private building owners to adopt a very cautious attitude. These feelings of uncertainty have been fuelled further by conflicting and, in some cases, highly exaggerated media reports. The currently prevailing, relatively low energy prices also have a negative impact on demand. Hence, the entire industrial sector faces the risk of failing to fully exploit sales potential. As the market leader, Sto may feel an above-average impact, which in turn may be reflected in corresponding levels of turnover and income losses.

Qualitätsgedämmt e.V., an association founded by German family-owned businesses of which Sto is also a member, holds the belief that it is possible to bolster the confidence of users and investors in the long term by providing them with objective information and clear explanations of the product properties that facade systems offer. Additionally, this sales risk

is mitigated by Sto's success in regional diversification and the long-term upward trend in energy prices, which has made facade insulation an appealing prospect from a financial perspective. The decision-makers' commitment to adhere to the targets of achieving energy savings and CO<sub>2</sub> reductions increases the opportunities for launching relevant incentive measures and for achieving better environmental conditions.

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

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

#### **Risks in procuring raw materials and external products**

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

There is a price dependency in products that we produce ourselves and external products that are made of raw materials based on crude oil; these include paints, renders, and polystyrene insulation boards, for example, and even our plastic containers (such as Sto pails). The trend regarding these basic raw mate-

rials usually correlates closely with the price of crude oil. Since then it has become clear that an independent, highly volatile trend is emerging – often influenced by global supply and demand. In the medium to long term, the price trend is expected to make another significant climb. The demand for numerous speciality chemicals, for which there is a dwindling number of available suppliers around the world, is also set to increase in the long run – particularly in emerging and developing countries. This will affect titanium dioxide, for example.

In the Sto Group, strong increases in procurement prices could trigger a significant rise in material costs. As it is not usually possible to pass price increases on to customers in the short term, this results in a rise in the cost of sales percentage. Based on our experience, costs of sales can increase by up to 2 percentage points, which in turn can result in a decline in earnings of as much as EUR 25 million.

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

With external products becoming increasingly important to Sto, in view of the number of items we handle and our procurement volume, we have begun the process of setting up an independent group focusing on quality assurance for these products. In addition to actually monitoring the quality of external products, we are also ramping up our efforts to conclude quality agreements with specific terms and carry out supplier audits.

### **Overall economic and industry-specific risks**

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

### **Warranty-related and legal risks**

Ongoing research and development activities, and the introduction of innovations, 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 risk transparency.

At the same time, however, innovations can involve risks. While new Sto products or product versions are only ever launched on the market once they have undergone extensive testing, we are not able to completely rule

out the possibility of warranty claims against companies within the Group. We reserve the right to react appropriately to recognised risks through adequate innovations, modification of mature products, or the adjustment of relevant processes.

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

The US insurance industry currently does not offer any sufficiently comprehensive and economically viable insurance coverage for product risks relating to 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 reliably on account of the country's legal system. In order to further limit the risks inherent in our activities abroad, we engage the services of external consultants during decision-making procedures, where necessary. This also applies to technical matters.

As the range of products we provide is rounded off by supplementary services, Sto is exposed to legal risk in the form of liability associated with consultancy services. For example, employees of Sto SE & Co. KGaA provide our customers with support in relation to tenders, quotations, technical issues, and building design details. Sto's in-house Liability Directive instructs all employees on how to handle such issues both internally and in their dealings with customers. This clear set of guidelines has led to a marked reduction in risks.

### Financial risks

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

As a result of the internationalisation of its business activities, Sto is exposed to currency risks. We control these risks by means of currency hedges. Relevant risks from foreign currency cash flows are analysed, recorded, and reduced by applying suitable hedging measures; these processes take place throughout the Group. Our main focus is on the currencies of countries where we do not have production equipment, i.e. where regular supply and cash flows are necessary to maintain business operations. In 2017, this applied to countries such as Switzerland and Canada. In specific cases and where necessary, we perform additional hedging.

As a result of seasonal variability, the demand for liquidity to finance current business at Sto is subject to significant fluctuations. There is a particular need for cash in the first few months of a calendar year, whereas cash inflows dominate during the second half of the year. Risks arising from these fluctuations in payment flows are limited at Sto by the available liquid funds. In addition, Sto has at its disposal an adequate and contractually guaranteed variable credit facility as part of a syndicated loan agreement, amounting to EUR 100.0 million.

In order to reduce our exposure to liquidity risks, we also maintain intensive communication

with our banks and operate an active financial management system. This includes the use of derivatives in the form of interest swaps as a means of reducing the risk of changes in interest rates in the case of long-term, interest-bearing liabilities to banks.

Sto's treasury activities have been pooled and are handled in an independent department. This measure strengthens the recognition and control of financial resources for internal and external financing as well as financial risk management. The key features of a treasury guideline with a modular structure have been sketched out, with step-by-step expansion and implementation of the guideline set to take place. It aims to define and outline clear rules and regulations.

### IT risks

A global company like Sto can only be managed with the support of complex IT systems. SAP is the central system used within the Sto Group. Serious malfunctions like system failures, attacks on networks, and loss or manipulation of data have the potential to endanger Sto's supply readiness and result in declines in turnover. With this in mind, we have been implementing comprehensive cyber security measures since 2013 in order to ensure maximum continuity, integrity, and availability.

The use of Internet-based systems (such as SaaS = Software as a Service and IaaS = Infrastructure as a Service) is growing, and this is imposing a significant duty of care on us when it comes to establishing interfaces with our core systems and developing our own SaaS solutions. We have started to make initial preparations for the hybrid IT architecture that we are aiming to have in place, ensuring that the systems we use will handle Sto information securely.

The significant increase in attacks using the CEO fraud trick, the "bogus boss" scam, or ransomware had made it necessary to intensify

our training measures for potentially affected employees. Within Sto's internal communication channels, warnings and recommended courses of action in such cases are published on a regular basis.

#### Continuity:

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

#### Integrity:

To prevent unauthorised access to the information systems of Sto SE & Co. KGaA, we use technological security systems that are available on the market wherever possible. Alongside this multiple-step architecture, we also counter the risk by adopting a restrictive approach to issuing access authorisation and prohibiting the storage of company-related information in unauthorised, unprotected areas, such as Internet cloud systems. This is regulated by a comprehensive IT Policy. What is more, Sto makes use of services by the Cyber Security Competence Center, provided by the federal association VOICE, in order to stay constantly abreast of the latest information concerning prevailing threats.

#### Availability:

The redundant configuration of all core operational systems and network connections ensures maximum availability for all key business processes. An automated monitoring system serves to continuously monitor system availability. We counteract risks that might result from difficulty in replacing hardware components or the inability to update software using

a gradual strategy of modernising infrastructure in the computing centre and as part of our “Retrofit” programme. In order to meet the requirements of Industry 4.0 activities in terms of security, the production areas are kept separate from core systems with special security systems, which permit the flow of required data only.

#### **Human resources risks**

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

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

#### **Environmental risks**

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

entitled “Production and procurement” and in the Sustainability Report in this Annual Report.

#### **Risks concerning processes and added value**

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

#### **Tax-related risks**

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

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

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

#### **Opportunities and risks for business development in 2018**

Predictions on future business development are generally subject to major uncertainty. At Sto, one of the major factors to account for is

the set of highly volatile general conditions to which the international construction industry is exposed. Furthermore, our planning is based both on our own forecasts concerning trends in currencies that are relevant to Sto, which may also be subject to significant fluctuations, and on the assumption that a stable political environment will prevail. Should these premises prove incorrect, however, then expectations for 2018 may deviate from the actual situation.

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

The issue of sovereign debt within the eurozone continues to have risks associated with it. Fundamental challenges such as huge debt levels and a loss of trust in some countries have yet to reach a satisfactory conclusion, or any conclusion at all, meaning that the possibility of a resurgence in the financial and economic crisis cannot be ruled out altogether.

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

If the world's economy recovers more effectively in 2018 than research institutes have predicted, the demand for raw materials may rise at a disproportionate rate and lead to non-scheduled price increases at a significant level. These

higher costs could be balanced out by turn-over effects resulting from higher demand for construction services. Additionally, opportunities could arise if raw material prices develop more favourably than assumed in our forecasts.

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

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

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

Provided that the economy performs better than expected in regions where we only make plans with a great degree of caution, 2018 will see opportunities for business development.

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

In the long term, we estimate that opportunities for Sto will outweigh the risks. The need to install energy efficiency measures within buildings in order to reduce CO<sub>2</sub> emissions is set to rise. Furthermore, decision-makers in the area of climate protection are now speaking with one voice. As we also expect to see prices for key fossil fuels to escalate again in the medium term, we believe that facade systems will become increasingly appealing from a financial perspective as well. For Sto, as the leading manufacturer of external wall insulation systems, this means additional sales potential.

#### Overall risk exposure

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

Risk type	Risk category
Dependence on weather conditions	high
Sales risks	high
Risks in procuring raw materials and external products	high
Overall economic and industry-specific risks	average
Warranty-related and legal risks	average
Financial risks	average
IT risks	average
Human resources risks	low
Environmental risks	low
Risks concerning processes and added value	low
Tax-related risks	low

The assessment of the overall risk for the Sto Group is carried out using our risk management system. Following the assessment of current and potential future individual risks, and taking

into account the countermeasures already initiated, the Executive Board of the personally liable partner STO Management SE and the Supervisory Board have come to the conclusion that no assessable risks are discernible at present that could have enduring and significant adverse consequences for the asset, earnings, and finance situation of the Sto Group.

## F. Outlook report

#### Global economy

The IMF believes that the global upturn in economic conditions is set to continue in the 2018 fiscal year. The positive mood and sustained favourable development in financing conditions should result in the willingness to invest remaining high, particularly in countries that focus on exports. At the same time, however, the IMF again points to numerous risks. These include not only a potential end to the expansive monetary policy exercised by reserve banks, but also – most prominently – nationalist and protectionist sentiments, geopolitical tensions, and humanitarian disasters, plus movements of refugees occurring as a result.

The United Kingdom's exit from the EU may have a negative impact on sales figures in the country. We are paying close attention to the exit negotiations that are currently under way. However, we believe that Brexit will not have a significant impact on Sto for reasons including the relatively low business volume that the United Kingdom accounts for. Turning to the tax reform taking place in the US, which, depending on the business model, is set to bring businesses relief, but also additional tax burdens, the latest information is leading Sto to anticipate some positive momentum, at least over the short term. As things stand, it is difficult to assess what the medium-term impact will be.

According to the IMF, current data suggests that the global gross domestic product is set to

increase by 3.9 % in 2018. This will include a 2.3 % growth in industrialised countries, with the GDP in the USA rising by 2.7 % and in the eurozone by 2.2 %. Meanwhile, an increase of 4.9 % is expected in developing and newly industrialised nations. Forecasts suggest that the most dynamic development will be seen in China, India, and other nations within Asia. The upward trend experienced in Brazil and Russia is likely to stabilise.

Expansion in Germany is set to continue thanks to the healthy conditions prevailing in the global economy. In its annual economic report published at the end of January 2018, Germany's federal government (the acting government at the time of the report being written) predicted a GDP increase of 2.4 % for the coming year. In addition to the positive environment, foreign trade and investment activities are thus contributing to the good economic situation. An increase of 1.9 % was forecast in autumn 2017.

### **Trends for the international construction industry**

The construction industry in **Germany** is set to maintain its stable growth rate during 2018. Based on the positive general conditions prevailing in the economy as a whole, and the high volume of orders that companies are receiving, the Central Federation of the German Construction Industry (HDB) is anticipating an increase in turnover of approximately 4 % for 2018. Residential construction is set to see a 3.5 % growth, with the number of completed residential projects likely to rise in the multi-storey sector only. Construction of traditional houses is expected to stagnate at the previous year's level. The HDB is predicting that turnover in both commercial construction and public-sector construction will rise by 4 %.

The EUROCONSTRUCT network believes that expansion in the **European construction industry** will continue over the years leading

up to 2020, albeit with a gradual reduction in pace. In 2018, the number of completed residential buildings is estimated to see an increase of 7.1 % in comparison to the previous year. The economic upturn, and the accompanying effects on the labour market and household incomes, are the principal factors driving the continued positive trend in the 19 member countries. As well as this, the strong reluctance to invest in construction that many countries expressed during the economic crisis has now led to a significant backlog. Additionally, demographic aspects such as marked levels of immigration and internal migration are factors that are having an impact on the residential construction sector.

In the **USA**, the construction industry is likely to grow at a similar rate in 2018 as it did during the previous year. A report from the analyst firm FMI states that investments in construction are set to rise by around 5 % once again. A growth rate of 5 % is being anticipated in both the residential and non-residential construction sectors. Where office buildings, commercial buildings, and the hotel sector are concerned, FMI believes that investment growth rates will start to wane. Over the medium term, however, industrial construction and public-sector construction should provide positive sources of momentum. Spending on residential renovation projects in the USA is set to increase by approximately 3 % in 2018.

Forecasts from GTAI suggest that the construction industry in **China** will continue its positive growth in 2018. This outlook is based on the quantity of construction projects (measured in square metres) that the country has begun: this figure grew by 5.6 % in the period leading up to October 2017, although momentum has slowed. In the period leading up to August, the increase stood at 7.6 %. Despite prices rising, demand for residential, office, and commercial construction has remained robust. Following a significant increase in house prices in many

cities, the Chinese government and the reserve bank launched measures with the deliberate aim of slowing market momentum in 2017. However, recent price drops may mean that these restrictions are loosened again during the course of 2018.

### **Projected performance of the Sto Group**

Despite general conditions that are once again proving to be a significant challenge and source of uncertainty, the Sto Group believes that the 2018 fiscal year will bring positive business development as compared with the previous year – assuming normal weather conditions. In total, we are expecting the Group to see a 4.4 % **rise in turnover** to around EUR 1,333 million in 2018.

This forecast is based on the expectation that the global economy will continue to grow as suggested, and will once again provide a healthy foundation for positive development in the Sto Group throughout the world. From our point of view, uncertainties arise from the still unclear focus of the German government on implementing climate protection measures and promoting energy savings, as well as the politically unpredictable situation in the USA and elsewhere. We are also currently working on the basis that the euro will remain largely stable, as viewed from the point in time at which planning for the year was carried out. In 2018, the New Balance programme will primarily focus on additional activities designed to generate turnover, as well as improvements in our innovation process, sales, and logistics. The financial measures put in place to boost our earnings were completed in 2017.

Digitising our services is also becoming an increasingly important focal point. As an example, we have developed StoPlanner for our specialist customers: this web-based application provides support in the process of planning facades with rigid cladding, such as brick slips. It considerably reduces the amount of time and effort spent

on planning, and brings a noticeable increase in quality. Working on the basis of architects' plans or photographs of refurbishment projects, the software calculates the required quantities of brick slips and corner brick slips as well as bonding and pointing mortar. Another digital area of application in our industry sector is BIM (Building Information Modelling), an integrated planning, building, and construction project management method that uses a digital 3D model. We give our customers access to digital copies of our products, which can be used as BIM objects for all standard planning software solutions.

Digital technologies are also opening up new opportunities not only for our range of products and services, but also as a means of improving the processes that take place in our company. In a project that we are launching in 2018, we hope to outline specifically the role that digital opportunities should play in our structures and how they can be used to bring maximum advantage to Sto. However, we also want to identify the risks associated with digitisation and develop appropriate defence strategies.

In the area of facade systems, we expect the business volume to continue growing in 2018. Across the globe, the objective advantages offered by energy-related facade insulation hold significant potential for EWIS sales, and our range of products meets the very highest standards imposed by various aspects of quality – insulating performance, ecology, cost-effectiveness, fire protection, durability, and design freedom. Politicians are also recognising the need for efficient building insulation: without improvements in energy efficiency within the residential construction sector and existing stocks of buildings, it will not be possible to achieve the binding global climate protection goals that have been agreed. However, the measures required to do this have only been introduced gradually to date, if they have been

introduced at all. In addition, the ongoing debate on the use of external wall insulation systems in Germany may have a negative impact on the industry sector and on Sto as the market leader.

We remain in a very competitive position in our other product areas too, and believe that we will see a growth in business volume here. We see this growth potential in products such as our facade coatings. Our brick surfaces are also heralding significant opportunities thanks to their variety of design possibilities.

The current reporting period started below expectations, particularly due to the effects of the weather. Consolidated turnover was below the previous year's level during the first three months of 2018.

As things stand, consolidated earnings before interest and taxes (**EBIT**) are likely to amount to between EUR 80 million and EUR 90 million in 2018. Earnings before tax (**EBT**) are expected to reach between EUR 78 million and EUR 88 million. Where the resulting **return on sales** is concerned, we are likely to see a value between 5.9 % and 6.6 %. The **ROCE** (Return on Capital Employed) figure is set to reach between 14.9 % and 16.8 %.

In the area of **procurement**, we believe that 2018 will bring a significant increase in prices once again, due to the healthy economic development that has been taking place worldwide. Titanium dioxide, epoxy resins, and mineral wool-based insulants are among the materials that are expected to see sharp rises in price. Additionally, transport costs and the price of crude oil are expected to rise due to high freight volumes. We believe that increased market prices will make it possible to compensate somewhat for higher purchasing costs during 2018.

We have planned a budget of approximately EUR 42 million for **investments** in property, plant, and equipment in 2018. We will mainly be focusing on areas including the expansion

of our distribution network in Germany and Austria. The number of SalesCentres within the Group is also set to be one of the targets for expansion. Moreover, we will continue the long-term measures developed as part of our Retrofit programme.

Where **human resources** are concerned, we anticipate a slight rise in employee numbers on the whole. In our Group subsidiaries abroad, 2018 will once again bring some targeted adjustments in regions battling difficult economic conditions; at the same time, some new appointments are planned in countries with medium-term growth prospects. As things stand, we believe that staff costs are set to increase once again, as some of the actions we have taken resulted in savings with only a one-time effect.

Turning to the area of **financing**, we do not currently have any extraordinary measures planned for 2018.

### Projected performance of the Sto business segments

As for the **Western Europe** segment, we believe that 2018 will bring growth in turnover in the middle single-digit percentage range, with almost all the subsidiaries in this region likely to experience a rise in business volumes. The outlook for our companies in France is slightly more restrained.

We are also expecting an increase in turnover in the middle single-digit percentage range in the **Northern/Eastern Europe** segment. The positive business development in these regions is the result of the healthy general conditions they are experiencing, and the environment in Russia and Turkey is expected to recover slightly as well.

We are forecasting growth in the lower single-digit percentage range for the **America/Asia** segment in 2018. This is based on the healthy economic conditions in the USA, where we are expecting the construction industry to

continue its revival; by contrast, net business development is expected to be restrained in Asia.

### **General statement on future development**

Sto is one of the leading providers of high-quality facade systems and coatings with an outstanding brand in the industry, an extensive, top-quality product range that takes account of various regional and quality-based requirements, an excellent position on the international stage, and a strong capacity for innovation. We set the pace of technology in the industrial sector and want to reinforce this position over the long term. The factors that reinforce the success we have had in our corporate development include our extensive sales base and our well-qualified, dedicated workforce. For 2018, we are anticipating a 4.4 % growth in turnover and are expecting earnings to remain largely stable. We also believe that we will be able to strengthen our robust asset and financial situation even more.

Over the coming years, Sto will primarily concentrate on expanding the business volume across the Group and improving profitability at the same time. The Sto Group continues to aim for an increase in turnover to EUR 2 billion as well as improved profitability by 2022. In pursuing this, we intend to achieve consistent organic growth and make selective acquisitions where the right opportunities arise.

Stühlingen/Germany, April 2018

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



## The Sto share

### Sto limited preference share data

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

### 2017 on the stock markets

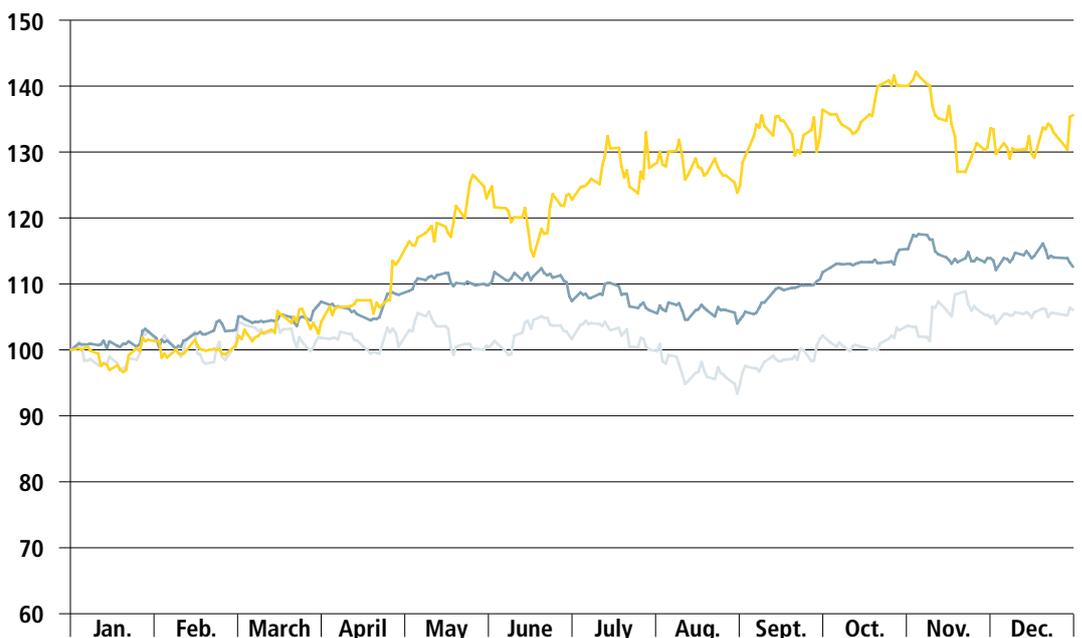
The mood on the world's most important stock markets was positive in 2017. As in previous years, the stock markets were boosted by the expansionary monetary policies of many central banks and the favourable economic data. In the USA, the Dow Jones went up by around 25 % despite expected reforms by the government failing to materialise. Demand was particularly strong for shares in the technology sector, which also ranked among the top performers in Europe. Overall, growth on the European stock exchanges was slightly dampened, however. This was mainly due to the fear of international investors that the EU, i.e. the monetary union, could break apart. Nevertheless, the Euro Stoxx 50 closed with an annual plus of around 6 %.

In 2017, the German stock market barometer DAX was also not held back by disruptive factors such as political uncertainties and even

### Share price trend for 2017

(indexed on 30 December 2016 = 100)

- Sto limited preference shares
- DAX
- DAXsector Construction



reached a new all-time high towards the end of the year. Year-on-year, the index went up in value by 12.5 %. The low interest rate policy also had a supportive effect here. In addition, the DAX companies generated predominantly high corporate profits. The construction values in Germany experienced a significantly weaker increase: The Construction sector index on the Frankfurt Stock Exchange closed trading with a plus of 6 %.

### Sto share on a sharp rise

The Sto share has managed to gain back the trust of the investors in 2017 and developed much better than the overall market. Starting at its lowest rate, which was quoted at EUR 90.00 in the middle of January, it continuously rose throughout the entire year. The highest rate was recorded at EUR 132.00 on 2 November. At the end of 2017, a Sto share cost EUR 125.90. Compared to the end of the previous year, this results in an increase in value of 35.3 %.

The market capitalisation of around 2.538 million Sto limited preference shares significantly increased from approx. EUR 236.1 million on 31 December 2016 to EUR 319.5 million.

### Significantly improved earnings

In 2017, Sto SE & Co. KGaA's consolidated turnover rose by 3.8 % to EUR 1,277.4 million. In comparison to the previous year, consolidated earnings before interest and taxes (EBIT) improved by 19.5 % to EUR 84.0 million, and consolidated net profit for the year by 22.1 % to EUR 55.8 million. Diluted and basic earnings were EUR 8.68 per limited preference share (previous year: EUR 7.20) and EUR 8.62 per limited ordinary share (previous year: EUR 7.14).

### Sto limited preference share key figures

Values per share in euros

	2017	2016
Earnings per preference share	8.68	7.20
Cash flow from current operating activities	13.46	14.85
Equity capital	70.04	66.17
Dividend payout per limited preference share		
Dividend	0.31	0.31
Bonus	+ 3.78	+ 3.00
Share price at year end*	125.90	93.04
Year high*	132.00	114.90
Year low*	90.00	86.20
PER (31 Dec)	14.51	12.92
PER (high)	15.21	15.96
PER (low)	10.37	11.97
Capitalisation of preference shares on 31 Dec (in EUR millions)	319.5	236.1

\* XETRA closing price

In 2017, the parent company Sto SE & Co. KGaA reported earnings before income taxes (HGB) of EUR 62.0 million (previous year: EUR 56.5 million) and a net profit for the year of EUR 45.8 million (previous year: EUR 45.4 million). According to the dividend proposal by the personally liable partner STO Management SE, a basic dividend of EUR 0.31 per limited preference share, and EUR 0.25 per limited ordinary share as well as a bonus of EUR 3.78 per share respectively is to be paid out. Pending the approval at the Annual General Meeting on 21 June 2018, this equates to a dividend distribution for 2017 of EUR 26,049,060.00 (previous year: EUR 21,036,780.00).

Based on the 2017 closing price of EUR 125.90 the proposal would result in a dividend yield of 3.2 % per preference share.

Based on the opening price for 2017 of EUR 93.04, this means a yield of 4.4 %.

#### **Trading volume in 2017**

The number of Sto SE & Co. KGaA limited preference shares that were traded in the XETRA electronic system of the Frankfurt Stock Exchange in the fiscal year of 2017 amounted to 707,045 in total, compared with 698,345 shares in the previous year.

#### **Shareholder structure**

As at 31 December 2017, it is estimated that more than 50 % of the 2.538 million Sto limited preference shares were in the hands of institutional investors. The remaining shares were free float. The number of non-listed limited ordinary shares remained unaltered at 4.32 million. 90 % of these were held by the Stotmeister family via Stotmeister Beteiligungs GmbH. The remaining 10 % were held by Sto SE & Co. KGaA on the reference date.



# Sustainability and Corporate Social Responsibility

This report presents the combined non-financial declaration of the Sto Group and Sto SE & Co. KGaA in accordance with Section 289b and Section 315b of the HGB (German Commercial Code). It complements the Group management report and the management report of Sto SE & Co. KGaA for 2017, which is part of this Annual Report and is available on the website [www.sto.de](http://www.sto.de).

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

## Part A Business model and sustainability management at Sto

### The Sto Group

The Sto Group specialises in products and systems for building coatings and is one of the most important global manufacturers in this industrial sector. In the 2017 fiscal year, the Group, which is listed on the regulated market of the German stock exchange, had 5,308 employees in 48 operating companies as well as its places of operation worldwide and achieved a consolidated turnover of EUR 1,277.4 million.

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

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

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

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

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

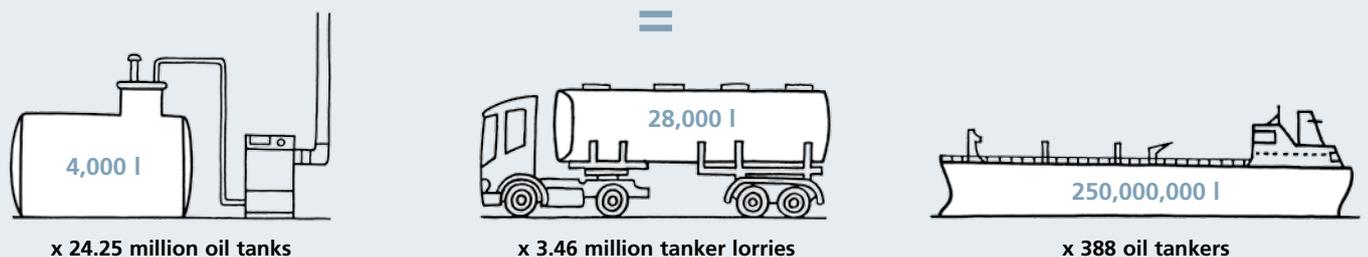
### Assuming responsibility

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

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

## Thermal insulation helps to protect the environment

The energy savings from the use of Sto facade insulation systems correspond to around **97 billion litres of heating oil**



Between 1965 and 2017, facade insulation systems from Sto played a direct role in saving the barely conceivable volume of 97 billion litres of heating oil. With this, Sto has made a notable contribution to global climate protection: the facade insulation systems from the southern Black Forest have cut CO<sub>2</sub> emissions by around 300 million tonnes. In 2017 alone, Sto products reduced emissions of this combustion gas by around 22 million tonnes.

buildings. The Sto systems that have been installed worldwide since 1965 have resulted in savings of around 97 billion litres of heating oil up to and including 2017, with the year under review accounting for around 7 billion litres of this figure alone. The resulting reduction in CO<sub>2</sub> emissions totalled more than 300 million tonnes, including approx. 22 million tonnes in 2017. In this way, Sto makes a significant continuous contribution to climate and environmental protection. This also improves the living comfort and quality of the relevant buildings.

Furthermore, our high-quality facade and coating systems protect the building fabric and thus ensure the conservation of value, longevity and resource efficiency of buildings. In the interior, our positive contribution lies above all in health protection and well-being through a wide range of low-emission products and products that are free from harmful substances. Moreover, we react to new product requirements which result from sustainable building concepts. For example, we have developed an innovative insulation system that significantly increases the reusability and recycling potentials when dismantling a building.

### Sustainability strategy

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

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

In 2017, we focused our efforts primarily on areas including:

- Germany's Climate Action Plan 2050, whose purpose is to steer the country towards a largely greenhouse gas-neutral future,
- Energy efficiency as a cornerstone of the move towards renewable sources of energy and climate protection plans,
- The recycling economy and resource efficiency as elements of resource, climate and environmental protection,
- Operational and product-related environmental protection as a means of conserving ecosystems,
- The health and well-being of employees, applicators, and users,
- Qualification and training in order to combat a shortage in young talent and skills,
- Commitment to social issues, signalling solidarity and individual support.

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

Since 2010 we have been conducting annual surveys among all Sto companies on selected "CSR topics". This survey covers the relevant training and responsibilities for the individual issues within a company, compliance with social standards, such as the prohibition of child and forced labour, equal treatment of men and women, measures for occupational safety, environmental and resource protection, cases of corruption and violations of the law, as well as donation activities and social commitment. If standards are not complied with and deviations

are reported, the measures to be taken are to be described. The information is recorded centrally and then evaluated. In conjunction with the new CSR disclosure rules and the different levels of maturity in the various regions and companies, we have decided to revise our questionnaire within the next two years and to implement an extended reporting system for sustainability and CSR in the Sto Group.

### Structures and regulations for sustainability

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



From fiscal 2017 onwards, capital market-oriented companies with more than 500 employees and total assets of more than EUR 20 million or a turnover of more than EUR 40 million in Germany are required to disclose non-financial information. Due to this so-called CSR disclosure rule we have modified our disclosure structure and provide more direct and detailed information on the specific aspects we are to cover as part of non-financial

reporting (see Part B). We use the UN Global Compact as the basis which is named in the European CSR Directive and the explanatory memorandum to the German CSR Directive Implementation Act as one of the international frameworks on the basis of which a CSR report can be prepared.

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



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

- Goal 3: Ensure healthy lives and promote well-being for all at all ages.
- Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all.
- Goal 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation.
- Goal 11: Make cities inclusive, safe, resilient and sustainable.
- Goal 12: Ensure sustainable consumption and production patterns.
- Goal 13: Take urgent action to combat climate change and its impacts.



Since 2014, Sto has participated in the sustainability initiative **Chemie<sup>3</sup>** in Germany, which was initiated jointly by the German Chemical Industry Association (VCI), the Mining, Chemical and Energy Industrial Union (IG BCE), and the German Federation of Chemical Employers' Associations (BAVC). It encompasses important guidelines for sustainable development in Germany's chemical industry and provides various tools for implementing these in practice. Also in 2017, Sto participated in the activities carried out by the initiative, made use of various Chemie<sup>3</sup> events to engage in discussions on examples of best practice, and performed the "Chemie<sup>3</sup> Sustainability Check" in various European Sto companies. Taking the form of a workshop, this check involves a self-evaluation of more than 30 areas of activity within the company, an analysis of strengths and weaknesses, as well as specific areas of responsibility and measures that have been derived on the basis of this information. Building on existing management processes as well as company- and product-related measures, an overall picture emerges in which all sustainability activities of a company can be recorded, discussed and, if necessary, realigned. We are rolling out these activities to the entire Group in order to determine and document company-specific measures. The regionally different levels of maturity and the new disclosure rules must be taken into account. This means that we have to adjust the 2018 sustainability check and make it usable for a global reporting system.



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

activities of companies based in Baden-Württemberg.

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



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

#### Key sustainability factors

In addition to the Chemie<sup>3</sup> sustainability check we use our **Sustainability Compass** in order to perform a concrete evaluation of single sustainability activities at company and product level. Not only does this tool ensure that all aspects of sustainability are taken into consideration, it also provides a source of support during decision-making processes in accordance with our corporate mission of "Building with conscience." Since different criteria often have to be weighed up, the Sustainability Compass helps us create a four-dimensional mindset encompassing Ecology, Economy, Social aspects,

and Well-being, and arrive at the best possible solution. This approach gives a pivotal role to not only the values that define the main areas of focus and the direction in which decisions are made, but also the information that enables analysis and evaluation to remain as objective as possible.



### Dialogue with stakeholders

Maintaining dialogue with our stakeholders is an exceptionally important part of our sustainability efforts. We do this in a variety of formats in order to accommodate the many different subjects that are raised, often in specialist or product-specific areas. These include our own colloquiums involving architects, planners, tradesmen, and energy suppliers, as well as events held by and with market partners, and a range of trade fairs – another area in which sustainability is becoming an increasingly pressing issue. Key areas of focus in 2017 were, for example, dismantling and recycling building materials, healthy living spaces, and sustainable construction with suitable building products.

The fact that Sto won gold at the Architects' Darling Awards in the category of external wall insulation systems at the end of 2016, and that it was named the preferred brand of German

architects in the "Areas of paints and renders" in the BaulInfoConsult Annual Report (03/2017) in 2017 is a confirmation of our commitment. We also received the Stein-im-Brett Award (04/2017) from the Münster-based construction information company ibau. For this, nearly 2,500 tradesmen evaluated which manufacturers are the most popular and perform the best in 26 product categories. In other words, they were asked which companies were in their good books. In German, this is reflected in the saying "Stein im Brett". With more than 17,000 responses, this award, which was presented for the first time in 2017, is the largest and most comprehensive expression of opinion within the German trade sector so far. 297 companies were assessed with regard to quality, price, application-friendliness, and recommendations.

In 2017, we carried out a stakeholder analysis on the basis of the topics of the Chemie<sup>3</sup> Sustainability Check. We identified the following as relevant stakeholder groups: shareholders, authorities/state, customers/consumers, service providers/suppliers, society/the public, representatives, employees, press/media, and the competition. The "Stakeholder analysis – Sustainability Check" process involves determining and documenting stakeholders' requirements and deriving obligations. At the same time, we are meeting the new requirements relating to the recertification of our environment management system in accordance with ISO 14001:2015 and our quality management in accordance with ISO 9001:2015. The frequency with which the requirements of interested parties are stated is incorporated into the evaluation of the environmental aspects.

We participate in both national and international **trade associations** to discuss important issues that affect different companies, such as new legislation and sustainability criteria for building products, the harmonisation of product directives, or the grading of hazardous materials. For example, Sto is a member of the

German Sustainable Building Council (DGNB) e.V. and served on its advisory board for building products in 2017. In Austria, Sto is a partner of the Austrian Sustainable Building Council (ASBC). At association level, Sto takes part in the "Sustainable Building" working group of Deutsche Bauchemie e.V. (German Association for Manufacturers of Construction-chemical Products), the "Sustainability" working group of the Verband der deutschen Lack- und Druckfarbenindustrie e.V. (German Paint and Printing Ink Industry Association, VdL), the new Verband für Dämmsysteme, Putz und Mörtel e.V. (Association for Insulation Systems, Renders, and Mortars, VDPM) which formed as a merger between the Industrieverband WerkMörtel e.V. (Trade Association for Factory-Made Mortar, IWM) and the Fachverband Wärmedämmverbundsysteme e.V. (Professional Association for External Wall Insulation Systems, FV WDVS) in 2017, as well as the European umbrella associations in each area (such as FEICA, CEPE, EMO, and EAE). Furthermore, Sto has been member of the newly founded Bundesverband energieeffiziente Gebäudehülle (Federal Association for Energy-efficient Building Envelopes, BuVEG) since 2017. This association promotes the potentials that building envelopes have for the urban culture, good living and work spaces, and the economical use of energy.

Sto also maintains a direct dialogue with non-governmental organisations (NGOs), experts, media representatives, and research institutions. We exchange views on the latest sustainability issues in the construction industry and the specific desires and demands being expressed by society, politics, and our market partners. The Österreichisches Institut für Baubiologie und Bauökologie (Austrian Institute for Building Biology and Building Ecology, IBO) in Vienna and the IG Passivhaus Tirol (Tyrolean Passive House Union), which connects experts from the building industry and would like to establish the passive house concept as a new standard,

are doing important scientific and practical work in the fields of building biology and building ecology. Additional key sources of momentum and opinions are provided at and by events held as part of the Chemie<sup>3</sup> sustainability initiative as well as those held by the initiating associations VCI, IG BCE, and BAVC, the national networks of the Global Compact, and the regional meetings of the Wirtschaftsinitiative Nachhaltigkeit (Economic initiative for sustainability).

### Product Information

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

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

### Labels & certificates

Environmental labels and certificates such as The Blue Angel (Der Blaue Engel), TÜV, and natureplus<sup>®</sup> are primarily aimed at end consumers, private consumers, and public procurers. For building certification systems such as the one provided by the DGNB, environmental certificates are often used as proof of a particularly high ecological standard. Products are

evaluated based on various criteria defined by the relevant issuing authority.

Sto exclusively uses recognised test seals and seals of quality, and has had a large number of products certified in the areas of thermal insulation, facade coating, and interiors; recertification is carried out where a certification has expired. The natureplus® eco-label for EWIS confirms not only that the products efficiently save energy, but also that stricter energy efficiency requirements are fulfilled in the product's production, environmental properties, and substances in the system components. The Blue Angel (Der Blaue Engel) for EWIS certifies the use of materials which result in less of an impact on the environment compared with other products within their product group, and which contain no harmful substances requiring disposal, demonstrate excellent durability, and are installed in accordance with statutory regulations.

A large part of our interior product range carries the TÜV seal of quality awarded by TÜV SÜD – “low-emission, physiologically harmless, and production monitored” – or has been tested for harmful substances in accordance with Oeko-Tex® standard 100. Several of our products are also natureplus®-certified, meaning that they adhere to the very strictest criteria in respect to their composition, substance prohibitions, substance restrictions (emissions), raw material extraction, pre-product manufacturing, production, and processing.

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



The numerous eco-labels available in the form of private and public product labels are posing an increasing challenge. In most cases, they are only recognised at national level and can therefore only offer added value in a single market. As a result, products that have already been labelled would then have to be given eco-labels from a range of different regions or their certificates would require additional declarations. This is one of the major reasons why we have stepped up the provision of Sustainability Data Sheets.

#### Sustainability Data Sheets

The voluntary self-declaration in the form of Sustainability Data Sheets, which we specifically developed ourselves, plugs gaps that may be left by existing product information or eco-labels, and meets the increasing demand for concrete, product-specific data on ecological and health-related criteria. Spanning around four pages, the Sustainability Data Sheets provide all the key information on the DGNB and LEED building certification systems, as well as ingredients, emissions, and other environmental aspects. Like our Technical Data Sheets and Safety Data Sheets, our Sustainability Data Sheets are available to download free of charge or can be shipped directly upon request. Sustainability Data Sheets in 18 different languages were available for over 400 Sto products as at the end of 2017.

#### Environmental Product Declarations (EPDs)

Environmental Product Declarations (EPD) in accordance with EN 15804 represent a third building block in our efforts to provide information about the sustainability of Sto products. Central to these declarations is a Life Cycle Assessment (LCA) as well as additional information, e.g. about aspects such as the production process, service life, and provisions for recycling of a product over its entire life cycle. EPDs are purely informative and do not assess a product,

but require verification from an independent third party. This internationally valid document explains numerous building product properties from an environmental perspective and provides useful data for determining a building's sustainability, a factor that primarily depends on the building material used. There is a demand for EPDs for building certifications in accordance with LEED and DGNB, especially on the Scandinavian market.

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

However, as part of its consumer protection efforts, the European Union wishes to promote the provision of individual, product-specific, ecological parameters and launch a standardised eco-label on the European market that is based on a life cycle assessment. The European Commission has initiated the Product Environmental Footprint (PEF) to this end. Sto was informed of the pilot projects in order to follow their development in a timely manner and to provide expert information and feedback. In 2018, the EU is planning to decide whether these product labels should be placed on the European market – and if so, in what format – as well as the role that existing EPDs in line with EN 15804 will play.

This development is relevant with regard to the comparison of the environmental performance of individual construction products, in particular the so-called "grey energy" and the CO<sub>2</sub> balance, as envisaged, for example, by the European Commission or the DGNB. In future, planners, architects and consumers are to select building products not only according to technical, economic and aesthetic parameters,

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

## Part B

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



#### THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.
7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.
10. Businesses should work against corruption in all its forms, including extortion and bribery.

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

With the increasing globalisation of the economy, both our sales markets and the procurement channels for raw materials and intermediate products have changed. It is in our interest that all actors along the value chain are guided by the principle of sustainability, including in particular the observance of international human rights and labour standards.

Compliance with legal and ethical standards is integral to our understanding of good corporate governance. The principles laid down in our mission statement and in the UN Global Compact, our "Principles of Cooperation and Management within the Sto Group", the strategic Group goals as well as the general obligation to comply with the law apply to our own sites and companies. We obtain information on deviations and corresponding countermeasures via our annual "CSR inquiry".

In order to identify and avoid human rights violations, appropriate data and information are required. Complaints mechanisms that are accessible to those potentially affected are an essential part of providing the necessary data. With the introduction of a whistleblower system for compliance infringements, we have been offering such a standardised complaints mechanism since 2017. This is described in more detail under Principle 10 "Anti-Corruption".

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

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

We also require our suppliers to accept the Global Compact principles and thus assume certain minimum obligations. We procure the majority of our raw materials from countries that have implemented high social standards

which they also monitor. Through our "Supplier Code of Conduct", we generally demand voluntary self-commitment to the above standards and principles and use a questionnaire to obtain information on the compliance with them. Due to the complexity of today's supply chains, we are evaluating the participation in a suitable industry-specific initiative, such as the chemical industry's "Together for Sustainability" initiative, to further promote "Sustainability in the supply chain".

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

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

### **Information on the Principles 7 to 9: Environment**

Environmental protection is an essential aspect of our sustainability activities. Our products contribute to minimising the environmental impact of buildings, e.g. through energy-saving insulation measures, the protection of the building envelope, and measures to maintain the building fabric. We are also actively working to minimise the environmental impact of our products, our production and our corporate activities, for example by using renewable energy, using resources sparingly and avoiding waste.

### **Climate protection**

We see climate protection as a focal point of our activities. Of particular relevance for the German market is the Climate Protection Plan 2050 adopted by the German government in November 2016. The goal of this plan is to achieve an almost climate-neutral building stock by 2050. This calls for demanding new building standards and long-term renovation strategies for existing buildings as well as a gradual shift away from fossil heating systems. Sto believes that the plan reinforces the direction in which the company is moving, and that its high-quality facade insulation systems do their part to ensure that the energy demand for buildings decreases significantly, and that more than 300 million tonnes of CO<sub>2</sub> emissions have been avoided since 1965 by using Sto products and systems.

In 2016, we introduced an **energy management system** in line with the global ISO 50001 standard in order to provide a methodical tool for recording, implementing, and tracking all the climate protection activities taking place in the Sto Group. In doing so, we have laid the foundations for a continuous improvement process relating to energy efficiency, and also ensured that we were meeting the legal requirements for performing energy audits in accordance with EN 16247-1. As at the end of 2017, the

company headquarters in Stühlingen as well as five production locations, 84 SalesCentres, and four subsidiaries including external warehouses and branch factories had a certification. The systems that have been implemented ensure that the use and purchase of renewable sources of energy are constantly monitored, and that energy consumption and the CO<sub>2</sub> emissions of our fleet of vehicles are permanently reduced. Energy efficiency measures implemented in buildings and investments are also monitored, and we encourage employees to play an active role in all our initiatives for saving energy. Our medium-term goal is to be able to identify verifiable changes via our energy management system. In an upstream step, we focus on creating measurement concepts with corresponding key figures, some of which still need to be standardised, and on optimising the measurement.

With the **reception and office building** inaugurated by Sto in 2016 at the location in Stühlingen-Weizen/Germany, which was built to the zero-energy standard and certified with platinum to the highest standard of the German Sustainable Building Council (DGNB), we are demonstrating that high standards can already be implemented today with our construction products. Where the KfW standard for efficient buildings is concerned, our building is approximately 60 % below the guide values for new buildings, and it uses three times more renewable energy than is legally required by the German Renewable Energy Heat Act (EEWärmeG 2011) which is thanks to our rainscreen photovoltaic facade, amongst others. Furthermore, it already meets the energy standard for new buildings which will become law for the public sector in 2019 and for private building owners in 2021 (EU minimum energy buildings).

We are not the only ones who consider solar technology in facade elements an important innovation for increasing the energy efficiency of buildings. The Architekturpreis Gebäudein-

tegrierte Solartechnik (Architecture Award for Building-integrated Solar Technology) honours "outstanding contributions to the planning and design of building-integrated solar systems". 134 projects from 26 countries were entered in the competition, which was held for the seventh time in 2017 by the Solarenergieförderverein Bayern e.V. (Bavarian Association for the Promotion of Solar Energy). Among the 15 projects on the shortlist were three buildings with our StoVentec ARTline Invisible system: the reception and office building in Stühlingen/Germany, the Probstei Church St. Trinitatis, in Leipzig/Germany and the Grosspeter Tower in Basel/Switzerland.

### Climate protection on product level

Another measure to protect our climate on product level are our CO<sub>2</sub>-neutral products. Based on an Environmental Product Declaration, we calculate the CO<sub>2</sub> emissions generated during raw material supply and production in the case of these products, and balance the them with emission certificates that benefit a climate protection project. In 2017, we made the StoColor Dryonic and StoColor Solical facade paints as well as the StoSilco® blue render climate-neutral via ClimatePartner.



The relevant certificates were used to support a hydropower project in Madagascar. Overall, a total volume of over 1,200 tonnes of CO<sub>2</sub> have been compensated for in 2017. In Austria we also made our products StoColor Sil In and StoColor Climasan for interiors as well as StoColor Lotusan and StoSilco® blue for the facade climate-neutral via certificates of the ecoregion of Kaindorf. Through the targeted build-up of humus in the Kaindorf ecoregion, depleted soils are made fertile again, the water absorption capacity is increased and wash-offs are reduced. As a result, up to 36 tonnes of CO<sub>2</sub> per hectare of arable land are bound in the form of humus every year and stored in the soil in the long term. Our StoTherm Wood insulation system is not only climate-neutral, but also climate-improving: photosynthesis and storage of CO<sub>2</sub> during the growth phase of a tree means that the insulation board made of wood as a raw material compensates significantly more CO<sub>2</sub> than is emitted during its manufacture.

### **Mobility, logistics, and procurement**

Mobility represents another key area of climate protection in terms of reducing kilometres, fuel and CO<sub>2</sub>. With the help of modern monitoring systems we optimise truck and transport routes, ensure an solid degree of utilisation, and promote economical and environmentally conscious driving at Sto. By producing building products regionally we avoid many transport kilometres. In Villach/Austria, for example, local production compared with imports from Germany means that 315,000 truck kilometres are avoided at an annual production volume of 8,000 tonnes of material, which corresponds to savings of over 94,000 litres of diesel and a reduction in CO<sub>2</sub> emissions of around 550 tonnes per year.

The make-up of our vehicle fleet also helps us to continuously reduce emissions: the mean CO<sub>2</sub> emission value for newly ordered cars in the Sto Group in Germany is at 116 g/km, while the

value in 2016 was at 117 g/km, in 2015 at 123 g/km, and in 2014 at 127 g/km. This equates to a reduction of more than 8.0 % within three years. In addition, we are investing in e-vehicles to test new, environmentally friendly forms of individual mobility – not least to secure locations in rural areas where there are hardly any alternatives to individual means of transport. For business trips by train, Sto employees use the BahnCard Business which guarantees mobility in long-distance trains within Germany using 100 % green electricity. In order to avoid travel-related emissions and costs, we have also installed video conference rooms worldwide – in 2017 such systems were available at 36 locations. These systems are used very actively.

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. In Germany, around 72 % of the purchasing volume of the main raw materials, such as mineral extenders, and packaging are procured within a maximum radius of 350 km and insulation boards usually within a maximum radius of 250-300 km.

Our climate protection activities are also attributable to procurement through the consistent sourcing of certified green electricity from 100 % hydropower. This made it possible to save 6,571 tonnes of CO<sub>2</sub> in 2017 when compared to the German electricity mix.

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

that hazards are identified at an early stage and measures are initiated.

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

#### **Environmental management systems**

An important element of corporate environmental protection are our established environmental management systems. More than half of our production sites worldwide are externally certified in accordance with international standards such as ISO 14001. The implemented systems ensure a methodical and verifiable group-wide approach and allow the continuous identification of improvement measures, which is an essential requirement for optimum control of business operations.

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

Within the scope of the certificates 9001 and 14001 (DQS-AZ: 003651), no deviations from legal requirements were identified by internal audits in 2017. No deviations are currently reported by the operators. Compliance with the contents of the quality and environmental management systems at the relevant locations, including occupational health and safety, infrastructure and buildings, security, environmental protection and obligations, has been substantiated through safety-related supervision.

#### **Environmental and resource protection on product level**

Aspects of environmental and resource protection also play an important role in our products. The majority of Sto products are coatings which are used to protect buildings. This is, in itself, one of the most important contributions we make towards sustainability as far as durability, weather protection, building preservation, and, therefore, resource protection are concerned. Without a protection layer, buildings would age much more quickly and then require refurbishment many years earlier than anticipated. Additionally, our especially hard-wearing coatings help protect the rain screen of insulated buildings from external influences – an increasingly important factor to consider given the rising number of storms and occurrences of heavy rainfall with accompanying hailstorms worldwide.

We see a challenge in the fact that the positive contribution of Sto products to climate and building protection is not recognised to the desirable extent and is therefore not fully exploited. This applies in particular to the German market. Controversial discussions about the use of external thermal insulation systems have arisen as a result of contradictory and sometimes much exaggerated media coverage with partially inaccurate information. These have caused uncertainty among private building owners and have led to losses of business. These discussions were intensified in 2017 by the catastrophic fire at Grenfell Tower in London, which triggered an international debate on fire protection of insulated facades, although no external wall insulation system had been used for Grenfell Tower. We counter this sometimes critical and often unobjective reporting with technical and factual information and education, for example within the framework of the “Dämmen lohnt sich” (Insulation is worth it) campaign of Qualitätsgedämmt e.V. (Association for Quality Insulation), in which we

are actively involved. We seek a direct dialogue with our stakeholders such as customers, planners, architects, investors, representatives of environmental associations and politicians, for example in specialist committees for the building industry.

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

Our facade paint StoColor Dryonic won second place at the 2017 GreenTec Awards in the category "Building & Living" for having avoided the use of biocides as film protection agent. Its biomimetic active principle ensures dry facades which are thus protected from algae and fungi. StoColor Dryonic was also nominated for the Umwelttechnikpreis 2017 (Environmental Technology Award) in Baden-Württemberg, which recognises innovative, novel technologies that contribute to resource efficiency and environmental protection.

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

Our activities to make our products easier and better to dismantle and recycle have formed a focal point in 2017. We regard

this as a major future trend in the construction industry. In particular, these activities include the market launch of our innovative facade insulation system StoSystain R, which enables significantly optimised separation, reuse and recycling of the main components by means of a hook-and-loop fastening technology. The "Innovationspreis Bauwesen + Architektur" (Innovation Award for Construction + Architecture), which is awarded for products that especially meet the requirements of architects and which is presented at BAU, the world's leading trade fair, honoured this insulation system with the title "Special Award" in 2017.

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

We attach special importance to developments in the area of dismantling and recycling methods for polystyrene – not least because of the difficult disposal situation of EPS insulation boards in Germany. After EPS waste with HBCD was classified as "hazardous waste" in autumn 2016, this classification was withdrawn in July 2017. This means that thermal recycling of EPS waste with HBCD is again possible without



Energy-efficient refurbishment of the Technology Center at the Villach location using the innovative StoSystem R hook-and-loop fixing system

restrictions – the only requirement is the maintenance of proof of a safe disposal. In 2017, the solvent-based Solvolyse method (CreaSolv® process) has moved from the planning to the implementation phase. This is a method for material recycling of EPS insulation boards and other products made of polystyrene. The first plant with a capacity of 3,000 tonnes of EPS waste per year is to be built in the Netherlands by the end of 2018 as part of the “PolyStyreneLoop Cooperative”. Thus, in addition to thermal recycling in waste incineration plants, a material recycling option for EPS waste with HBCD will soon also exist.

#### **Information on Principle 10: Anti-Corruption**

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

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

In 2017, Sto introduced a reporting channel in case of compliance infringements. This reporting channel is publicly accessible via our website. Reliable reporting of compliance

infringements and the protection of whistle-blowers against sanctions are indispensable for effective compliance, as they contribute to the reporting, comprehensive investigation and clarification of possible misconduct. The online compliance reporting system is a secure way of reporting possible infringements. This way, infringements can be recorded at any time any day. The system can be used by employees and managers as well as customers, suppliers, and other stakeholders. The system is technically operated by an independent operator; the data are saved on protected servers in Germany. The contents of the reports are only processed by Sto. More information is available on the landing page of the reporting system on our website [www.sto.de](http://www.sto.de).

## **Part C Assumption of responsibility through voluntary commitment**

### **Social commitment, and donations**

Sto attaches great importance to voluntary initiatives and measures that serve the good of society. They form part of our basic understanding of Corporate Social Responsibility and have a long tradition in the company. In 2017, again many activities took place. We will report on a few of them.

The Bright Hill Pre-School in Windhoek/Namibia is one of the international projects that Sto has supported for many years. With our financial support, the headmistress successfully completed her training, and the school grounds were laid with paving stones to protect them from heavy rain. Around 120 children are cared for in pre-school in the mornings and learn English in order to be able to attend a state school later. The institute also assists old people and those who need help who live in the slums of Windhoek.

A charitable project in northeastern Morocco, to which we have been committed since 2012 and which we supported extensively with planning, materials and expert knowledge in 2017, was specifically further developed. In this region, children are born with a cleft lip, jaw or palate to an above-average degree. So far there are no specialists and no suitable clinics, and not many people can afford the necessary operations in the capital city. With the support of the London-based non-profit organisations Operation Smile and Article 25, which help disadvantaged people and people in need, a new dental clinic is being built in the Moroccan city of Oujda to treat children born with malformations. For the project, Sto provided an

Sto supports the non-profit organisations Operation Smile and Article 25: A special clinic is being built in the Moroccan city of Oujda. It was insulated with a Sto facade system and features Sto products in the interiors.



external wall insulation system designed to ensure a balanced indoor climate and low energy consumption, easy-to-clean high-quality floor coatings, sound-absorbing acoustic ceilings as well as low-emission wall coatings. The building and the clinic are to be completed and inaugurated in 2018 and will provide professional medical help to more than 600 families in this poverty-stricken region every year.

In 2017, we have entered a special socio-ecological commitment with the non-profit integration company AfB gGmbH, which specialises in reprocessing discarded IT hardware and returning it into the use cycle. Half of the 250 workplaces in this company are held by people with disabilities. The devices we handed over and that were prepared for reuse, provided for a workplace and saved 1,630 iron equivalents, 4,772 kWh of energy, and 1,728 kg CO<sub>2</sub> equivalents. Another collaboration is planned for 2018.

Sto's annual social project carried out by trainees at the Stühlingen location benefited the association Jung & Alt Mauchen (Young & Old Mauchen) in 2017. With the hands-on help of 24 trainees, an old inn in Stühlingen-Mauchen/Germany was renovated and transformed into a modern venue for the association as well as a meeting place. With this commitment as well as a donation, the trainees supported the non-profit association, which has been committed to the people in the region since 2012 in order to make life easier for the older generation in their accustomed rural environment. The association is also active in infant care.

In addition, numerous smaller fundraising campaigns took place in 2017. For example, Sto Ges.m.b.H. in Austria held a fundraising campaign for people in need, and Verotec GmbH for "Lebenswertes Lauingen".

Sto celebrated a sporting anniversary in 2017 with 20 years of the Stolympics. The Sto Sports Club hosted the International Stolympics in and

around Stühlingen-Weizen for the eighth time. Around 100 employees and their relatives from Germany, Austria, Switzerland, and Sweden competed in five different sport disciplines before meeting up later on for a relaxed get-together.

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

### Sto Foundation – Knowledge helps all over the world



Under the motto "Wissen hilft" (Knowledge helps), the Sto Foundation focuses on the future through education. This overarching purpose of the Sto Foundation resumes the Mission Statement "Building with conscience." of Sto SE & Co. KGaA and aims to raise the awareness of construction companies and workers for environmentally compatible and human design of living spaces. In concrete terms, the Foundation has been supporting young people in sectors of

particular importance to Sto for 13 years – the painting and plastering trades on the one hand, and students of architecture and civil engineering on the other. Since the establishment of the Foundation in 2005, more than four million euros have been provided for a large number of different support measures. The prerequisites for funding are top performance and talent of the young people on the one hand, and the need for economic support during the training on the other.

Today, anyone who wants to reach young people communicatively, regardless of their professional orientation, should adapt to their dialogue habits. During the reporting period, the Foundation therefore relaunched its website [www.sto-stiftung.de](http://www.sto-stiftung.de) with the aim of making all information formats available in all conceivable output formats, such as smartphones. The website now has a modern look, can successfully make use of all common social media platforms for communication purposes, and has made the work of the Foundation accessible, e.g. via videos. In comparison to 2015, the number of visits to the website tripled from around 7,600 to 27,000. Page views within the website doubled from around 33,000 to 64,000.

Many young craftspeople successfully climb the educational pyramid of the Sto Foundation, from an apprenticeship to university studies. Maximilian Prix is a prime example: with financial support from the Sto Foundation,



Maximilian Prix, winner of the Sto Foundation's best-of-the-best competition, is interviewed by Anne Bambauer, Foundation Commissioner in Germany.

the Austrian first passed one of the best journeyman examinations in the country in 2017 and is now taking the step of further training as a master painter.

Young scholarship holders in the area of paint and lacquer technology are also on their way to the top of the educational pyramid. With a scholarship for one student each at now seven technical colleges in Germany, the Sto Foundation supports them in their two-year further training.

The students of paint and lacquer technology who received a scholarship from the Sto Foundation came together at a scholarship seminar in Potsdam/Germany.



Students of architecture, interior design, and construction are confronted with very different realities at international summer schools. The excursions supported by the Foundation over the years have already taken students to all regions of the world to plan and implement non-profit building projects on site. The focus is always on aspects of sustainable planning and construction, getting to know foreign building and social structures, but also on teamwork with local volunteers, which is sometimes not easy in terms of language. Other summer schools deal with the manifold problems of people trying to build a new homebase in Germany.

Future Maker/s Future Market/s is one of four winning project at the 2017 summer school competition. In Berlin-Lichtenberg/Germany, 20 students and young professionals from 14 different countries explored the skills, talent and knowledge of 200 "newcomers" in

the "Gemeinschaftsunterkunft Bornitzstraße" (Collective living quarters) with the aim of activating these skills. They want to create spaces to meet, interact and become professionally independent.



Future Maker, Ahmad Almahairy, and residents of the collective living quarters in the Bornitz street locate spatial reserves and potentials on the model.



With its book "on going – Students building for the community", the Sto Foundation has produced a guideline for students and teachers planning summer schools with DIY projects. The book shows a multitude of such projects and gives tips for their planning and implementation.

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

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

## Sto SE & Co. KGaA, Stühlingen/Germany

# Consolidated statement of profit and loss for 2017

	Notes	2017 EUR	2016 EUR K
1. Revenue	(1)	1,277,397,524.59	1,230,673
2. Changes in product inventories		-278,203.98	-136
3. Other internally generated assets capitalised	(2)	68,138.84	380
<b>Total revenues</b>		<b>1,277,187,459.45</b>	<b>1,230,917</b>
4. Other operating income	(3)	27,284,588.95	25,291
5. Cost of material	(4)	-570,601,677.54	-534,605
6. Personnel expenditure	(5)	-341,800,142.01	-348,910
7. Other operating expenses	(6)	-274,752,868.53	-269,737
<b>EBITDA (earnings before interest, taxes, depreciation and amortisation)</b>		<b>117,317,360.32</b>	<b>102,956</b>
8. Depreciation and amortisation of intangible assets as well as property, plant, and equipment	(7)	-33,345,851.65	-32,693
<b>EBIT (earnings before interest and taxes)</b>		<b>83,971,508.67</b>	<b>70,263</b>
9. Income from assets accounted for using the equity method	(8)	0	-349
10. Interest and similar income	(9)	725,623.79	997
11. Interest and similar expenditure	(9)	-2,534,876.63	-2,817
<b>EBT (earnings before taxes)</b>		<b>82,162,255.83</b>	<b>68,094</b>
12. Taxes on income and earnings	(10)	-26,337,833.85	-22,443
<b>EAT (earnings after taxes)</b>		<b>55,824,421.98</b>	<b>45,651</b>
of which:			
Share of minority interests		293,484.14	-358
Share attributable to the shareholders of Sto SE & Co. KGaA		55,530,937.84	46,009
Earnings per share basic/diluted in EUR			
Limited ordinary share	(11)	8.62	7.14
Limited preference share	(11)	8.68	7.20

## Sto SE & Co. KGaA, Stühlingen/Germany

# Consolidated statement of comprehensive income 2017

	2017 EUR	2016 EUR K
<b>EAT (earnings after taxes)</b>	<b>55,824,421.98</b>	<b>45,651</b>
Currency translation:		
Currency translation differences	-6,842,481.18	690
Deferred taxes	0.00	0
<b>Currency translation differences after taxes</b>	<b>-6,842,481.18</b>	<b>690</b>
<b>Earnings to be reclassified in the statement of profit and loss in future periods</b>	<b>-6,842,481.18</b>	<b>690</b>
Actuarial gains or losses:		
Gains/losses from the revaluation of defined benefit plans	-4,255,577.90	-2,693
Deferred taxes	1,138,479.82	820
<b>Earnings not to be reclassified in the statement of profit and loss in future periods</b>	<b>-3,117,098.08</b>	<b>-1,873</b>
<b>Other earnings after taxes</b>	<b>-9,959,579.26</b>	<b>-1,182</b>
<b>Total comprehensive income after taxes</b>	<b>45,864,842.72</b>	<b>44,468</b>
of which:		
Share of minority interests	309,398.39	-486
Share attributable to the shareholders of Sto SE & Co. KGaA	45,555,444.33	44,954

For further explanations concerning equity, see Note (20).

## Sto SE &amp; Co. KGaA, Stühlingen/Germany

**Consolidated statement of the financial situation as at 31 December 2017**

Assets	Notes	<b>31 December 2017</b> EUR	31 Dec 2016 EUR K
<b>A. Non-current assets</b>			
I. Intangible assets	(12)	49,087,299.34	49,823
II. Property, plant, and equipment	(13)	254,297,025.63	258,486
III. Financial assets accounted for using the equity method	(14)	11,020,000.00	0
<b>Fixed assets</b>		<b>314,404,324.97</b>	<b>308,309</b>
IV. Non-current trade receivables	(16)	1,207,655.47	1,209
V. Non-current income tax receivables			126
VI. Non-current financial assets	(17)	1,174,604.57	393
VII. Other non-current assets	(18)	415,941.04	1,067
VIII. Deferred tax assets	(10)	19,580,328.38	17,277
<b>Other non-current assets</b>		<b>22,378,529.46</b>	<b>20,072</b>
<b>Total non-current assets</b>		<b>336,782,854.43</b>	<b>328,381</b>
<b>B. Current assets</b>			
I. Inventories	(15)	96,739,679.76	92,542
II. Current trade receivables	(16)	124,978,068.70	122,465
III. Current income tax receivables		2,552,377.50	6,208
IV. Current financial assets	(17)	76,453,505.83	72,575
V. Other current assets	(18)	27,667,951.06	21,973
VI. Cash and cash equivalents	(19)	84,422,392.51	70,071
<b>Total current assets</b>		<b>412,813,975.36</b>	<b>385,834</b>
<b>Total assets</b>		<b>749,596,829.79</b>	<b>714,215</b>

Liabilities	Notes	31 December 2017 EUR	31 Dec 2016 EUR K
<b>A. Equity</b>			
I. Subscribed capital	(20)	17,556,480.00	17,556
II. Capital reserves	(20)	57,803,590.41	57,804
III. Revenue reserves and other reserves	(20)	367,006,979.04	342,488
<b>Share attributable to the shareholders of Sto SE &amp; Co. KGaA</b>		<b>442,367,049.45</b>	<b>417,848</b>
IV. Share of minority interests	(21)	7,777,314.98	7,372
<b>Total equity</b>		<b>450,144,364.43</b>	<b>425,220</b>
<b>B. Non-current provisions and liabilities</b>			
I. Provisions for post-employment benefits and similar liabilities	(22)	99,093,627.69	93,231
II. Deferred tax liabilities	(10)	2,289,229.72	2,070
III. Other non-current provisions	(23)	14,625,202.42	13,284
IV. Non-current borrowings	(24)	2,032,452.85	1,121
V. Non-current trade payables	(25)	354,568.77	0
VI. Non-current financial liabilities	(26)	316,000.00	741
VII. Other non-current liabilities	(27)	8,442.18	28
<b>Total non-current provisions and liabilities</b>		<b>118,719,523.63</b>	<b>110,475</b>
<b>C. Current provisions and liabilities</b>			
I. Other current provisions	(23)	48,887,579.02	44,386
II. Current borrowings	(24)	9,756,677.77	13,498
III. Trade payables	(25)	46,034,974.56	46,446
IV. Current income tax liabilities		2,239,864.96	3,004
V. Current financial liabilities	(26)	28,472,279.41	27,788
VI. Other current liabilities	(27)	45,341,566.01	43,398
<b>Total current provisions and liabilities</b>		<b>180,732,941.73</b>	<b>178,520</b>
<b>Total debt capital</b>		<b>299,452,465.36</b>	<b>288,995</b>
<b>Total assets</b>		<b>749,596,829.79</b>	<b>714,215</b>

## Sto SE & Co. KGaA, Stühlingen/Germany

### Statement of changes in equity as at 31 December 2017

in EUR K	Subscribed capital	Capital reserves	Equity attributable to the shares		
			Revenue reserves	Currency translation reserve	Reserve for pensions
<b>As at 01 January 2016</b>	<b>17,556</b>	<b>57,804</b>	<b>365,454</b>	<b>10,831</b>	<b>-24,634</b>
EAT (earnings after taxes)	0	0	46,009	0	0
Other earnings (after taxes)	0	0	0	690	-1,746
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>46,009</b>	<b>690</b>	<b>-1,746</b>
Dividend payout	0	0	-31,061	0	0
Deposit by associates	0	0	0	0	0
Minority shares from corporate acquisition	0	0	0	0	0
<b>As at 31 December 2016</b>	<b>17,556</b>	<b>57,804</b>	<b>380,402</b>	<b>11,521</b>	<b>-26,380</b>
<b>As at 01 January 2017</b>	<b>17,556</b>	<b>57,804</b>	<b>380,402</b>	<b>11,521</b>	<b>-26,380</b>
EAT (earnings after taxes)	0	0	55,531	0	0
Other earnings (after taxes)	0	0	0	-6,842	-3,133
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>55,531</b>	<b>-6,842</b>	<b>-3,133</b>
Dividend payout	0	0	-21,037	0	0
Deposit by associates	0	0	0	0	0
Minority shares from corporate acquisition	0	0	0	0	0
<b>As at 31 December 2017</b>	<b>17,556</b>	<b>57,804</b>	<b>414,896</b>	<b>4,679</b>	<b>-29,513</b>

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

Treasury stock	of the parent company Total	Share of minority interests	Total equity
<b>-23,055</b>	<b>403,956</b>	<b>744</b>	<b>404,700</b>
0	46,009	-358	45,651
0	-1,056	-127	-1,183
<b>0</b>	<b>44,953</b>	<b>-485</b>	<b>44,468</b>
0	-31,061	0	-31,061
0	0	0	0
0	0	7,114	7,114
<b>-23,055</b>	<b>417,848</b>	<b>7,373</b>	<b>425,220</b>
<b>-23,055</b>	<b>417,848</b>	<b>7,373</b>	<b>425,220</b>
0	55,531	293	55,824
0	-9,975	16	-9,959
<b>0</b>	<b>45,556</b>	<b>309</b>	<b>45,865</b>
0	-21,037	0	-21,037
0	0	96	96
0	0		0
<b>-23,055</b>	<b>442,367</b>	<b>7,778</b>	<b>450,144</b>

## Sto SE & Co. KGaA, Stühlingen/Germany

# Consolidated cash flow statement for 2017

in EUR K	Notes	2017	2016
<b>1. Cash flow from operating activities</b>			
Earnings before income taxes		82,162	68,093
Depreciation of fixed assets	(7)	33,346	32,694
Net profit/loss from disposal of fixed assets		-1,087	-43
Net profit/loss from measurement at equity	(8)	0	349
Net interest income	(9)	1,809	1,820
Income taxes paid		-21,644	-23,943
Change in provisions		7,457	23,880
Change in net current assets		-15,565	-7,459
<b>Cash flow from operating activities</b>		<b>86,478</b>	<b>95,391</b>
<b>2. Cash flow from investment activities</b>			
Investment in property, plant, and equipment, and intangible assets	(12/13)	-32,443	-37,469
Payments for the acquisition of consolidated companies and other business units (less acquired cash and cash equivalents)		0	-10,912
Disbursements for capital increase in joint ventures		0	-349
Payments for the acquisition of investments consolidated using the equity method		-11,020	0
Payments received from other disposal of intangible assets and plant, property and equipment		2,196	1,205
Interest payment received		579	643
Disbursements for financial investments		-54,000	-42,215
Deposits from financial investments		49,723	27,654
<b>Cash flow from investment activities</b>		<b>-44,965</b>	<b>-61,443</b>
<b>3. Cash flow from financing activities</b>			
Deposits from minority shareholders		96	0
Taking out of non-current borrowings		1,000	500
Payments for non-current borrowings	(24/31)	-1,268	-1,283
Payments for current borrowings	(24/31)	-5,739	-28,013
Payments received for current borrowings	(24/31)	2,880	26,250
Dividend distribution	(11)	-21,037	-31,061
Interest payments		-784	-998
<b>Cash flow from financing activities</b>		<b>-24,852</b>	<b>-34,605</b>
Change in cash and cash equivalents from changes in exchange rates		-2,310	-134
<b>Cash and cash equivalents at beginning of period</b>	<b>(19)</b>	<b>70,071</b>	<b>70,862</b>
<b>Change in cash and cash equivalents</b>		<b>14,351</b>	<b>-791</b>
<b>Cash and cash equivalents at the end of period*</b>	<b>(19)</b>	<b>84,422</b>	<b>70,071</b>

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

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

# Sto SE & Co. KGaA, Stühlingen/Germany

## Notes to the consolidated financial statements as at 31 December 2017

### General information

#### 1. Information on the company

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

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

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

The consolidated annual financial statement and management report of Sto SE & Co. KGaA was drawn up on 6 April 2018 by the personally liable partner STO Management SE and will be forwarded to the Supervisory Board of Sto SE & Co. KGaA on 12 April 2018 for approval at the Supervisory Board meeting on 19 April 2018.

#### 2. Basis of preparation

Sto SE & Co. KGaA has prepared its consolidated annual financial statement of the Sto Group for the year 2017 in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and the interpretations issued by the IFRS Interpretations Committee (IFRIC). The supplemental commercial regulations according to Section 315e of the HGB were also applied.

All standards and interpretations subject to compulsory application in fiscal 2017 have been applied.

#### Effects of new accounting standards

The accounting principles applied remained largely unchanged from the previous year. The following new and revised standards and interpretations, which were applied for the first time in 2017, are an exception.

Standards/ Interpretations	Title	Applicable from	Effects on Sto
Changes to IAS 12	Income taxes – Recognition of Deferred Tax Assets for Unrealised Losses	01 January 2017	Insignificant
Changes to IAS 7	Statement of Cash Flows – Disclosure Initiative	01 January 2017	Additional disclosures in the notes

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

##### Accounting standards not applied early

The IASB and IFRIC have issued additional standards and interpretations. These regulations were not applied in the reporting period because either recognition by the EU is still pending or the application was not yet mandatory. The Group intends to apply all standards at the time of their first mandatory application.

Standards/ Interpretations	Title	Applicable from	Effects on Sto
Changes to IAS 19	Employee benefits	01 January 2019	Insignificant
Changes to IAS 28	Long-term Interests in Associates and Joint Ventures	01 January 2019	Insignificant
Changes to IAS 40	Transfers of Investment Property	01 January 2018	Not applicable
Changes to IFRS 2	Classification and Measurement of Share-based Payment Transactions	01 January 2018	Insignificant
Changes to IFRS 4	Applying IFRS 9 with IFRS 4	01 January 2018	Insignificant
IFRS 9	Financial instruments	01 January 2018	Generally of importance
Changes to IFRS 9	Prepayment Features with Negative Compensation	01 January 2019	Insignificant
IFRS 15	Revenue from Contracts with Customers	01 January 2018	Insignificant
Changes to IFRS 15	Clarifications to IFRS 15	01 January 2018	Insignificant
IFRS 16	Leases	01 January 2019	Generally of importance
IFRS 17	Insurance contracts	01 January 2021	Not applicable
Improvements to IFRS (2014-2016)	Amendments to various IFRS (IFRS 1, IFRS 12, and IAS 1)	01 January 2018	Insignificant
Improvements to IFRS (2015-2017)	Amendments to various IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23)	01 January 2019	Insignificant
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01 January 2018	Insignificant
IFRIC 23	Tax risk items from income taxes	01 January 2019	Generally of importance

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.

Financial assets held for trading must be measured at fair value through profit or loss. Equity instruments must also be measured at fair value. However, due to the instrument-specific option which may be exercised at the time the financial instrument is received, fluctuations in value of equity instruments may be recognised under other earnings. In this event, only certain dividend income will be recognised through profit and loss with respect to equity instruments.

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

In the case of impairments, the expected future payment defaults on the portfolio of financial instruments, in particular trade receivables as well as cash and cash equivalents, are to be anticipated by determining a probability of default.

The standard was implemented in European law on 22 November 2016. It is to be applied for the first time in the fiscal year starting on 1 January 2018. Early adoption is permitted. With the exception of accounting for hedges whose provisions are applied prospectively, the standard is to be applied retrospectively. It is not necessary to enter information from the previous year.

The intention is to apply the standard on the mandatory date it comes into effect. A prelimi-

nary assessment based on available information began in fiscal 2016. Overall, the Group does not expect significant effects on the assessment of financial assets and liabilities.

*IFRS 15* was published in May 2014 and introduces a five-step model for accounting revenues from contracts with customers. According to *IFRS 15*, revenues are recognised in the amount of the consideration which a company can expect in return for the transfer of goods or services to a customer (the transaction price according to *IFRS 15*). The effective date of recognition is the time of transferring the goods and services.

The standard will replace all currently existing regulations on revenue recognition in accordance with *IFRS*. For fiscal years starting on or after 1 January 2018, the standard is to be applied either entirely with retrospective effect or with a modified retrospective effect. Early adoption is permitted. The Group intends to apply the standard in a modified version retrospectively on the mandatory date it comes into effect.

The Group began to assess *IFRS 15* in the fiscal year of 2016. This assessment focused on the identification of service liabilities of Group companies to third parties that can be separately identified beyond the balance sheet date. Since the majority of turnover consists of deliveries of goods without additional, separately identifiable liability, the complete delivery of the service and thus also the turnover recognition is generally effected with the delivery of the goods, so that, in principle, there is no liability component due after the balance sheet date. In exceptional cases, service liabilities beyond the balance sheet date due to extensions of the warranty were identified to a small extent, which lead to a corresponding realisation of turnover only upon expiry of the warranty period.

Due to a low number of existing, separately identifiable services liabilities with an effect beyond the balance sheet date, the implementation of *IFRS 15* is not expected to have substantial effects on the assets, financial and earnings situation of the Group.

*IFRS 16* was issued in January 2016 and replaces *IAS 17 (Leases)*, *IFRIC 4 (Determining Whether an Arrangement Contains a Lease)*, *SIC-15 (Operating Leases - Incentives)*, and *SIC-27 (Evaluating the Substance of Transactions in the Legal Form of a Lease)*.

*IFRS 16* defines the principles for recognising, measuring, presenting and disclosing leases and requires lessees to recognise all leases according to a single model similar to the accounting of financing leases in accordance with *IAS 17*. The new standard contains two exceptions from the obligation of accounting recognition for lessees: leases where the underlying asset has a low value (e.g. PCs), and short-term leases (i.e. leases with a lease term of up to 12 months).

Upon lease commencement a lessee recognises a liability for leasing payments (lease liability) as well as an asset for the granted right to use the leased asset during the running period of the lease (right-of-use asset). Lessees have to recognise the interest expense for the lease liability and the depreciation expense for the right-of-use asset separately. Furthermore, lessees have to carry out a reassessment of the lease liability in case of certain events (e.g. change of the lease term or change of future leasing payments due to a change to the index or interest rate used for the definition of the leasing payments). Lessees will generally recognise the amount from the reassessment of the lease liability as adjustment of the right-of-use asset.

As compared to *IAS 17*, *IFRS 16* requires lessees to provide more detailed information.

IFRS 16 is to be applied for fiscal years beginning on or after 1 January 2019. Early adoption is permitted, but only if the company also applies IFRS 15. The transition regulation of IFRS 16 concedes a certain transitional relief.

In 2016, the Group started evaluating potential effects of IFRS 16 on the consolidated annual financial statement of the Group. An analysis of the existing rentals and leases formed the basis for the evaluation. An increase in fixed assets and borrowings in the mid-double-digit million Euro range as well as an increase in depreciation and interest expense on the one hand, and a decrease in other operating expenses on the other are expected. This will result in an increase in EBITDA and EBIT as well as a lower ROCE figure and a lower equity ratio. In terms of the cash flow statement, we also expect a slight, positive effect on the cash flow from operating activities as the repayment portion is to be reported under Cash flow from financing activities in the future. When applied for the first time, a modified retrospective approach will be used.

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

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

- *Amendments to IAS 19 – Employee Benefits*
- *Amendments to IAS 28 – Investments in Associates*
- *Amendments to IAS 40 – Classification of properties not yet completed*
- *Amendments to IFRS 2 – Classification and Measurement of Share Based Payment Transactions*
- *Amendments to IFRS 9 – Application of IFRS 9 Financial Instruments together with negative compensations*
- *IFRS 17 – Insurance contracts*
- *IFRIC 22 – Foreign Currency Transactions and Advance Consideration*
- *IFRIC 23 – Uncertainty over Income Tax Treatments*

The Sto Group has not yet started with the implementation. As things stand, these changes will have no substantial effects on the Sto Group's assets, financial and earnings situation.

#### **4. Companies consolidated**

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

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

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

than 50 % of capital shares are held, control was assured via further contractual agreements. This only applied to Sto Gulf Building Material LLC., Dubai/UAE.

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

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

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

With effect from 2 January 2017, Sto Brasil Revestimentos e Participações Ltda., Itaquaquecetuba/Sao Paulo/Brazil, was merged with Argamont Revestimentos e Argamassas Ltda., Itaquaquecetuba/Sao Paulo/Brazil. The company now operates under the name of Sto Brasil Revestimentos e Fachadas Ltda., Itaquaquecetuba/Sao Paulo/Brazil.

The companies consolidated are disclosed in Note (38) List of subsidiaries and investments.

The following fully-consolidated associated German companies organised as limited-liability entities or as partnerships according to Section 264a of the HGB have fulfilled the conditions of Section 264 Paragraph 3 and/or Section 264b of the German Commercial Code (HGB) in terms of preparation facilitation options and disclosure and make use of the exemption rules:

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

## **5. Consolidation principles**

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

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

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

## 6. Presentation of the major accounting and valuation policies

The current/non-current distinction is observed in the recognition of assets and liabilities. The statement of profit and loss was prepared using the total cost method. The fiscal year is identical to the calendar year. The consolidated financial statements were prepared in euros. Unless otherwise indicated, all values were rounded up or down in line with commercial usage to one thousand euros (EUR K).

The consolidated financial statements were generally prepared according to the cost of acquisition principle, except for derivatives, financial instruments available for sale as well as assets measured at fair value through profit and loss. These were measured at their fair values.

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

### Currency translation

Monetary items in a 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 and loss as at the reference date. Non-monetary items carried 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 were 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 and with no effect on profit and loss until such time as the subsidiary in question is deconsolidated.

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

EUR 1 =		Closing rate on		Average annual rate	
		31 Dec 2017	31 Dec 2016	2017	2016
AED	United Arab Emirates	4.4119	3.8815	4.1845	4.0549
BRL	Brazil	3.9729	3.4305	3.6054	3.8561
CAD	Canada	1.5039	1.4188	1.4647	1.4659
CHF	Switzerland	1.1702	1.0739	1.1117	1.0902
CLP	Chile	738.6330	704.9368	737.7068	742.3758
CNY	People's Republic of China	7.8044	7.3202	7.6290	7.3522
COP	Columbia	3,584.3845	3,172.3635	3,379.2622	3,350.4229
CZK	Czech Republic	25.5400	27.0200	26.3260	27.0340
DKK	Denmark	7.4449	7.4344	7.4386	7.4452
GBP	Great Britain	0.8872	0.8562	0.8767	0.8195
HUF	Hungary	310.1400	311.0200	309.1900	311.4400
MXN	Mexico	23.6612	21.7719	21.3286	20.6673
MYR	Malaysia	4.8536	4.7287	4.8527	4.5835
NOK	Norway	9.8403	9.0863	9.3270	9.2906
PAB	Panama	1.2010	1.0568	1.1393	1.1040
PLN	Poland	4.1709	4.4240	4.2570	4.3632
RUB	Russia	68.8668	63.8111	65.9383	74.1446
SEK	Sweden	9.8438	9.5525	9.6351	9.4689
SGD	Singapore	1.6024	1.5234	1.5588	1.5275
TRY	Turkey	4.5464	3.7072	4.1206	3.3433
USD	USA	1.1993	1.0541	1.1297	1.1069

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of acquisition of a company comprises the sum total of the consideration transferred, measured at fair value at the time of acquisition, and of the shares without a controlling influence (minority interests) on the company acquired. The purchaser evaluates 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. An 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 representing an asset or a liability are either recognised in the statement of profit and loss or in other earnings. A contingent consideration classified as equity is not remeasured, and its settlement at a later date is accounted for in equity.

When the Sto Group acquires a company, it assesses the classification and designation of financial assets and liabilities in accordance with the contractual terms and conditions, economic circumstances and conditions prevailing at the

time of acquisition. This also includes a separation of derivatives embedded in underlying contracts.

Goodwill is initially measured at the cost of acquisition and equals the excess of the consideration transferred and the amount of the share without a controlling influence on the Group's identifiable acquired assets and assumed liabilities. Such goodwill is submitted to testing once a year to determine any impairment in its value (impairment-only approach). If any impairment in the value of goodwill is established, the corresponding impairment is recognised accordingly. If the consideration is below the fair value of the net assets of the subsidiary acquired, then the difference is recognised with an impact on profit and loss in equity after further examination.

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

#### **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. Borrowing costs are interest and other costs incurred by an entity in connection with taking on debt capital.

The Group did not hold any assets to which borrowing costs could have been directly allocated. Only an insignificant proportion of the 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 opportunities and risks incidental to ownership of these assets have been transferred to the lessee. In this case, the property, plant, and equipment in question is 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 statement of profit and loss.

#### **Intangible assets**

Goodwill is not subject to systematic amortisation. Instead, it is submitted to at least one annual impairment test. In doing so, it is determined whether goodwill has been impaired. The recoverable amount was determined as the value in use of the respective cash-generating unit (CGU) as of 31 December 2017, and compared to 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.

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

For the CGUs Sto, Beissier S.A.S and Ströher, significant due to their existing goodwill, major assumptions were made to determine turnover and gross income on the basis of external factors which affected the respective forecast regarding the economic situation as well as the market studies. The main assumptions based on internal factors related in each case to empirical values with regard to the 5-year plan, in particular with regard to a steady turnover growth in the single-digit percentage range due to growing sales potential, a constant gross profit and a constant discount rate per company in the 5-year period as well as a 1% growth rate for the period beyond the planning horizon.

A 5-year plan as of 31 December 2017 for the fiscal years 2018 to 2022 of the respective CGUs is the starting point for determining the value based on the best possible information available internally and externally. This is based on the expectation of a positive development of demand for thermal insulation as well as on the planning of maintenance investments.

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

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, the entrepreneurial risk (market risk premium multiplied by a beta factor calculated on the basis of a peer group analysis), and borrowing costs. As a matter of principle, cash flows are discounted using a uni-

form 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 for the major CGUs were between 5.8 % and 11.3 % (previous year: 5.4 % to 12.1 %).

The following major pre-tax interest rates were used for CGUs which are key CGUs in the sense of goodwill: Sto: 7.3 % (previous year: 6.0 %), Beissier S.A.S.: 8.3 % (previous year: 7.7 %), Ströher 7.3 % (previous year: 6.0 %).

The Management Board is of the opinion that no reasonably to be expected change in the significant assumptions on which the determination of the recoverable amount is based would lead to the cumulative carrying amount of the cash-generating unit exceeding its cumulative recoverable amount.

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

#### **Research and development costs**

Research and development costs were recognised in 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 acquisition or production 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 able to operate in the manner intended by management.

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

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.

Plants under construction are assigned to property, plant, and equipment and are recognised at their procurement and production costs. Plants under construction are only depreciated once the affected assets become available for operation.

#### Impairment of assets

Property, plant, and equipment, and intangible assets are tested for impairment when 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 acquisition or production cost, the carrying amount exceeds its recoverable

amount, the difference is recognised as impairment with an impact on profit and loss. The recoverable amount is the higher amount of the net realisable amount and the value in use.

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

If the 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 statement of profit and loss. 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 three joint ventures.

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 increased or decreased annually to recognise the share of after-tax profits or losses, distributed dividends, any impairment 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. If this is the case, then the difference

between the recoverable amount and the carrying amount of the share is recognised as impairment in profit and loss.

### **Trade receivables and other originated financial assets**

Trade receivables and other originated financial assets were recognised at amortised acquisition costs net of any individual value adjustments.

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

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 adjustments essentially resulting from the overdue period. In the presence of objective indications of an impairment, the impairment was recognised through profit and loss. Defaults on receivables led to a direct derecognition of the receivables in question.

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

### **Inventories**

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

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

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

### **Cash and cash equivalents**

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

### **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 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 and loss**

The group of financial assets measured at fair value through profit and loss comprise assets classified as held for sale as well as financial assets which were initially recognised at their fair value.

Financial assets were classified as held for sale if they had been acquired for the purpose of

being resold in the near future. Derivatives were also classified as being held for sale. Gains or losses from financial assets which are held for sale were recognised through profit and loss.

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

For financial assets held with the intention to sell them and which cannot be traded on account of inactive markets, 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 reclassification has no impact on financial assets that were valued and classified at fair value through profit and loss by exercising the fair value option.

#### **Held-to-maturity financial assets**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity if the Group has the intention and ability to hold them to maturity and an active market exists for these 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 financial statement for the period in which the assets are derecognised or impaired, as well as 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 financial 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 equal 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 or losses hitherto recognised within equity are recognised through profit and loss.

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

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 trading day, i.e. the day on which the Group assumes the obligation to buy or sell the asset. These transactions are in accordance with normal market conditions if delivery of the assets takes place within a period defined by market regulations or conventions.

Financial liabilities are categorised as follows:

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

**Financial liabilities at fair value through profit and loss**

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

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

**Financial liabilities measured at amortised cost**

The financial liabilities measured at amortised acquisition costs are measured at fair value during initial assessment. These liabilities were subsequently measured using the effective interest method less adjustments, repayments, and taking into account discounts and premiums, transaction costs and fees upon acquisition, which form an integral part of the effective interest rate.

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

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

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

**Derivative financial instruments**

In the Group, derivative financial instruments were used for hedging of currency risks. These

derivative financial instruments were recognised at their fair value as of the date on which the contract was entered, and were measured in subsequent periods at their fair value with an impact on profit and loss. Derivative financial instruments were reported as assets if they have a positive fair value and as liabilities if they have a negative fair value.

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

In the Group, derivative financial instruments are essentially currency forwards. These were used to hedge cash flows from currency risks in order to hedge the risk arising from fluctuations in the cash flow of a recognised asset, a recognised liability, a highly probable forecast transaction, or a currency risk of an unrecognised firm commitment.

In the fiscal years of 2016 and 2017 there were no hedges satisfying the strict hedge accounting criteria.

**Treasury stock**

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

**Post-employment benefit provisions**

Actuarial measurement of the post-employment benefit provisions is based on the projected-unit-credit method for defined benefit plans for pension schemes as defined in IAS 19. This method takes account of the benefit obligations and entitlement accruing on the balance sheet date as well as average life expectancy, future salary and pension increases, 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 and loss after deferred taxes.

The amount to be recognised as an asset or liability from a defined benefit plan comprises the present value of the defined benefit obligation less the plan assets available for the direct settlement of obligations. These plan assets each 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 these are qualified insurance policies, fair value of the pension plan of the Euro companies corresponds to the present value of the covered liability.

#### **Other provisions**

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

Provisions are reviewed and adjusted on each balance sheet date.

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

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

#### **Trade payables and other originated financial liabilities**

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

#### **Deferred taxes**

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

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

Deferred tax assets which are not expected to be recognised in a reasonable period of time are adjusted. Deferred tax assets are re-assessed at each balance sheet date. Deferred taxes are recognised on tax losses provided that it is likely that they will be used.

Deferred tax liabilities are formed for taxable temporary differences arising from shares in subsidiaries or 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 within a defined time period.

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

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

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

#### **Recognition of income and expenses**

As a manufacturer of products and systems for building coatings, the Group mainly provides goods deliveries and only provides services to a limited extent. With respect to goods deliveries, turnover recognition is effected in the period in which the control of the asset is transferred to the customer; with services this is the period in which the service is provided. When recognising the sales revenue, agreed discounts or volume discounts are taken into account according to the relevant period. For some projects income and expenses from construction contracts is recognised according to the degree of completion (percentage-of-completion method). The degree of completion is determined based on the costs incurred up until the balance sheet date as percentage of the costs estimated for the entire project. Operating expenses are reported through profit and loss 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 was recognised in accordance with IAS 20 if it was certain that the conditions relating to the funding were to be

fulfilled and the government funding was to be granted.

Funding is collected through profit and loss in the period in which the expenses to be defrayed are incurred. Government funding is generally tied to a number of imposed conditions. Fulfilment 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 did not meet his payment obligations on time according to the conditions of a debt instrument. Financial guarantees are treated as insurance contracts pursuant to IFRS 4, i.e. they are accounted for as contingent liabilities until it becomes probable that a claim will be filed. As a result, a corresponding liability is included in the balance sheet.

#### **Events after the balance sheet date**

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

#### **Discretionary decisions by Management**

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

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

The current financial assets include financial instruments which can be traded at any time without discount and for which a fixed final maturity date exists. Due to the primary intent to hold these financial assets until the agreed final maturity date, they were classified in the category of held to maturity.

#### **Estimates and assumptions by Management**

The preparation of the consolidated financial statements requires Management to make estimates and assumptions on the basis of available knowledge, which affect the extent and disclosure of assets and liabilities reported, income and expenses as well as contingent liabilities in the period under review.

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

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

- **Impairment of non-financial assets**

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 for the following five years, with significant future investments that will increase the profitability of the tested cash-generating unit 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.

- **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 2017, the deferred tax liabilities stood at EUR 2,289 K (previous year: EUR 2,070 K) and the deferred tax assets at EUR 19,580 K (previous year: EUR 17,277 K). The income tax liabilities total EUR 2,240 K (previous year: EUR 3,004 K), the income tax receivables EUR 2,552 K (EUR 6,334 K).

- **Non-current and current provisions**

The assumptions on which the calculation of warranty provisions are based on experience regarding complaints and the latest information available. Furthermore, there are uncertainties with regard to possible compensation payments and the duration of the proceedings in the event of claims pending in court. In general, we expect the provision to be utilised only after damage recovery.

- **Pension benefits**

The cost of post-employment defined benefit plans and the present value of the pension obligations are determined on the basis of 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 as at balance sheet date.

For guidance, Management relies on the interest rates of corporate bonds in the respective currency with at least an AA rating when determining the appropriate discount rate 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.

The present value of the performance-oriented liabilities in the amount of EUR 133,745 K (previous year: EUR 128,221 K) will be netted against the fair value of the plan asset in the amount of EUR 34,651 K (previous year: EUR 34,990 K). Post-employment benefit provisions amount to EUR 99,094 K (previous year: EUR 93,231 K).

- **Fair value of financial instruments**

If the fair value of financial assets and financial liabilities recognised in the balance sheet cannot be determined with the aid of data from an active market, it is determined using valuation methods including the discounted cash flow method. The input parameters included in the model are based as far as possible on observable market data.

A net liability of EUR 237 K (previous year: EUR 59 K) resulted from the financial instruments valued at fair value on 31 December 2017.

- **Receivables**

Allowances for bad debt are made in the Sto Group in order to take account of anticipated losses resulting from insolvency of customers. 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 a customer's financial situation, the extent of derecognitions actually to be made may exceed the extent of the anticipated derecognitions.

On 31 December 2017, the carrying amount of the trade receivables totalled EUR 126,186 K (previous year: EUR 123,674 K).

- **Provisions**

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

As at 31 December 2017, the carrying amounts of the current and non-current warranty provisions amounted to EUR 38,965 K and EUR 9,148 K respectively (previous year: EUR 29,049 K and EUR 7,893 K respectively).

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



## Consolidated segment reporting as at 31 December 2017

Information on geographic segments by sales markets in EUR K	Western Europe		Other			
			Northern/Eastern Europe		America/Asia	
	2017	2016	2017	2016	2017	2016
External revenues	970,751	943,981	151,532	136,850	155,115	149,841
Inter-segment revenues	38,203	35,601	1,415	386	25	7
<b>Segment revenues</b>	<b>1,008,954</b>	<b>979,582</b>	<b>152,947</b>	<b>137,236</b>	<b>155,139</b>	<b>149,848</b>
EBITDA	103,545	83,563	1,926	8,413	11,459	10,465
Depreciation/amortisation*	26,485	26,558	3,317	2,765	3,543	3,370
<b>EBIT (earnings before interest and taxes)</b>	<b>77,059</b>	<b>57,005</b>	<b>-1,392</b>	<b>5,648</b>	<b>7,916</b>	<b>7,094</b>
Interest income	840	1,224	229	255	376	484
Interest expense	2,914	3,328	303	298	37	169
<b>EBT (earnings before taxes)</b>	<b>74,985</b>	<b>54,901</b>	<b>-1,466</b>	<b>5,605</b>	<b>8,255</b>	<b>7,409</b>
<b>Segment assets</b>	<b>562,254</b>	<b>521,779</b>	<b>86,444</b>	<b>84,192</b>	<b>78,766</b>	<b>84,634</b>
<b>Investments</b>	<b>27,426</b>	<b>31,109</b>	<b>1,827</b>	<b>1,930</b>	<b>3,487</b>	<b>4,428</b>
<b>Employees on balance sheet date</b>	<b>4,050</b>	<b>4,032</b>	<b>652</b>	<b>638</b>	<b>606</b>	<b>581</b>

Notes on product groups in EUR K**	Facade systems		Facade coatings		Interiors	
	2017	2016	2017	2016	2017	2016
External revenues	601,501	566,110	307,629	303,976	186,034	182,697

Segment reporting is explained in Note (30).

\* The depreciation/amortisation of the current year includes EUR 1,622 K (previous year: EUR 1,457 K) of impairment expenses. Of that amount EUR 1,075 K (previous year: EUR 1,457 K) are attributable to Western Europe, EUR 465 K (previous year: EUR 0 K) to North/Eastern Europe, and EUR 82 K (previous year: EUR 0 K) to America/Asia.

\*\* Information on product groups was adjusted for 2016.

Reconciliation/ consolidation booking entries		Group	
2017	2016	2017	2016
0	0	1,277,398	1,230,673
-39,643	-35,994	0	0
<b>-39,643</b>	<b>-35,994</b>	<b>1,277,398</b>	<b>1,230,673</b>
388	516	117,317	102,956
0	0	33,346	32,693
<b>388</b>	<b>516</b>	<b>83,972</b>	<b>70,263</b>
-719	-978	726	985
-719	-978	2,535	2,817
<b>388</b>	<b>178</b>	<b>82,162</b>	<b>68,093</b>
<b>22,133</b>	<b>23,611</b>	<b>749,597</b>	<b>714,216</b>
<b>0</b>	<b>0</b>	<b>32,740</b>	<b>37,468</b>
<b>0</b>	<b>0</b>	<b>5,308</b>	<b>5,251</b>

Other product groups		Group	
2017	2016	2017	2016
182,234	177,890	1,277,398	1,230,673

## Notes on the statement of profit and loss

### (1) Revenues

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

### (2) Other internally generated assets

Other activated internally generated assets in the current year mainly comprise the internally generated asset for constructed Technical equipment and machinery as well as Buildings (previous year: Buildings).

### (3) Other operating income

in EUR K	2017	2016
Income from the reversal of provisions and accrued liabilities	8,617	7,798
Income from the reversal of value adjustments for receivables and other assets	4,200	6,664
Currency translation gains	3,886	3,843
Proceeds received towards derecognised receivables	482	438
Income from the disposal of assets	1,217	356
Income from recharged expenses to third parties	79	287
Government funding	139	98
Other operating income	8,665	5,807
<b>Other operating income in total</b>	<b>27,285</b>	<b>25,291</b>

Amounting to EUR 846 K, income from the disposal of assets were mainly incurred at VeroStone GmbH.

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.

Other operating income includes, among other things, an extraordinary income of EUR 3,842 K (USD 4,250 K) from the settlement of a court litigation proceeding in the USA.

**(4) Cost of material**

in EUR K	2017	2016
Raw materials, processing aids, and operating materials	264,194	252,575
Goods purchased	297,159	276,326
<b>Expenses for raw materials, processing aids, operating materials, and goods purchased in total</b>	<b>561,353</b>	528,901
Temporary staff	3,347	3,643
Commission production	5,902	2,061
<b>Expenses for services purchased in total</b>	<b>9,249</b>	5,704
<b>Expenses for materials in total</b>	<b>570,602</b>	534,605

The increase in expenditure for contract manufacturing was mainly attributable to Hesselberg Bygg AS and Sto Epitőanyag Kft.

**(5) Personnel expenditure**

in EUR K	2017	2016
Wages and salaries	278,237	286,690
Social security contributions, and expenditure on post-employment, and for support	63,563	62,220
<b>Total personnel expenditures</b>	<b>341,800</b>	348,910

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

In the year under review, research and development costs accounted for approx. EUR 14.1 million (previous year: approx. EUR 14.3 million) with an impact on profit and loss.

**Annual average headcount**

Amount	2017	2016
Employees	5,123	5,134
Trainees	204	200
<b>Total number of employees</b>	<b>5,326</b>	5,334

**(6) Other operating expenses**

in EUR K	2017	2016
Selling and marketing costs	132,919	125,357
Administration costs	48,772	49,645
Rental and lease payments	29,273	29,300
Operating costs	29,378	28,614
Adjustments to receivables and other assets	9,353	11,572
Other staff costs	6,498	6,549
Currency translation expense	4,923	4,571
Losses from the disposal of non-current assets	130	313
Other expenses	13,507	13,816
<b>Other operating expenses</b>	<b>274,753</b>	<b>269,737</b>

The item of selling and marketing costs mainly contains outgoing freight. Furthermore, it contains warranty and marketing costs as well as travel expenses, amongst others.

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

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 corresponding parts of these Notes.

**(8) Income from investments accounted for using the equity method**

Income from investments accounted for using the equity method amounts to EUR 0 K (previous year: EUR -349 K) in the year under review. The previous year's income resulted from an impairment which was solely attributable to Inotec GmbH.

**(9) Net interest income**

in EUR K	2017	2016
Other interest and similar income	726	997
Interest and similar expenditure	-667	-775
Interest expense for post-employment benefit obligations	-1,634	-1,830
Compounding interest of other non-current provisions and liabilities	-221	-191
Interest expense for finance leasing	-13	-21
<b>Net interest income in total</b>	<b>-1,809</b>	<b>-1,820</b>

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

in EUR K	2017	2016
Actual domestic tax expense	16,765	11,833
Actual non-domestic tax expense	10,866	11,648
<b>Actual tax expense</b>	<b>27,631</b>	<b>23,481</b>
of which off-period tax expense	-31	195
Expense/income from reversal of tax liabilities (off-period)	-44	-70
<b>Actual taxes on income and earnings</b>	<b>27,587</b>	<b>23,411</b>
Deferred tax income/liabilities, domestic	-717	-1,091
Deferred tax income/liabilities, non-domestic	-532	123
<b>Deferred tax income/liabilities</b>	<b>-1,249</b>	<b>-968</b>
<b>Income tax expense reported</b>	<b>26,338</b>	<b>22,443</b>

In the 2017 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 0 % and 35.7 % (previous year: 0 % to 37.6 %). Deferred taxes were measured using the tax rates valid or enacted as of the balance sheet date.

In 2017, the realisation of unused tax losses from previous years that had not been subject to deferred taxes, led to a reduction in current taxes on income and earnings of EUR 50 K (previous year: EUR 29 K).

Unused tax losses were valued at EUR 22,484 K (previous year: EUR 19,683 K). Unused tax losses of EUR 15,969 K (previous year: EUR 12,520 K) are available for an indefinite period, while EUR 4,063 K (previous year: EUR 4,378 K) may only be utilised within five years and EUR 2,452 K (previous year: EUR 2,785 K) only within ten years.

Of the unused tax losses, a sum of EUR 14,339 K (previous year: EUR 13,679 K) is assumed to not be available for the time being. Of these, EUR 7,959 K (previous year: EUR 7,756 K) are available for an indefinite period, while EUR 3,928 K (previous year: EUR 3,599 K) may only be utilised within five years and EUR 2,452 K (previous year: EUR 2,324 K) only within ten years.

Of the unused tax losses rated as available, EUR 5,173 K (previous year: EUR 2,569 K) were attributable to companies whose year result for 2017 was negative. As the affected companies are mainly those companies with a profit history and as the earnings plans of the affected companies for the following years are positive, the unused tax losses in the corresponding amount were classified as available.

EUR 1,061 K of deferred tax income accounted for temporary differences (previous year: EUR 827 K).

Changes in tax rates resulted in deferred tax expenditure of EUR 2,025 K (previous year: deferred tax income EUR 92 K).

Deferred tax assets with no impact on profit and loss amounted to EUR 9,041 K at the balance sheet date (previous year: EUR 7,825 K).

Recognising actuarial profits and losses with no impact on profit and loss within equity in accordance with IAS 19 resulted in an increase in equity of EUR 1,139 K in the current fiscal year (previous year: increase in equity in the amount of EUR 820 K due to the addition of deferred tax assets) due to the addition of deferred tax assets.

No deferred taxes were recognised for temporary differences on the profits of EUR 5,392 K (previous year: EUR 5,258 K) retained by subsidiaries 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 with an impact on profit and loss as current income tax assets at present value in the balance sheet. The reimbursement claim had a present value of EUR 0 K at the balance sheet date (previous year: EUR 770 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 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Intangible assets	224	269	1,704	1,885
Property, plant, and equipment	645	619	5,107	6,899
Non-current financial assets	589	718	93	0
Inventories	1,796	1,917	174	190
Current trade receivables	1,526	1,485	336	294
Current financial assets	2	2	233	247
Other current assets	0	9	128	247
Cash and cash equivalents	69	144	9	1
Special tax items	0	0	0	0
Post-employment benefit provisions	16,399	15,191	434	350
Other non-current provisions	509	496	17	24
Non-current borrowings	20	20	0	0
Non-current liabilities	72	72	0	0
Current provisions	1,792	1,445	1,481	590
Current borrowings	164	108	0	0
Trade payables	86	53	0	0
Other current liabilities	1,112	1,518	0	0
Loss carryforwards	1,891	1,591	0	0
Tax reimbursements not yet utilised	111	277	0	0
<b>Gross amount</b>	<b>27,007</b>	<b>25,934</b>	<b>9,716</b>	<b>10,727</b>
Balancing	7,427	8,657	7,427	8,657
<b>Balance sheet recognition</b>	<b>19,580</b>	<b>17,277</b>	<b>2,289</b>	<b>2,070</b>

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			<b>Total</b>
	Statement of profit and loss	Equity capital	neutral changes	
<b>Deferred taxes as at 1 January 2016</b>	<b>6,397</b>	<b>9,104</b>	<b>-220</b>	<b>15,281</b>
Intangible assets	90	0	0	90
Property, plant, and equipment	845	0	0	845
Non-current financial assets	101	0	0	101
Inventories	26	0	0	26
Current trade receivables	-20	0	0	-20
Current financial assets	45	0	0	45
Other current assets	-210	0	0	-210
Cash and cash equivalents	296	0	0	296
Special tax items	33	0	0	33
Post-employment benefit provisions	468	820	0	1,288
Other non-current provisions	61	0	0	61
Non-current borrowings	-73	0	0	-73
Non-current liabilities	-34	0	0	-34
Current provisions	-920	0	0	-920
Current borrowings	-37	0	0	-37
Trade payables	104	0	0	104
Other current liabilities	52	0	0	52
Loss carryforwards	-10	0	0	-10
Tax reimbursements not yet utilised	151	0	0	151
Effects from first-time consolidation and deconsolidation	0	0	-1,906	-1,906
Currency translation effects	17	-83	110	44
<b>Deferred taxes as at 31 December 2016</b>	<b>7,382</b>	<b>9,841</b>	<b>-2,016</b>	<b>15,207</b>

**Change in deferred taxes**

in EUR K	Consideration in			Total
	Statement of profit and loss	Equity capital	neutral changes	
<b>Deferred taxes as at 01 January 2017</b>	<b>7,382</b>	<b>9,841</b>	<b>-2,016</b>	<b>15,207</b>
Intangible assets	101	0	0	101
Property, plant, and equipment	1,690	0	0	1,690
Non-current financial assets	-222	0	0	-222
Inventories	-98	0	0	-98
Current trade receivables	3	0	0	3
Current financial assets	13	0	0	13
Other current assets	88	0	0	88
Cash and cash equivalents	-70	0	0	-70
Special tax items	0	0	0	0
Post-employment benefit provisions	224	1,139	0	1,363
Other non-current provisions	18	0	0	18
Non-current borrowings	1	0	0	1
Non-current liabilities	0	0	0	0
Current provisions	-443	0	0	-443
Current borrowings	57	0	0	57
Trade payables	34	0	0	34
Other current liabilities	-335	0	0	-335
Loss carryforwards	338	0	0	338
Tax reimbursements not yet utilised	-149	0	0	-149
Effects from first-time consolidation and deconsolidation	0	0	0	0
Currency translation effects	-382	77	0	-305
<b>Deferred taxes as at 31 December 2017</b>	<b>8,250</b>	<b>11,057</b>	<b>-2,016</b>	<b>17,291</b>

**Reconciliation of expected and reported income tax expense**

in EUR K	2017	2016
Earnings before income taxes	82,162	68,093
<b>Expected income tax expense (tax rate: 28.6 %; previous year: 28.6 %)</b>	<b>23,498</b>	19,475
<i>Reconciliation:</i>		
Tax-free income and permanent differences	-178	3,336
Change in tax rate	2,025	92
Deviations of local tax rates from Group tax rate	443	-840
Deferred tax income on unused tax losses recognised for the first time	-149	-78
Tax reduction for unused tax losses not yet recognised	-50	-29
Effects of non-recognition of unused tax losses	818	352
Off-period taxes	-74	125
Other effects	5	10
<b>Income tax expense reported</b>	<b>26,338</b>	22,443
Effective tax rate (%)	32.1	33.0

The effects of the change in the tax rate are mainly due to announced tax rate reductions at companies with recognised deferred taxes. This mainly affected the Group companies in the USA (tax rate reduction from 37.6 % to 23.1 %) and in France (tax rate reduction from 33.3 % to 28.0 %).

**(11) Earnings per share**

Basic earnings per share are calculated by dividing the proportion of earnings attributable to Sto SE & Co. KGaA's shareholders by the weighted average number of limited ordinary and limited preference shares outstanding in the year under review.

In addition to the issued shares, diluted earnings per share also include potential shares (e.g. from options). Both at 31 December 2017 and 31 December 2016, there were no potential shares. Accordingly, basic and diluted earnings per share are identical in both years.

Amount	Ordinary shares		Preference shares	
	2017	2016	2017	2016
Weighted average number of shares outstanding – basic/diluted	<b>3,888,000</b>	3,888,000	<b>2,538,000</b>	2,538,000

in EUR	2017	2016
Share attributable to the shareholders of Sto SE & Co. KGaA	55,530,938	46,009,022
basic/diluted earnings – of which:		
Limited ordinary shares	33,506,415	27,745,256
Limited preference shares	22,024,523	18,263,766

in EUR	2017	2016
Earnings per share – basic/diluted		
Limited ordinary share	8.62	7.14
Limited preference share	8.68	7.20

In the fiscal year of 2017, a dividend from the earnings of 2016 of EUR 3.25 (previous year: EUR 4.81) per ordinary share, consisting of a basic dividend of EUR 0.25 (previous year: EUR 0.25) and a bonus of EUR 3.00 (previous year: EUR 4.56) as well as EUR 3.31 (previous year: EUR 4.87) per preference share, consisting of a basic dividend of EUR 0.31 (previous year: EUR 0.31) and a bonus of EUR 3.00 (previous year: EUR 4.56) was distributed.

In the fiscal year of 2017, the distribution to the ordinary shareholders hence amounted to EUR 12,636 K (previous year: EUR 18,701 K) and the distribution to the preference shareholders amounted to EUR 8,401 K (previous year: EUR 12,360 K). The total distribution amount was EUR 21,037 K (previous year: EUR 31,061 K).

### Further notes on the statement of profit and loss in accordance with IFRS 7

The Sto Group categorises financial instruments as follows:

- Financial instruments at fair value through profit and loss
- Financial assets measured at amortised costs of acquisition
- Financial instruments with a value recognition according to IAS 17
- Financial instruments that are subject to hedge accounting
- Financial instruments outside the scope of application of IFRS 7 (equity investments)

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

in EUR K	2017	2016
<b>Assets</b>		
Designated assets to be measured at fair value through profit and loss (fair value option)	0	-2
Assets held for trading	-590	-700
Sum total of financial assets measured at fair value through profit or loss	-590	-702
Available-for-sale assets	0	0
Held-to-maturity assets	0	-164
Loans and receivables	-5,377	-4,847
<b>Liabilities</b>		
Financial liabilities measured at amortised cost	92	685

Net gains and losses from financial assets and liabilities at fair value through profit and 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 and loss**

in EUR K	2017	2016
Interest income	630	854
Interest expense	654	807
<b>Net interest income</b>	<b>-24</b>	47

**Impairment losses on financial assets by category**

in EUR K	2017	2016
Measured at amortised costs of acquisition	9,353	11,572

The measurement of the portfolio of financial instruments at fair value as at 31 December 2017 resulted in a net expense of EUR 238 K (previous year: income of EUR 9 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 statement of financial position

### (12) Intangible assets

#### Changes in intangible assets from 1 January until 31 December 2016

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	Total
<b>Cost of acquisition/production</b>				
<b>01 January 2016</b>	<b>30,938</b>	<b>40,021</b>	<b>554</b>	<b>71,513</b>
Additions	1,506	0	512	2,018
Change to companies consolidated	7,007	3,570	0	10,577
Disposals	1,348	0	16	1,364
Transfers	1,042	0	-537	505
Exchange rate differences	552	290	0	842
<b>31 December 2016</b>	<b>39,697</b>	<b>43,881</b>	<b>513</b>	<b>84,091</b>
<b>Cumulative depreciation and impairment losses</b>				
<b>01 January 2016</b>	<b>26,794</b>	<b>5,249</b>	<b>0</b>	<b>32,043</b>
Depreciation for the year	2,670	0	0	2,670
Impairment losses	179	0	0	179
Change to companies consolidated	0	0	0	0
Disposals	1,347	0	0	1,347
Transfers	0	0	0	0
Exchange rate differences	466	257	0	723
<b>31 December 2016</b>	<b>28,762</b>	<b>5,506</b>	<b>0</b>	<b>34,268</b>
<b>Net carrying amount as at 31 December 2015</b>	<b>4,144</b>	<b>34,772</b>	<b>554</b>	<b>39,470</b>
<b>Net carrying amount as at 31 December 2016</b>	<b>10,935</b>	<b>38,375</b>	<b>513</b>	<b>49,823</b>

**Development of intangible assets from 1 January until 31 December 2017**

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	Total
<b>Cost of acquisition/production</b>				
<b>01 January 2017</b>	<b>39,697</b>	<b>43,881</b>	<b>513</b>	<b>84,091</b>
Additions	1,412	0	673	2,085
Change to companies consolidated	0	0	0	0
Disposals	865	1,198	0	2,063
Transfers	311	0	-299	12
Exchange rate differences	-497	-108	0	-605
<b>31 December 2017</b>	<b>40,058</b>	<b>42,575</b>	<b>887</b>	<b>83,520</b>
<b>Cumulative depreciation and impairment losses</b>				
<b>01 January 2017</b>	<b>28,762</b>	<b>5,506</b>	<b>0</b>	<b>34,268</b>
Depreciation for the year	2,632	0	0	2,632
Impairment losses	5	0	0	5
Change to companies consolidated	0	0	0	0
Disposals	852	1,198	0	2,050
Transfers	5	0	0	5
Exchange rate differences	-366	-61	0	-427
<b>31 December 2017</b>	<b>30,186</b>	<b>4,247</b>	<b>0</b>	<b>34,433</b>
<b>Net carrying amount as at 31 December 2016</b>	<b>10,935</b>	<b>38,375</b>	<b>513</b>	<b>49,823</b>
<b>Net carrying amount as at 31 December 2017</b>	<b>9,872</b>	<b>38,328</b>	<b>887</b>	<b>49,087</b>

As in the previous year, the useful life for a patent is generally 20 years, provided there is no lower statutory period of protection, 3 to 8 years for software and 3 to 10 years for other intangible assets. These assets are depreciated exclusively on a straight-line basis.

Goodwill is not subject to scheduled amortisation and is only adjusted if it is not recoverable.

**Goodwill**

Reported goodwill, amounting to EUR 38,328 K in total (previous year: EUR 38,375 K), breaks down as follows:

Cash Generating Units in EUR K	31 Dec 2017	31 Dec 2016
Sto SE & Co. KGaA	15,760	15,760
Beissier S.A.S., La Chapelle La Reine/France	3,635	3,635
Ströher GmbH, Dillenburg/Germany	3,570	3,570
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany	2,780	2,780
Beissier S.A.U., Erreterria/Spain	2,679	2,679
Sto Sp. z o.o., Warsaw/Poland	2,402	2,402
Sto Epitöanyag Kft., Dunaharaszti/Hungary	1,764	1,764
Sto Isoned B.V., Tiel/Netherlands	1,189	1,189
Sto Norge AS, Oslo/Norway	1,007	1,054
Miscellaneous under EUR 1,000 K	3,542	3,542
<b>Goodwill in total</b>	<b>38,328</b>	<b>38,375</b>

With the exception of Sto SE & Co. KGaA and Ströher GmbH, the cash-generating units (CGUs) identified for purposes of calculating goodwill are identical to the legal entities. The Sto CGU comprises Sto SE & Co. KGaA, Stühlingen/Germany, Verotec GmbH, Lauingen/Germany, and StoCretec GmbH, Kriftel/Germany. The CGU Ströher consists of Ströher GmbH, Dillenburg/Germany, Ströher Fliesen GmbH, Dillenburg/Germany, Ströher Produktions GmbH & Co. KG, Dillenburg/Germany, as well as GEPADI Fliesen GmbH, Dillenburg/Germany.



**(13) Property, plant, and equipment****Changes in property, plant, and equipment from 1 January to 31 December 2016**

in EUR K	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plants, operating and business equipment	Rendered advance payments and plants and equipment under construction	<b>Total</b>
<b>Cost of acquisition/production</b>					
<b>01 January 2016</b>	<b>316,159</b>	<b>196,310</b>	<b>184,972</b>	<b>18,767</b>	<b>716,208</b>
Additions	8,731	5,018	9,711	11,990	35,450
Change to companies consolidated	7,552	2,568	958	355	11,433
Disposals	1,128	482	7,287	19	8,916
Transfers	11,726	2,573	1,869	-16,673	-505
Exchange rate differences	-41	-189	-10	116	-124
<b>31 December 2016</b>	<b>342,999</b>	<b>205,798</b>	<b>190,213</b>	<b>14,536</b>	<b>753,546</b>
<b>Cumulative depreciation and impairment losses</b>					
<b>01 January 2016</b>	<b>171,986</b>	<b>149,267</b>	<b>152,172</b>	<b>258</b>	<b>473,683</b>
Depreciation for the year	8,700	9,053	10,798	15	28,566
Impairment losses	523	755	0	0	1,278
Change to companies consolidated	0	0	0	0	0
Disposals	224	431	6,907	0	7,562
Transfers	-3	7	-4	0	0
Appreciations	401	0	0	0	401
Exchange rate differences	-172	-188	-144	0	-504
<b>31 December 2016</b>	<b>180,409</b>	<b>158,463</b>	<b>155,915</b>	<b>273</b>	<b>495,060</b>
<b>Net carrying amount as at 31 December 2015</b>	<b>144,173</b>	<b>47,043</b>	<b>32,800</b>	<b>18,509</b>	<b>242,525</b>
<b>Net carrying amount as at 31 December 2016</b>	<b>162,590</b>	<b>47,335</b>	<b>34,298</b>	<b>14,263</b>	<b>258,486</b>
of which leased assets classified as financial leases, carrying amount as at 31 December 2016	0	218	583	0	801

## Development of property, plant, and equipment from 1 January to 31 December 2017

in EUR K	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plants, operating and business equipment	Rendered advance payments and plants and equipment under construction	Total
<b>Cost of acquisition/production</b>					
<b>01 January 2017</b>	<b>342,999</b>	<b>205,798</b>	<b>190,213</b>	<b>14,536</b>	<b>753,546</b>
Additions	8,443	6,999	10,751	4,462	30,655
Change to companies consolidated	0	0	0	0	0
Disposals	1,557	2,281	8,075	101	12,014
Transfers	6,633	5,722	901	-13,268	-12
Exchange rate differences	-3,317	-3,544	-1,705	-112	-8,678
<b>31 December 2017</b>	<b>353,201</b>	<b>212,694</b>	<b>192,085</b>	<b>5,517</b>	<b>763,497</b>
<b>Cumulative depreciation and impairment losses</b>					
<b>01 January 2017</b>	<b>180,409</b>	<b>158,463</b>	<b>155,915</b>	<b>273</b>	<b>495,060</b>
Depreciation for the year	9,213	9,302	10,577	0	29,092
Impairment losses	1,521	77	5	14	1,617
Change to companies consolidated	0	0	0	0	0
Disposals	1,121	1,910	7,842	0	10,873
Transfers	53	28	-85	0	-4
Appreciations	0	0	0	0	0
Exchange rate differences	-1,935	-2,515	-1,256	14	-5,692
<b>31 December 2017</b>	<b>188,140</b>	<b>163,445</b>	<b>157,314</b>	<b>301</b>	<b>509,200</b>
<b>Net carrying amount as at 31 December 2016</b>	<b>162,590</b>	<b>47,335</b>	<b>34,298</b>	<b>14,263</b>	<b>258,486</b>
<b>Net carrying amount as at 31 December 2017</b>	<b>165,061</b>	<b>49,249</b>	<b>34,771</b>	<b>5,216</b>	<b>254,297</b>
of which leased assets classified as financial leases, carrying amount as at 31 December 2017	0	0	650	0	650

Property, plant, and equipment in the amount of EUR 26,873 K (previous year: EUR 33,902 K) are encumbered with land charges which serve to secure payables to banks. On the balance sheet date, the land charges had a value of EUR 118 K (previous year: EUR 333 K).

Impairment losses on property, plant, and equipment amounted to EUR 1,540 K. These losses were mainly attributable to properties and buildings which, due to an unfavourable location or lower market prices, were subject to impairment.

Future lease payments are set out in the following tables:

in EUR K	up to 1 year	1–5 years	5–10 years	31 Dec 2016
Lease payments	434	370	0	804
Interest portions	33	41	0	74
<b>Carrying amount / present value</b>	<b>401</b>	<b>329</b>	<b>0</b>	<b>730</b>

in EUR K	up to 1 year	1–5 years	5–10 years	31 Dec 2017
Lease payments	280	330	3	613
Interest portions	9	8	0	17
<b>Carrying amount / present value</b>	<b>271</b>	<b>322</b>	<b>3</b>	<b>596</b>

Call options have been agreed for most of the plants and equipment leased under financial leases which are expected to be exercised.

Leases are based on a weighted interest rate of 2.5 % (previous year: 2.2 %).

#### (14) Financial assets accounted for using the equity method

As at 31 December 2017, the carrying amount of shares accounted for using the equity method stands at EUR 11,020 K (previous year: in EUR 0 K).

Dividend payments or repayments of loans of companies accounted for using the equity method require the joint consent of the shareholders of the respective companies.

In 2017, the cumulative losses from the evaluation using the equity method amounted to EUR 365 K (previous year: EUR 378 K).

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

**(15) Inventories**

Inventories are measured at the lower of acquisition/production cost or the net realisable amount. Impairment in relation to the gross amount came to EUR 8,430 K (previous year: EUR 5,690 K plus EUR 3,221 K of post-reported impairments).

Net carrying amounts are reported as follows:

in EUR K	31 Dec 2017	31 Dec 2016
Raw materials, processing aids, and operating materials	23,095	20,709
Work in progress	9,091	8,439
Finished products and goods	62,721	61,369
Payments made on account	1,833	2,025
<b>Total inventories</b>	<b>96,740</b>	<b>92,542</b>

Inventories with a carrying amount of EUR 1,892 K (previous year: EUR 2,641 K) serve to secure liabilities to banks. On the balance sheet date, the value amounted to EUR 595 K (previous year: EUR 665 K).

**(16) Current and non-current trade receivables**

in EUR K			Carrying amount as at 31 Dec 2017			Carrying amount as at 31 Dec 2016
	current	non-current		current	non-current	
<b>from</b>						
Third parties	124,976	1,208	126,184	122,457	1,209	123,666
Companies accounted for using the equity method	2	0	2	8	0	8
<b>Trade receivables in total</b>	<b>124,978</b>	<b>1,208</b>	<b>126,186</b>	<b>122,465</b>	<b>1,209</b>	<b>123,674</b>

The fair values of trade receivables equal their carrying amounts. Adjustments of EUR 20,837 K (previous year: EUR 20,791 K) were taken into account.

Trade receivables with a carrying amount of EUR 737 K (previous year: EUR 6,064 K) serve to secure liabilities to banks. On the balance sheet date, the value amounted to EUR 229 K (previous year: EUR 3,472 K).

**(17) Non-current and current financial assets**

in EUR K			Carrying amount as at			Carrying amount as at
	current	non-current	31 Dec 2017	current	non-current	31 Dec 2016
Financial assets from third parties	76,429	525	76,954	71,762	393	72,155
Other receivables and financial assets from companies accounted for using the equity method	2	650	652	654	0	654
Positive fair value of derivative financial instruments	23	0	23	159	0	159
<b>Financial assets in total</b>	<b>76,454</b>	<b>1,175</b>	<b>77,629</b>	<b>72,575</b>	<b>393</b>	<b>72,968</b>

Financial assets from third parties include cash investments due for settlement in more than three months. In addition, this item includes receivables from suppliers amounting to EUR 3,503 K (previous year: EUR 3,379 K).

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

Derivative financial instruments have the following positive fair values:

in EUR K	31 Dec 2017	31 Dec 2016
<b>Hedges against</b>		
Currency risks	23	159
Interest risks	0	0
<b>Fair values of derivative financial instruments in total</b>	<b>23</b>	<b>159</b>

Derivative financial instruments as a whole are described in greater detail in Note (31).

**(18) Other non-current and current assets**

in EUR K			Carrying amount as at 31 Dec 2017			Carrying amount as at 31 Dec 2016
	current	non-current		current	non-current	
Other receivables from third parties	18,138	3	18,141	12,312	6	12,318
Other tax reimbursement claims	3,049	0	3,049	3,434	0	3,434
Prepaid expenses	6,103	413	6,516	5,715	1,062	6,777
Other payments made on account	378	0	378	513	0	513
<b>Other assets in total</b>	<b>27,668</b>	<b>416</b>	<b>28,084</b>	<b>21,974</b>	<b>1,068</b>	<b>23,042</b>

Other tax reimbursement claims include VAT reimbursement claims of EUR 2,873 K (previous year: EUR 3,215 K).

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

**(19) Cash and cash equivalents**

in EUR K	31 Dec 2017	31 Dec 2016
Credit balances with banks	83,738	69,507
Cheques, cash in hand	684	564
<b>Cash and cash equivalents in total</b>	<b>84,422</b>	<b>70,071</b>

## (20) Equity capital

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

### Subscribed capital

On 31 December 2017 the share capital of Sto SE & Co. KGaA amounted to EUR 17,556 K. It was divided into 4,320,000 registered limited ordinary shares and 2,538,000 limited preference shares with no voting rights with a notional nominal value of EUR 2.56 per share. The figures for the 2017 fiscal year correspond to those of the previous year.

The limited preference shares each bore a dividend that was EUR 0.06 higher than that of the limited ordinary shares. 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/Germany, 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/Germany, does not have a share in the capital of Sto SE & Co. KGaA.

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

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

### Capital reserves

Capital reserves essentially comprise additions from premiums.

### Revenue reserves and other reserves

Revenue reserves and other reserves comprise the following items:

- Reserves for accrued profits  
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 or actuarial losses from the post-employment benefit provisions arising from differences between the actual development and the assumed trends as well as changes in the assumptions underlying calculations.
- Treasury stock:  
As at 31 December 2017, Sto SE & Co. KGaA, Stühlingen/Germany, holds treasury stock in the form of 432,000 registered limited ordinary shares with a notional value of EUR 1,105,920.00. This is equivalent to 10 % of all ordinary shares or 6.3 % of the share capital of Sto SE & Co. KGaA. Treasury stock is not entitled to dividends. The figures for the 2017 fiscal year correspond to those of the previous year.

**Proposed dividend**

In accordance with Sections 278, 58 Paragraph 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 net income of EUR 46,759 K (previous year: EUR 45,964 K).

The personally liable partner of Sto SE & Co. KGaA, STO Management SE, Stühlingen/Germany, will propose via its Executive Board at the Annual General Meeting of Sto SE & Co. KGaA a dividend distribution of EUR 0.25 (previous year: EUR 0.25) plus a bonus of EUR 3.78 (previous year: EUR 3.00) = total of EUR 4.03 (previous year: EUR 3.25) per limited ordinary share, and EUR 0.31 (previous year: EUR 0.31) plus a bonus of EUR 3.78 (previous year: EUR 3.00) = total of EUR 4.09 (previous year: EUR 3.31) per limited preference share, and hence a total distribution amount of EUR 26,049 K (previous year: EUR 21,037 K).

A proposal will also be made to retain EUR 20,000 K (previous year: EUR 24,000 K) and to carry the remaining amount of EUR 710 K (previous year: EUR 927 K) forward to a new account.

**Notes on capital management**

The purpose of capital management is to ensure that the Group effectively achieves its goals and pursues its strategies in the interests of the shareholders, employees, and other stakeholders and that it successfully implements the defined strategies. In particular, management focuses on achieving the minimum return on invested assets sought by the capital market as well as on maintaining a solid return on equity. In selecting financial instruments, the Group attaches importance to matching-maturities financing.

in EUR K	31 Dec 2017	31 Dec 2016	Change in %
<b>Equity attributable to the shareholders of Sto SE &amp; Co. KGaA</b>	<b>442,367</b>	<b>417,848</b>	<b>5.9 %</b>
Current borrowings	9,757	13,498	-27.7 %
Non-current borrowings	2,032	1,121	81.3 %
Less cash and cash equivalents	84,422	70,071	20.5 %
<b>Net assets</b>	<b>72,633</b>	<b>55,452</b>	<b>31.0 %</b>
% of equity capital	16.4 %	13.3 %	
Equity ratio	60.1 %	59.5 %	
<b>Return on Capital Employed (ROCE)</b>	<b>16.1 %</b>	<b>13.9 %</b>	

In the fiscal year of 2017, the equity capital attributable to the shareholders of Sto SE & Co. KGaA rose by 5.9 % as compared to the previous year. This was essentially the result of the increase in revenue reserves.

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

Due to the credit line agreed with a banking consortium in December 2012, most recently extended in 2017, the Group is subject to complying with financial covenants. In case of non-compliance the lenders are entitled to terminate the loan for good cause. The agreed-upon covenants were complied with in the year under review as well as in the previous year.

**(21) Share of minority interests**

The shares of equity on the part of minority interests in the past fiscal year as well as in the previous year were attributable to shareholders of the Ströher Group, Dillenburg/Germany, UAB TECH-COAT, Klaipėda/Lithuania as well as to shareholders of Sto Italia Srl, Empoli/Italy.

The following shares of assets and liabilities are attributable to the Ströher Group:

in EUR K	2017	2016
Assets	18,823	20,157
Equity capital	7,340	7,018
Liabilities	11,483	13,139

**(22) Post-employment benefits and similar liabilities**

Provisions for post-employment benefits are recognised in accordance with entitlement arising under the company pension scheme. The benefits provided by the Group vary according to the legal, tax and economic situation in the individual country and are based on the length of service and partially the salary of the entitled employees. The Group pension scheme primarily comprises defined benefit obligation plans. In addition, there are also some defined contribution plans. In the case of defined contribution plans, the company pays contributions into public or private pension funds in accordance with statutory or contractual obligations. Upon payment of these contributions, no further obligations exist 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 2017 amounted to a total of EUR 1,106 K (previous year: EUR 1,203 K) in the Sto Group.

Contributions to statutory pension funds came to EUR 18,702 K (previous year: EUR 17,584 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. A prerequisite for receiving benefits is that upon occurrence of the event the employee either had a minimum period of service of 10 years after the age of 25, or had been in an employment relationship with Sto or has a non-lapsable entitlement.

Old-age pension is granted at the point in time when state pension is received. The monthly old-age or invalidity pension amounts to be-

tween EUR 5.11 and EUR 9.20 per year of service and depending on the employee's status. The widow's pension amounts to 60 % of the old-age and invalidity pension.

In Switzerland, the current benefits agreements for employees are effected by plans which are regulated by the Federal Law on Occupational Old-age, Survivor's and Disability Insurance (BVG). Pension plans in Switzerland are administered by collective foundations which are financed by regular employee and employer contributions. The final pension benefits are contribution-based with specific minimum guarantees. Due to these minimum guarantees, pension plans in Switzerland are allocated as being defined benefit plans, although they possess many properties of defined contribution plans. The deficient cover can be remedied by various methods, such as increasing employee and employer contributions, lowering the interest rate for retirement assets, or reducing future benefit claims.

As the calculations are based on assumptions, the generally applicable calculation methods were used. The sensitivity analysis listed below shows the impact 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 accrued as at the balance sheet date. In making this assessment, assumed relevant trends are taken into account. Actuarial calculations are necessary for all pension systems.

Actuarial gains or losses arise from changes in the plan assets or deviations in actual trends (e.g. income and pension increases, changes in interest rates) or from changes in the assump-

tions underlying the calculations. All actuarial gains and losses are recognised in equity in full in the period in which they arise. Actuarial gains and losses recognised within equity are presented in the following provisions table.

#### Summary of the post-employment benefit provisions

in EUR K	2017	2016
Pension plan of the Euro companies	-87,236	-80,873
Pension plan of Sto AG Switzerland	-11,858	-12,358
<b>Total</b>	<b>-99,094</b>	-93,231

**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
<b>As at 01 January 2016</b>	<b>-75,750</b>	<b>7,231</b>	<b>-68,519</b>
<b>Expenditure for post-employment benefit obligations recognised through profit and loss</b>			
Current service cost	-2,846	0	-2,846
Interest expense/income	-1,917	180	-1,737
<b>Sub-total recognised in the financial statement for the period</b>	<b>-4,763</b>	<b>180</b>	<b>-4,583</b>
<b>Pension benefits paid</b>	<b>2,661</b>	<b>-181</b>	<b>2,480</b>
<b>Profit/loss from reassessment recognised in other earnings</b>			
Actuarial gains and losses from changes in demographic assumptions	-558	584	26
Actuarial gains and losses from changes in financial assumptions	-5,579	342	-5,237
Experience-based adjustments	1,326	0	1,326
<b>Sub-total contained in other earnings</b>	<b>-4,811</b>	<b>926</b>	<b>-3,885</b>
<b>Change to companies consolidated</b>	<b>-6,624</b>	<b>123</b>	<b>-6,501</b>
<b>Employer contributions</b>	<b>0</b>	<b>135</b>	<b>135</b>
<b>As at 31 December 2016</b>	<b>-89,287</b>	<b>8,414</b>	<b>-80,873</b>

**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
<b>As at 01 January 2017</b>	<b>-89,287</b>	<b>8,414</b>	<b>-80,873</b>
<b>Expenditure for post-employment benefit obligations recognised through profit and loss</b>			
Current service cost	-2,967	0	-2,967
Interest expense/income	-1,719	157	-1,562
<b>Sub-total recognised in the financial statement for the period</b>	<b>-4,686</b>	<b>157</b>	<b>-4,529</b>
<b>Pension benefits paid</b>	<b>2,311</b>	<b>-226</b>	<b>2,085</b>
<b>Profit/loss from reassessment recognised in other earnings</b>			
Actuarial gains and losses from changes in demographic assumptions	-91	0	-91
Actuarial gains and losses from changes in financial assumptions	-4,303	400	-3,903
Experience-based adjustments	-56	0	-56
<b>Sub-total contained in other earnings</b>	<b>-4,450</b>	<b>400</b>	<b>-4,050</b>
<b>Change to companies consolidated</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Employer contributions</b>	<b>0</b>	<b>131</b>	<b>131</b>
<b>As at 31 December 2017</b>	<b>-96,112</b>	<b>8,876</b>	<b>-87,236</b>

Current service costs are included in staff costs; interest expenses on the obligation is reported under interest expenses, Note (9).

The plan assets of the Euro companies are qualifying insurance contracts in the form of almost risk-free direct insurances.

The contributions to the plan assets for the following fiscal year are expected to amount to EUR 120 K (previous year: EUR 122 K).

The calculation of pension provisions was based on the following assumptions, with the predominant share of the amount recognised in the balance sheet being accounted for by Germany.

	Germany		Non-Germany	
	2017	2016	2017	2016
Discount rate as at 31 December in %	1.75	1.95	1.75	2.35
Future pension increases in %	1.13	1.06	2.40	2.40
Age of retirement in years	65	65	62 – 65	62 – 65

Since 31 December 2005, the Heubeck 2005 G tables have been used as the biometric basis for calculations for German companies.

The running period of the performance-oriented liability of the Euro companies averages at 18.78 years (previous year: 18.68 years) as at the end of the reporting period.

#### Pension plan of Sto AG, Switzerland

in EUR K	Present value of the defined-benefit obligation	Fair value of the plan assets	Liability from the defined-benefit obligation
<b>As at 01 January 2016</b>	<b>-38,818</b>	<b>25,860</b>	<b>-12,958</b>
<b>Currency differences</b>	<b>-347</b>	<b>231</b>	<b>-116</b>
<b>Expenditure for post-employment benefit obligations recognised through profit and loss</b>			
Current service cost	-1,400	0	-1,400
Interest expense/income	-288	193	-95
<b>Sub-total recognised in the financial statement for the period</b>	<b>-1,688</b>	<b>193</b>	<b>-1,495</b>
<b>Pension benefits paid</b>	<b>3,503</b>	<b>-3,503</b>	<b>0</b>
<b>Profit/loss from reassessment recognised in other earnings</b>			
Actuarial gains and losses from changes in demographic assumptions	0	172	172
Actuarial gains and losses from changes in financial assumptions	212	0	212
Experience-based adjustments	806	0	806
<b>Sub-total contained in other earnings</b>	<b>1,018</b>	<b>172</b>	<b>1,190</b>
<b>Employer contributions</b>	<b>0</b>	<b>1,021</b>	<b>1,021</b>
<b>Employee contributions</b>	<b>-2,602</b>	<b>2,602</b>	<b>0</b>
<b>As at 31 December 2016</b>	<b>-38,934</b>	<b>26,576</b>	<b>-12,358</b>

**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
<b>As at 01 January 2017</b>	<b>-38,934</b>	<b>26,576</b>	<b>-12,358</b>
<b>Currency differences</b>	<b>3,304</b>	<b>-2,260</b>	<b>1,044</b>
<b>Expenditure for post-employment benefit obligations recognised through profit and loss</b>			
Current service cost	-1,233	0	-1,233
Interest expense/income	-226	154	-72
<b>Sub-total recognised in the financial statement for the period</b>	<b>-1,459</b>	<b>154</b>	<b>-1,305</b>
<b>Pension benefits paid</b>	<b>2,631</b>	<b>-2,631</b>	<b>0</b>
<b>Profit/loss from reassessment recognised in other earnings</b>			
Actuarial gains and losses from changes in demographic assumptions	0	0	0
Actuarial gains and losses from changes in financial assumptions	351	245	596
Experience-based adjustments	-804	0	-804
<b>Sub-total contained in other earnings</b>	<b>-453</b>	<b>245</b>	<b>-208</b>
<b>Employer contributions</b>	<b>0</b>	<b>969</b>	<b>969</b>
<b>Employee contributions</b>	<b>-2,722</b>	<b>2,722</b>	<b>0</b>
<b>As at 31 December 2017</b>	<b>-37,633</b>	<b>25,775</b>	<b>-11,858</b>

The plan assets of Sto AG, Switzerland, take the form of qualifying insurance contracts. All regulatory benefits in case of, e.g. disability, death and longevity are fully reinsured under the insurance contract.

The contributions to the plan assets for the following fiscal year are expected to amount to EUR 954 K (previous year: EUR 954 K).

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

	Switzerland	
	2017	2016
Discount rate as at 31 December in %	0.65	0.60
Future salary increases in %	1.00	1.00
Age of retirement in years	65	65

The BVG 2010 Generation Life Table was used as the biometric basis for calculation.

The running period of the performance-oriented liability averages at 17.10 years as at the end of the reporting period (previous year: 17.40 years).

The following shows a quantitative sensitivity analysis of the most important assumptions as at 31 December 2017:

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
<b>Discount rate</b>		<b>Life expectancy</b>	
Decline by 0.5 %	9,265	Decrease by 1 year	-3,809
Increase by 0.5 %	-9,073	Increase by 1 year	4,268
<b>Pensions</b>		<b>Retirement age</b>	
Decline by 1.0 %	-10,888	Decrease by 1 year	1,272
Increase by 1.0 %	11,909	Increase by 1 year	-2,565

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
<b>Discount rate</b>		<b>Life expectancy</b>	
Decline by 0.5 %	3,553	Decrease by 1 year	-709
Increase by 0.5 %	-3,089	Increase by 1 year	682
<b>Salary adjustments</b>			
Decline by 0.5 %	-306		
Increase by 0.5 %	310		

In order to determine the above sensitivity analysis, the provisions were each calculated with the changed parameters, keeping the other parameters constant, using the internationally customary projected unit credit method. These provisions were then compared to the provision recorded on the balance sheet as at 31 December 2017.

The following amounts are expected to be paid over the next few years as part of defined-benefit liabilities:

in EUR K	Expected disbursements as at 31 Dec 2017	Expected disbursements as at 31 Dec 2016
within the next 12 months	3,952	3,755
between 2 and 5 years	17,843	17,111
between 5 and 10 years	24,062	26,134
<b>Expected disbursements within the next 10 years</b>	<b>45,857</b>	<b>47,000</b>

### (23) Non-current and current provisions

in EUR K	Staff division	Production division	Sales division	Other provisions	Total
<b>As at 01 January 2016</b>	<b>6,298</b>	<b>1,011</b>	<b>25,747</b>	<b>1,182</b>	<b>34,238</b>
Currency differences	-20	0	14	-6	-12
Consumption	-1,795	-122	-5,269	-504	-7,690
Additions/formation	12,789	405	22,725	1,059	36,978
Actuarial gains	2	0	0	0	2
Change to companies consolidated	501	0	434	112	1,047
Compounding of interest	74	13	81	1	169
Reversal	-523	-64	-6,311	-164	-7,062
<b>As at 31 December 2016</b>	<b>17,326</b>	<b>1,243</b>	<b>37,421</b>	<b>1,680</b>	<b>57,670</b>
Currency differences	-17	0	-907	-121	-1,045
Consumption	-3,928	-131	-8,881	-320	-13,260
Additions/formation	2,420	137	23,781	1,190	27,528
Change to companies consolidated	0	0	0	0	0
Compounding of interest	75	18	123	1	217
Reversal	-4,257	0	-3,289	-52	-7,598
<b>As at 31 December 2017</b>	<b>11,619</b>	<b>1,267</b>	<b>48,248</b>	<b>2,378</b>	<b>63,512</b>
<b>of which current</b>	<b>7,694</b>	<b>442</b>	<b>39,100</b>	<b>1,651</b>	<b>48,887</b>
<b>of which non-current</b>	<b>3,925</b>	<b>825</b>	<b>9,148</b>	<b>727</b>	<b>14,625</b>

Provisions in the staff area have been set aside for anniversary expenses, termination settlements and similar obligations, among other things.

Provisions of the production division comprise, inter alia, asset retirement obligations and disposal costs.

Provisions in the sales area essentially comprise provisions for warranties, compensation claims

by commercial representatives as well as provisions for litigation risks. Provisions for warranty obligations are carried as liabilities for individual cases.

In addition to provisions for acceptance obligations and safe-keeping obligations, the remaining other provisions comprise additional factual circumstances subordinate in nature in terms of their recognition.

#### (24) Non-current and current borrowings

in EUR K			Carrying amount as at 31 Dec 2017			Carrying amount as at 31 Dec 2016
	current	non-current		current	non-current	
Liabilities to banks	8,486	1,707	10,193	12,024	792	12,816
Liabilities under finance leases	271	325	596	401	329	730
Other borrowings	1,000	0	1,000	1,073	0	1,073
<b>Borrowings in total</b>	<b>9,757</b>	<b>2,032</b>	<b>11,789</b>	<b>13,498</b>	<b>1,121</b>	<b>14,619</b>

The conditions applicable to the liabilities under finance leases are explained in Note (13).

#### (25) Trade payables

in EUR K	31 Dec 2017	31 Dec 2016
<b>from</b>		
Third parties	46,256	46,344
Companies accounted for using the equity method	134	102
<b>Trade payables in total</b>	<b>46,390</b>	<b>46,446</b>

The trade payables result almost entirely from current liabilities.

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

**(26) Non-current and current financial liabilities**

in EUR K			Carrying amount as at 31 Dec 2017			Carrying amount as at 31 Dec 2016
	current	non-current		current	non-current	
Negative fair values of derivative financial instruments	260	0	260	160	58	218
<b>Other liabilities</b>						
towards customers	13,307	0	13,307	16,700	0	16,700
towards employees	1,082	0	1,082	1,458	0	1,458
Other	13,823	316	14,139	9,469	683	10,152
<b>Financial liabilities in total</b>	<b>28,472</b>	<b>316</b>	<b>28,788</b>	<b>27,787</b>	<b>741</b>	<b>28,528</b>

Derivative financial instruments have the following negative fair values:

in EUR K	31 Dec 2017	31 Dec 2016
<b>Hedges against</b>		
currency risks	260	199
interest risks	0	19
<b>Fair values of derivative financial instruments in total</b>	<b>260</b>	<b>218</b>

Derivative financial instruments as a whole are described in detail in Note (31).

**(27) Non-current and current other liabilities**

in EUR K			Carrying amount as at 31 Dec 2017			Carrying amount as at 31 Dec 2016
	current	non-current		current	non-current	
Advance payment received on orders	1,601	0	1,601	1,812	0	1,812
<b>Other liabilities</b>						
from other taxes	8,668	0	8,668	7,735	0	7,735
social security liabilities	3,350	0	3,350	2,839	0	2,839
towards employees	25,599	0	25,599	24,544	27	24,571
Other	6,124	8	6,132	6,468	1	6,469
<b>Other liabilities in total</b>	<b>45,342</b>	<b>8</b>	<b>45,350</b>	<b>43,398</b>	<b>28</b>	<b>43,426</b>

**(28) Further notes on financial instruments in accordance with IFRS 7****Reconciliation of balance sheet items with financial instrument categories as at 31 December 2016**

in EUR K	Measurement category in accordance with IAS 39	Carrying amount 31 Dec 2016	Financial instruments				No financial instrument	
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet in acc. with IAS 17		Not within the scope of IFRS 7/Hedge accounting
			Carrying amount	Fair value				
<b>Assets</b>								
Equity investments	n.a.	0	0	0	0	0	0	0
Trade payables	LaR	123,674	123,674	123,674	0	0	0	0
Other receivables and financial assets								
- Available-for-sale financial assets	AfS	15	15	15	0	0	0	0
- Held-to-maturity investments	HtM	8,179	8,179	8,192	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	159	0	0	159	0	0	0
- Other assets	LaR/n.a.	87,657	64,604	64,604	0	0	12	23,041
Other receivables and financial assets in total		96,010	72,798	72,811	159	0	12	23,041
Cash and cash equivalents	LaR	70,071	70,071	70,071	0	0	0	0
<b>Liabilities</b>								
Borrowings	FLAC	13,889	13,889	13,889	0	0	0	0
Liabilities under finance leases	n.a.	730	0	0	0	730	0	0
Borrowings in total		14,619	13,889	13,889	0	730	0	0
Trade payables	FLAC	46,446	46,446	46,446	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	218	0	0	218	0	0	0
- Other liabilities	FLAC/n.a.	71,736	28,311	28,311	0	0	0	43,425
Other liabilities and financial liabilities in total		71,954	28,311	28,311	218	0	0	43,425

## Reconciliation of balance sheet items with financial instrument categories as at 31 December 2017

in EUR K	Measurement category in accordance with IAS 39	Carrying amount 31 Dec 2017	Financial instruments					No financial instrument
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet in acc. with IAS 17	Not within the scope of IFRS 7/Hedge accounting	
			Carrying amount	Fair value				
<b>Assets</b>								
Equity investments	n.a.	11,020	0	0	0	0	0	11,020
Trade payables	LaR	126,186	126,186	126,186	0	0	0	0
Other receivables and financial assets								
- Available-for-sale financial assets	AfS	15	15	15	0	0	0	0
- Held-to-maturity investments	HtM	7,175	7,175	7,156	0	0	0	0
- Financial assets held for trading	FAHFT	0	0	0	0	0	0	0
- Derivative assets								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FAHFT	23	0	0	23	0	0	0
- Other assets	LaR/n.a.	98,499	70,415	70,415	0	0	0	28,084
Other receivables and financial assets in total		105,712	77,605	77,586	23	0	0	28,084
Cash and cash equivalents	LaR	84,422	84,422	84,422	0	0	0	0
<b>Liabilities</b>								
Borrowings	FLAC	11,193	11,193	11,193	0	0	0	0
Liabilities under finance leases	n.a.	596	0	0	0	596	0	0
Borrowings in total		11,789	11,193	11,193	0	596	0	0
Trade payables	FLAC	46,390	46,390	46,390	0	0	0	0
Other liabilities and financial liabilities								
- Derivative liabilities								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FLHFT	260	0	0	260	0	0	0
- Other liabilities	FLAC/n.a.	73,879	28,529	28,529	0	0	0	45,350
Other liabilities and financial liabilities in total		74,139	28,529	28,529	260	0	0	45,350

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 2017	31 Dec 2016
Available-for-Sale (AFS)	15	15
Financial assets held for trading (FAHfT)	23	159
Held-to-Maturity Investments (HtM)	7,175	8,179
Loans and receivables (LaR)	281,023	258,361
Financial liabilities measured at amortised cost (FLAC)	86,111	88,646
Financial Liabilities Held for Trading (FLHfT)	260	218

#### Balance sheet items measured at fair value

in EUR K	31 Dec 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
- Derivatives with no hedge relationship	159	0	159	0
Available-for-sale financial assets				
- Derivatives with a hedge relationship	0	0	0	0
<b>Financial assets measured at fair value</b>	<b>159</b>	<b>0</b>	<b>159</b>	<b>0</b>
Financial liabilities measured at fair value through profit and loss				
- Derivatives with no hedge relationship	218	0	218	0
Financial liabilities recorded in other earnings with no impact on profit and loss				
- Derivatives with a hedge relationship	0	0	0	0
<b>Financial liabilities measured at fair value</b>	<b>218</b>	<b>0</b>	<b>218</b>	<b>0</b>

in EUR K	31 Dec 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
- Derivatives with no hedge relationship	23	0	23	0
Available-for-sale financial assets				
- Derivatives with a hedge relationship	0	0	0	0
<b>Financial assets measured at fair value</b>	<b>23</b>	<b>0</b>	<b>23</b>	<b>0</b>
Financial liabilities measured at fair value through profit and loss				
- Derivatives with no hedge relationship	260	0	260	0
Financial liabilities recorded in other earnings with no impact on profit and loss				
- Derivatives with a hedge relationship	0	0	0	0
<b>Financial liabilities measured at fair value</b>	<b>260</b>	<b>0</b>	<b>260</b>	<b>0</b>

The following table shows the carrying amounts and fair values of the financial instruments as at 31 December 2017, excluding financial instruments which typically barely differ between carrying amount and fair values.

in EUR K	Carrying amount 31 Dec 2017	Fair value 31 Dec 2017	Measurement category in accordance with IAS 39
<b>Financial assets</b>			
Non-current			
Investments	15	15	Level 2
Loans	692	692	Level 2
Forward exchange contracts	0	0	Level 2
Financial investments	0	0	Level 2
Other financial assets	468	468	Level 2
<b>Non-current financial assets in total</b>	<b>1,175</b>	<b>1,175</b>	
Current			
Financial investments	71,847	71,828	Level 2
Loans	54	54	Level 2
Forward exchange contracts	23	23	Level 2
Other financial assets	4,529	4,529	Level 2
<b>Current financial assets in total</b>	<b>76,453</b>	<b>76,434</b>	
<b>Total financial assets</b>	<b>77,628</b>	<b>77,609</b>	
<b>Financial liabilities</b>			
Non-current			
Borrowings	2,032	2,032	Level 2
Other financial liabilities	316	316	Level 2
Forward exchange contracts	0	0	Level 2
<b>Non-current financial liabilities in total</b>	<b>2,348</b>	<b>2,348</b>	
Current			
Borrowings	9,757	9,757	Level 2
Forward exchange contracts	260	260	Level 2
Other financial liabilities	28,213	28,213	Level 2
<b>Current financial liabilities in total</b>	<b>38,230</b>	<b>38,230</b>	
<b>Total financial liabilities</b>	<b>40,578</b>	<b>40,578</b>	

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 note loans, money market funds and term deposits with short terms, so that their fair values only differ slightly from the nominal values. 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. They are measured based on the observable exchange rates, the interest structure curves of the respective currencies as well as the currency-related basic spreads between the respective currencies. The derivatives are currency hedges only.

#### Level 3

The measurement is effected using valuation methods where the influential factors are not based exclusively on observable market data.

Neither any reclassifications between the levels nor any additions or disposals were carried out during the reporting period.

Development of the adjustments of financial instruments valued at amortised costs of acquisition (refers solely to trade receivables, other receivables and financial assets):

in EUR K	2017	2016
<b>A at 01 January</b>	<b>20,791</b>	21,537
Exchange rate differences	-146	-3
Additions	7,093	8,637
Consumption	2,701	3,040
Reversals	4,200	6,664
Change to companies consolidated	0	324
<b>As at 31 December</b>	<b>20,837</b>	20,791

## Other disclosures

### (29) Cash flow statement

The cash flow statement shows how the Group's liquidity position has changed in the course of the year under review as a result of cash inflows and outflows. For this purpose, it distinguishes cash flow from operating activities, cash flow from investing activities and cash flow from financing activities (IAS 7 Statement of cash flows).

The cash flow statement solely comprises the cash and cash equivalents reported in the statement of financial position that include financial investments with an original term of up to three months.

Based on earnings before taxes, the cash flow is indirectly derived from operating activities. Earnings before taxes are adjusted to take account of non-cash expenses (essentially depreciation) and non-cash income. Cash flow from operating activities reflects changes in working capital.

Cash inflows and outflows from investing and financing activities are calculated using the direct method. Investment activities comprise disbursements for additions to intangible assets and tangible fixed assets as well as disbursements for the acquisition of consolidated companies and other business units, interest received, deposits arising from the disposal of intangible assets and property, plant, and equipment, as well as disbursements and payments for financial investments.

Financing activities comprise cash outflows from payments to shareholders, interest payments and the taking-out and repayment of loans, as well as changes to other borrowings. Changes in items of the statement of financial position analysed for the cash flow statement cannot be directly derived from the balance sheet on account of non-cash currency translation effects and other non-cash transactions.

### (30) Segment reporting

For the purpose of corporate management by the responsible corporate entity – the personally liable partner STO Management SE – the Group is divided into geographical business units. The geographical business units were consolidated to form the segments of Western Europe and Other with the segment Other being broken down into the regions of Northern/Eastern Europe and America/Asia. The business segment of Western Europe comprises the geographical business units of the Euro zone (without Finland and Slovakia), Switzerland, as well as the United Kingdom.

Internal reporting is carried out in accordance with IFRS.

The activities of all segments included the production and distribution of facade systems, facade coatings, interior products and Other product groups.

The netting prices between segments conform to arms-length conditions. Transfers between business segments are eliminated on consolidation.

The segment results are reported in the levels EBITDA, EBIT, and EBT.

Depreciation/amortisation and investments relate to property, plant, and equipment, and intangible assets.

Segment assets mainly comprise property, plant, and equipment, intangible assets, inventories, trade receivables from third parties as well as other receivable and financial assets from third parties.

Income tax receivables and Deferred tax receivables as well as other cases that cannot be allocated individually to the other segments

were listed in the "Reconciliation/consolidation booking entries" column. This column also includes the elimination of results between the segments. No significant adjustments were made to earnings.

Owing to the broad customer structure, there is no customer with whom 10 % or more of sales revenues are generated.

The breakdown of sales revenues is made on the basis of the customer's head office.

in EUR K	2016			Total
	Germany	France	Others	
External revenues	548,647	121,212	560,814	<b>1,230,673</b>
Intangible assets, property, plant, and equipment	203,563	24,446	80,300	<b>308,309</b>

in EUR K	2017			Total
	Germany	France	Others	
External revenues	562,808	121,315	593,275	<b>1,277,398</b>
Intangible assets, property, plant, and equipment	191,045	27,707	84,632	<b>303,384</b>

**(31) Financial risk management and financial instruments****Hedging policy**

The Sto Group's international activities expose it to interest and currency risks in particular. The goal of risk management is to adequately hedge currency risks that can arise during planning. Forward exchange transactions with a term of up to one year are generally concluded for this purpose.

Guidelines have been adopted to govern the scope for hedging and internal monitoring. Within the framework of these guidelines, only hedging transactions with approved counterparties may be concluded only to hedge existing or planned transactions. As a matter

of principle, the type and scope of hedging operations are determined by the underlying transaction.

**Liquidity risk**

Detailed liquidity planning is the basis of liquidity management. On balance sheet date, cash and cash equivalents as well as existing, unused credit lines were available. These credit lines constitute mainly a syndicated loan, which was taken out in 2012 and which was extended until 2022 in 2017.

The following overview sets out the contractually agreed cash outflows from financial instruments, including interest, not including cash outflows from finance leasing contracts shown in Note (13).

in EUR K	Cash outflows			31 Dec 2016
	up to 1 year	1 – 5 years	5 – 10 years	
Borrowings	12,804	949	275	14,028
Trade payables	46,446	0	0	46,446
Other borrowings	27,628	683	0	28,311
Derivatives	48,253	401	0	48,654
<b>Cash outflows in total</b>	<b>135,131</b>	<b>2,033</b>	<b>275</b>	<b>137,439</b>

in EUR K	Cash outflows			31 Dec 2017
	up to 1 year	1 – 5 years	5 – 10 years	
Borrowings	9,486	1,707	0	11,193
Trade payables	46,035	355	0	46,390
Other borrowings	28,213	316	0	28,529
Derivatives	40,938	0	0	40,938
<b>Cash outflows in total</b>	<b>124,672</b>	<b>2,378</b>	<b>0</b>	<b>127,050</b>

The amounts of the derivatives shown correspond to the undiscounted cash flows. These payments can be processed on a gross or net basis.

In the following table, the cash outflows are compared to the corresponding cash inflows:

in EUR K	Cash inflows/outflows as at 31 Dec 2016			Total
	up to 1 year	1 – 5 years	5 – 10 years	
Inflow	48,252	343	0	48,595
Outflow	48,253	401	0	48,654
<b>Balance</b>	<b>-1</b>	<b>-58</b>	<b>0</b>	<b>-59</b>

in EUR K	Cash inflows/outflows as at 31 Dec 2017			Total
	up to 1 year	1 – 5 years	5 – 10 years	
Inflow	40,701	0	0	40,701
Outflow	40,938	0	0	40,938
<b>Balance</b>	<b>-237</b>	<b>0</b>	<b>0</b>	<b>-237</b>

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

in EUR K	01 Jan	Cash flows	New leases	Other	31 Dec
	2017				
current interest-bearing loans (without the following items)	13,097	-3,696		85	<b>9,486</b>
current liabilities from financial lease and lease-purchase contracts	401	-431	63	238	<b>271</b>
non-current interest-bearing loans (without the following items)	792	1,000		-85	<b>1,707</b>
non-current liabilities from financial lease and lease-purchase contracts	329		234	-238	<b>325</b>
<b>Total liabilities from financing activities</b>	<b>14,619</b>	<b>-3,127</b>	<b>297</b>	<b>0</b>	<b>11,789</b>

The effects of the reclassification of the long-term portion of interest-bearing loans and finance lease obligations over time are reported under "Other".

**Default risk arising from financial assets**

The credit and default risk arising from financial assets entails the risk of a counterparty defaulting and is limited to the maximum net carrying amount of the receivable due from the defaulting counterparty.

In connection with the investment of cash and the portfolio of derivative financial assets, there are generally default risks due to the risks of financial institutions failing to honour their obligations. The resulting risk was controlled

by means of diversification and the careful selection of counterparties. At the moment, no cash investments or derivative financial assets are overdue or impaired on account of defaults or default risks.

Allowance is made for default risks from originated financial instruments by making adjustments to receivables. Overall, there is no clustering of default risks on account of the broad customer structure.

**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  <b>31 Dec 2016</b>
Other financial assets	72,838	0	130	72,968
Trade receivables	77,598	22,650	23,426	123,674
Cash and cash equivalents	70,071	0	0	70,071
<b>Financial assets measured at amortised costs of acquisition in total</b>	<b>220,507</b>	<b>22,650</b>	<b>23,556</b>	<b>266,713</b>

in EUR K	not due, not value- adjusted	overdue, not value- adjusted	overdue, value-adjusted	Carrying amount  <b>31 Dec 2017</b>
Other financial assets	77,506	11	88	77,605
Trade receivables	80,718	21,037	24,431	126,186
Cash and cash equivalents	84,422	0	0	84,422
<b>Financial assets measured at amortised costs of acquisition in total</b>	<b>242,646</b>	<b>21,048</b>	<b>24,519</b>	<b>288,213</b>

Trade receivables are assessed on the basis of the creditworthiness of the respective customer. Information is obtained and regularly updated to assess the credit quality of financial assets which are neither overdue nor adjusted. On the basis of this and other information, the financial assets are classified and credit limits defined.

Collateral amounting to EUR 555 K (previous year: EUR 1,464 K) was held in the financial year for overdue and impaired trade receivables.

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

In the case of financial instruments that are not due and not impaired, there were no signs of possible default as of the balance sheet date.

#### Maturity analysis of overdue and not value-adjusted financial instruments:

in EUR K	overdue				31 Dec 2016
	up to 30 days	30 days to 60 days	60 days to 90 days	more than 90 days	
Other financial assets	0	0	0	0	0
Trade receivables	13,430	4,615	1,385	3,220	22,650
<b>Overdue and not value-adjusted financial instruments in total</b>	<b>13,430</b>	<b>4,615</b>	<b>1,385</b>	<b>3,220</b>	<b>22,650</b>

in EUR K	overdue				31 Dec 2017
	up to 30 days	30 days to 60 days	60 days to 90 days	more than 90 days	
Other financial assets	0	0	0	11	11
Trade receivables	11,637	3,759	2,075	3,567	21,037
<b>Overdue and not value-adjusted financial instruments in total</b>	<b>11,637</b>	<b>3,759</b>	<b>2,075</b>	<b>3,578</b>	<b>21,048</b>

**Currency risk**

Payments in foreign currency are determined in the budget phase for the following year. On the basis of the planned payment flows, suitable hedging strategies are created, agreed upon with the relevant bodies, and implemented.

The planned cash positions are hedged without exception through hedging instruments congruent with the time and economic state from the area of derivatives. The currency hedge 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 statement of profit and loss with an impact on profit and loss.

The main operative currency risks are due to the manufacture of products in Germany and the subsequent sale of these products to foreign subsidiaries in euros. 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 results from the change in 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 91 K (previous year: EUR 273 K higher), or down by EUR 74 K (previous year: EUR 223 K lower).

**Interest rate risk**

Interest rate risks according to IFRS 7 arise due to possible changes in the market interest rates for cash investments and due to the variable interest rates for current and non-current liabilities.

The volume of non-current, variable-rate borrowings was so low that a change of the market interest level by 100 basis points on 31 December 2017 would have had no significant impact on earnings, like in the previous year.

Due to the maturity of the financial investments with a running period of up to one year, there is no interest rate risk as at 31 December 2017.

### Valuation of derivative financial instruments

The market values of the derivative financial instruments are determined on the basis of the tradability based on reference prices and valuation models and is presented as follows:

in EUR K	31 Dec 2017		31 Dec 2016	
	Nominal volume	Market value total	Nominal volume	Market value total
Forward exchange transactions/options	40,986	-237	50,745	-40
Interest rate swaps/caps	0	0	1,176	-19
<b>Derivative financial instruments in total</b>	<b>40,986</b>	<b>-237</b>	51,921	-59

The nominal volume of a derivative hedge transaction is the reference amount for which the payments are derived. The hedged contract and the risk are not the same as the nominal volume but only reflect rate changes to which they refer. The market value corresponds to the amount that would have to be paid at the balance sheet date if the hedge had been settled.

The decrease in the nominal volume in a functional currency in case of the foreign currency forwards is based on a reduced hedging volume of payments outside the functional currency.

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

### (32) Contingencies

in EUR K	2017	2016
Guarantees from the Sto Group to third parties	677	343
Reserve liability to cooperatives	1	1
<b>Contingencies in total</b>	<b>678</b>	344

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

**(33) Litigation**

Neither Sto SE & Co. KGaA nor its Group companies are involved in any court litigation or arbitration proceedings which are liable to exert a significant influence on the Group's economic situation or have done so in the past two years. There is no evidence that any such litigation or proceedings will arise in the future. Provisions in an appropriate amount have been set aside by the individual Group companies to allow for any expenses arising from court litigation or arbitration proceedings.

**(34) Other financial obligations**

in EUR K	31 Dec 2016	within one year	Maturity between 1 – 5 years	after 5 years
Obligations from operating leases	63,319	21,460	35,690	6,169
Obligations under maintenance contracts	5,177	3,296	1,881	0
Acceptance obligations	11,594	11,299	255	40
Other obligations	590	366	224	0
<b>Other financial obligations in total</b>	<b>80,680</b>	<b>36,421</b>	<b>38,050</b>	<b>6,209</b>

in EUR K	31 Dec 2017	within one year	Maturity between 1 – 5 years	after 5 years
Liabilities from operating leases	59,992	21,279	35,166	3,547
Liabilities from maintenance contracts	5,552	3,592	1,960	0
Acceptance obligations	9,035	8,663	349	23
Other obligations	580	366	214	0
<b>Other financial obligations in total</b>	<b>75,159</b>	<b>33,900</b>	<b>37,689</b>	<b>3,570</b>

The liabilities from operating leases primarily comprise building rental contracts as well as liabilities relating to the vehicle fleet, and plants.

There are no purchasing intentions at the end of the leasing contracts. Insofar as final payments are to be expected resulting from damages, provisions have been made.

Of the acceptance obligations, an amount of EUR 5,672 K (previous year: EUR 7,311 K) relates to items of tangible fixed assets. Furthermore, acceptance obligations exist that relate to inventories as well as other acceptance obligations.

**(35) Auditors' fees**

The following fees paid to the auditor of the consolidated annual financial statement, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, for services provided were recorded as expenses in 2017:

in EUR K	2017	2016
Audits of financial statements	321	300
Tax consulting services	0	0
Other certification or valuation activities	4	7
Other services	11	61
<b>Auditors' fees in total</b>	<b>336</b>	368

**(36) Events after the balance sheet date**

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

**(37) Related party disclosures**

IAS 24 defines related parties as persons or entities which can 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 2017, members of the Executive Board of STO Management SE and the Supervisory Board of Sto SE & Co. KGaA were members of the executive boards and supervisory boards of other companies with which Sto SE & Co. KGaA maintains relations as part of its ordinary business activities. All transactions with such companies are conducted on arms-length terms.

The volume of deliveries and services, including net interest income, between companies in the Sto Group and related parties and persons are set out in the following table:

in EUR K	Share	Rendered deliveries and services		Received deliveries and services		Receivables from		Liabilities to	
		2017	2016	2017	2016	2017	2016	2017	2016
Inotec GmbH, Waldshut-Tiengen/Germany	47.5 %	75	77	3,638	3,696	654	662	134	102
STO Management SE		808	772	3,698	4,093	79	104	1,714	2,084
Stotmeister Beteiligungs GmbH		0	0	0	41	0	0	0	0
Other		0	0	5	20	0	0	0	20

Interest payments were made to Stotmeister Beteiligungsgesellschaft mbH in the previous year to the amount of EUR 41 K.

**(38) List of shareholdings as at 31 December 2017**

Fully consolidated companies in Germany	Capital share in %
Name, registered office	
StoCretec GmbH, Kriftel/Germany	100
Verotec GmbH, Lauingen/Germany	100
Gefro Verwaltungs-GmbH & Co. KG, Stühlingen/Germany	100
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany	100
Südwest Lacke + Farben Verwaltungs-GmbH, Böhl-Iggelheim/Germany	100
VeroStone GmbH, Eichstätt/Germany	100
Innolation GmbH, Lauingen/Germany	100
Sto SMEE Beteiligungs GmbH, Stühlingen/Germany	100
Ströher GmbH, Dillenburg/Germany	50.1
Ströher Fliesen GmbH, Dillenburg/Germany	50.1
Ströher Produktions GmbH & Co. KG, Dillenburg/Germany	50.1
GEPADI Fliesen GmbH, Dillenburg/Germany	50.1
Sto BT GmbH, Stühlingen/Germany	100
Sto BTN GmbH, Stühlingen/Germany	100
Sto BTJ GmbH, Stühlingen/Germany	100

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

Fully consolidated companies outside Germany	Capital share in %
<b>Name, registered office</b>	
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
Hesselberg Bygg AS, Moss/Norway	100
UAB TECH-COAT, Klaipėda/Lithuania	95
Hesselberg Sverige AB, Helsingborg/Sweden	100
Sto AG, Niederglatt/Switzerland	100
Sto Ltd., Paisley/Great Britain	100
Sto Sp. z o.o., Warsaw/Poland	100
Sto Epitőanyag 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 Yapı Sistemleri Sanayi ve Ticaret A.Ş., Istanbul/Turkey	100
Sto Gulf Building Material LLC., Dubai/UAE	49
Sto Corp., Atlanta/USA	100
Sto Canada Ltd., Etobicoke/Canada	100
Industrial y Comercial Sto Chile Ltda., Santiago de Chile/Chile	100
Sto Colombia S.A.S., Bogota D.C./Colombia	100
Sto Mexico S. de R.L. de C.V., Monterrey/Mexico	100
Sto Brasil Revestimentos e Fachadas Ltda., Itaquaquecetuba/Brazil	100
Sto Corp. Latin America Inc., Panama/Panama	100
Shanghai Sto Ltd., Shanghai/China	100
Langfang Sto Building Material Co. Ltd., Hebei/China	100
Wuhan Sto Building Material Co. Ltd., Wuhan/China	100
Sto SEA Pte. Ltd., Singapore/Singapore	100
Sto SEA Sdn. Bhd., Masai/Malaysia	100

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

Associates	Capital share in %
<b>Name, registered office</b>	
Inotec GmbH, Waldshut-Tiengen/Germany	47.5
JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany	49.8
JONAS GmbH, Wülfrath/Germany	49.8

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

### **(39) German Corporate Governance Code**

On 17 December 2017, the Executive Board of the personally liable partner of Sto SE & Co. KGaA, STO Management SE, and the Supervisory Board of Sto SE & Co. KGaA issued the declaration of compliance with the recommendations of the Government Commission on German Corporate Governance Code in accordance with Section 161 of the German Companies Act and made it available to shareholders on the Internet page of Sto SE & Co. KGaA on 22 December 2017.

### **(40) Remuneration of the Executive Board and the Supervisory Board**

The remuneration paid to the members of the Executive Board in the fiscal year of 2017 complies with the statutory provisions contained in the German Companies Act. In the fiscal year 2017, current due remunerations of the Executive Board totalled EUR 2,462 K (previous year: EUR 3,059 K). Expenses for future benefits after termination of the employment relationship (current service cost) amounted to EUR 309 K (previous year: EUR 213 K). Total Executive Board remunerations thus amounted to EUR 2,771 K (previous year: EUR 3,272 K). As at 31 December 2017, the post-employment benefit provisions for the current members of the Executive Board amounted to EUR 164 K (previous year: EUR 175 K) due to offsetting against plan assets and non-current financial liabilities. As at 31 December 2017, post-employment benefit

provisions for former members of the Executive Board were valued at EUR 2,039 K (previous year: EUR 2,183 K) due to offsetting against plan assets. Remuneration paid to former members of the Executive Board and the Supervisory Board came to EUR 424 K (previous year: EUR 423 K).

For the 2017 fiscal year, remuneration of the Supervisory Board of Sto SE & Co. KGaA and the compensation of expenditure in this regard as stipulated in Section 6 Paragraph 3 of the regulations of Sto SE & Co. KGaA for the Supervisory Board of STO Management SE for the 2017 fiscal year amounted to EUR 627 K (previous year: EUR 608 K).

The members of the Supervisory Board will only receive currently due payments for their activities on the committee. Excluded from this are compensation and other payments to employee representatives pursuant to their employment contracts. No compensation has been granted for personally rendered services outside of committee activities by the members of the Supervisory Board.

Following the decision at the Annual General Meeting on 16 June 2015, the need for disclosure in accordance with Section 314 No. 6a sentence 5-9 of the German Commercial Code (HGB) and Section 314 Paragraph 2 sentence 2 HGB in conjunction with Section 286 Paragraph 5 HGB has been dispensed with.

**Members of the Executive Board of STO Management SE in the 2017 fiscal year  
(personally liable partner of Sto SE & Co. KGaA):**

**Rainer Hüttenberger**

Spokesman of the Executive Board responsible for Marketing and Sales Sto Brand International Stein a. Rhein/Switzerland, Dipl.-Betriebswirt (FH)  
Member of the BOD of Sto Corp., Atlanta/USA  
Chairman of the BOD of Shanghai Sto Ltd., Shanghai/China  
Chairman of the BOD of Sto Scandinavia AB, Linköping/Sweden  
Chairman of the BOD of Sto Danmark A/S, Hvidovre/Denmark  
Chairman of the BOD of Sto Yapı Sistemleri Sanayi ve Ticaret A.Ş., Istanbul/Turkey  
Member of the BOD of Sto Norge AS, Oslo/Norway  
Member of the BOD of Sto Finexter OY, Vantaa/Finland  
Member of the BOD of Sto SEA Pte Ltd., Singapore/Singapore

**Rolf Wöhrle**

Chief Financial Officer, responsible for Finance, Controlling, IT, Legal, and Internal Audit  
Bad Dürkheim/Germany, Dipl.-Betriebswirt (BA)  
Chairman of the BOD of Hesselberg Bygg AS, Moss/Norway  
Member of the BOD of Sto Scandinavia AB, Linköping/Sweden  
Member of the BOD of Sto Norge AS, Oslo/Norway  
Member of the BOD of Sto Finexter OY, Vantaa/Finland  
Member of the BOD of Sto Danmark A/S, Hvidovre/Denmark  
Member of the BOD of Sto Ltd., Paisley/Great Britain

**Michael Keller**

Chief Sales Officer, responsible for Sales Sto Brand Germany, Distribution, and Central Services  
Bonndorf/Germany, Ing.-Päd. (TU)  
Member of the Supervisory Board of JONAS Farbenwerke GmbH & Co.KG, Wülfrath/Germany  
Member of the Administrative Board of Beissier S.A.U., Errenteria/Spain

**Jan Nissen**

Chief Technical Officer, responsible for Process Engineering, Innovation, Materials Management, and Logistics  
Trossingen/Germany, Bachelor of Science  
Chairman of the Advisory Board of Inotec GmbH, Waldshut-Tiengen/Germany  
Member of the BOD of Shanghai Sto Ltd., Shanghai/China  
Member of the BOD of Sto SEA Pte Ltd., Singapore/Singapore

**Members of the Supervisory Board of Sto SE & Co. KGaA in the 2017 fiscal year:**

**Dr Max-Burkhard Zwosta**

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

**Lothar Hinz**

Deputy Chairman of the Supervisory Board  
(since 14 June 2017) and employee representa-  
tive, Reutlingen/Germany  
Chairman of the Group Works Council and  
Chairman of the Works Council for the  
Baden-Württemberg sales region, Sto SE & Co.  
KGaA, and StoCretec GmbH

**Holger Michel** (until 14 June 2017)

Deputy Chairman of the Supervisory Board and  
employee representative, Dresden/Germany  
Pensioner

**Maria H. Andersson** (since 14 June 2017)

Munich/Germany  
Managing Director of N4 Beteiligungs-  
gesellschaft mbH  
Member of the Supervisory Board of STO  
Management SE, Stühlingen/Germany  
Member of the Advisory Board of Matador  
Private Equity AG, Sarnen/Switzerland

**Gertrud Eisele** (until 14 June 2017)

Rottweil/Germany  
Publisher

**Dr Renate Neumann-Schäfer**

(since 14 June 2017)  
Überlingen/Germany  
Managing Director, Member of the Supervisory  
Board and Foundation Council  
Member of the Supervisory Board of STO  
Management SE, Stühlingen/Germany  
Member of the Supervisory Board of Villeroy &  
Boch AG, Mettlach/Germany  
Member of the Foundation Council of  
Samariter Stiftung, Nürtingen/Germany

**Cornelia Reinecke** (since 14 June 2017)

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

**Prof Dr-Ing Klaus Peter Sedlbauer**

Rottach-Egern/Germany  
Chairholder at the Institute of Building Physics  
of the Technical University Munich/Germany  
Head of the Fraunhofer Institute for Building  
Physics, Stuttgart, Holzkirchen, Kassel,  
Nuremberg and Rosenheim/Germany  
Deputy Chairman of the Supervisory Board  
of Calcon AG, Munich/Germany

**Charles Stettler** (until 14 June 2017)

Stäfa/Switzerland

Banker/freelance member of the Administrative Board

President of the Administrative Board of Sto AG, Niederglatt-Zurich/Switzerland

President of the Administrative Board of Allco AG, Lachen-Zurich/Switzerland

President of the Administrative Board of InvestInvent AG, Zurich/Switzerland

Member of the Administrative Board of BZ Bank AG, Wilen/Switzerland

Member of the Administrative Board of Lienhardt &amp; Partner Privatbank AG, Zurich/Switzerland

Member of the Administrative Board of Intershop Holding AG, Zurich/Switzerland

Member of the Administrative Board of AIL Swiss-Austria Leasing AG, Zurich/Switzerland

Member of the Administrative Board of Gadola Holding AG, Grüningen-Zurich/Switzerland

Member of the Administrative Board of Wyler AG, Winterthur/Switzerland

Member of the Administrative Board of Epting Immobilien AG, Hombrechtikon/Switzerland

**Jochen Stotmeister** (until 14 June 2017)

Grafenhausen/Germany, Dipl. Betriebswirt (FH)

Chairman of the Supervisory Board of STO Management SE, Stühlingen/Germany

Member of the Supervisory Board of CellGenix GmbH, Freiburg i.Br./Germany

Member of the Advisory Board of Karl Wörwag, Lack- und Farbenfabrik GmbH &amp; Co. KG, Stuttgart/Germany

Member of the Advisory Board of Paul Bauder GmbH &amp; Co. KG, Stuttgart/Germany

**Peter Zürn**

Bretzfeld-Weißensburg/Germany

Member of the Management of the Würth Group, Künzelsau/Germany

Member of the Supervisory Board of STO Management SE, Stühlingen/Germany

Chairman of the Administrative Board of InovaChem Engineering AG, Wetzikon/Switzerland

Chairman of the Administrative Board of Würth á Islandi ehf., Garðabær/Iceland

Chairman of the Administrative Board of Würth Norge AS, Hagan/Norway

Member of the Administrative Board of Tunap International Trading Co., Ltd., Shanghai/China

Member of the Administrative Board of Würth AG, Arlesheim/Switzerland

Member of the Administrative Board of Würth International AG, Chur/Switzerland

Member of the Administrative Board of Würth Promotional Concepts AG, Chur/Switzerland

Member of the Administrative Board of Würth Logistics, Rorschach/Switzerland

Member of the Administrative Board of Würth Australia Pty. Ltd., Dandenong South/Australia

Member of the Supervisory Board of Wuerth India Pvt. Ltd., Mumbai/India

Member of the Supervisory Board of Wuerth China Co. Ltd., Shanghai/China

Member of the Supervisory Board of Wuerth Indonesia P.T., Jakarta/Indonesia

Member of the Supervisory Board of Würth Szereléstechnika KFT, Budaörs/Hungary

Member of the Supervisory Board Würth France SA, Erstein/France

Member of the Advisory Board of Würth Técnica de Montagem Lda., Sintra/Portugal

**Uwe Bruchmüller** (until 14 June 2017)  
Employee representative, Thalheim/Germany  
Freelance consultant  
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

**Frank Heßler** (since 14 June 2017)  
Employee representative, Mannheim/Germany  
Trade union secretary  
Deputy regional manager IG BCE of the  
regional district of Baden-Württemberg

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

**Roland Schey** (since 14 June 2017)  
Employee representative, Tengen/Germany  
Head of Finance and Accounting Sto Group

**Martina Seth** (since 14 June 2017)  
Employee representative, Uelzen/Germany  
Personnel Developer and Trade Union Secretary  
of IG BCE, Hanover Head Office

**Members of the Supervisory Board of STO Management SE in the 2017 fiscal year  
(personally liable partner of Sto SE & Co. KGaA):**

**Jochen Stotmeister**  
Chairman of the Supervisory Board  
Grafenhausen/Germany

**Charles Stettler**  
(until 14 June 2017)  
Deputy Chairman of the Supervisory Board  
Stäfa/Switzerland

**Dr Max-Burkhard Zwosta**  
(since 14 June 2017)  
Deputy Chairman of the Supervisory Board  
Wittnau/Germany

**Maria H. Andersson**  
(since 14 June 2017)  
Munich/Germany

**Gertrud Eisele**  
(until 14 June 2017)  
Rottweil/Germany

Stühlingen/Germany, 6 April 2018

**Dr Renate Neumann-Schäfer**  
(since 14 June 2017)  
Überlingen/Germany

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

**Prof Dr-Ing Klaus Peter Sedlbauer**  
(until 14 June 2017)  
Rottach-Egern/Germany



Rainer Hüttenberger  
(Spokesman)



Michael Keller

**Gerd Stotmeister**  
(since 14 June 2017)  
Allensbach/Germany



Jan Nissen



Rolf Wöhrle

**Peter Zürn**  
Bretzfeld-Weißensburg/Germany

## Audit certificate of the independent auditor

To Sto SE & Co. KGaA, Stühlingen/Germany

### **Report on the audit of the consolidated financial statements and the Group management report**

#### **Audit assessments**

We have audited the consolidated annual financial statement prepared by Sto SE & Co. KGaA, Stühlingen/Germany and its subsidiaries (the Group), comprising the consolidated statement of the financial situation as at 31 December 2017, the consolidated statement of profit and loss, the consolidated comprehensive income statement, the consolidated statement of changes in equity, and the consolidated cash flow statement for the fiscal year from 1 January 2017 until 31 December 2017 as well as the Notes to the financial statements, together with a summary of important accounting methods. Furthermore, we have audited the Group management report of Sto SE & Co. KGaA, Stühlingen/Germany for the fiscal year from 1 January until 31 December 2017. In our opinion based on the findings of our audit

- the accompanying consolidated annual financial statement of the Group complies in all material respects with IFRSs as they are to be applied in the EU, and additionally with German legal regulations to be applied in accordance with Section 315e Paragraph 1 of the HGB (German Commercial Code), and gives a true and fair view of the asset and financial situation of the Group as at 31 December 2017 as well as of its earnings situation for the fiscal year from 1 January 2017 until 31 December 2017, and
- the accompanying Group management report provides a suitable view of the Group's position. In all material respects, this Group management report is consistent with the consolidated annual financial statement

of the Group, complies with German legal regulations and accurately presents the opportunities and risks of future development. In accordance with Section 322 Paragraph 3 Sentence 1 of the HGB (German Commercial Code), we declare that our audit has not given rise to any objections to the correctness of the consolidated annual financial statement of the Group and the Group management report.

#### **Basis for the audit opinion on the consolidated annual financial statement of the Group**

We have conducted our audit of the consolidated annual financial statements of the Group and the Group management report in accordance with Section 317 HGB and the EU regulation on statutory audits (no. 537/2014) while observing the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility in accordance with these regulations and principles is mostly described under "Responsibility of the auditor for the audit of the consolidated annual financial statement of the Group and the Group management report". We are independent of the Group companies in accordance with European and German commercial and professional legal regulations and have fulfilled our German professional duties in accordance with these requirements. Furthermore, in accordance with Article 10 Paragraph 2 Letter (f) of the EU regulation on statutory audits we declare that we have not provided any prohibited non-audit services pursuant to Article 5 Paragraph 1 of the EU regulation of statutory audits. We are of the opinion that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated annual financial statement of the Group and on the Group management report.

### **Particularly important audit matters in the audit of the consolidated annual financial statement of the Group**

Particularly important audit matters are those matters which, according to our dutiful judgement, were most significant in our audit of the consolidated annual financial statement for the fiscal year from 1 January 2017 until 31 December 2017. These matters have been considered in connection with our audit of the consolidated annual financial statement as a whole and in forming our opinion thereon; we do not express a separate opinion on these matters. In the following, we describe what we consider to be particularly important audit matters:

#### **1) Recognition and measurement of provisions for warranty risks**

##### **Reasons for determining this as a particularly important audit matter**

The Group is exposed to considerable warranty risks. In our opinion, provisions for warranty risks are hence of particular importance as their recognition and measurement are particularly fraught with uncertainties and are highly dependent on the evaluations and assumptions of the statutory representatives. The assessment of the probability of damage occurring and estimates of the costs which would be incurred have a significant impact on the assets and earnings situation of the Group.

##### **Auditing procedure**

As part of our audit we have examined the processes established by the Sto Group for the identification, assessment, and reporting of provisions for warranty risks. Our auditing procedures included inquiries of legal representatives and other persons entrusted with these matters within the Group, obtaining written statements from internal legal advisors regarding the evaluation of the estimated outflow of funds and the likelihood of occurrence, obtain-

ing confirmation from external legal advisors, and assessing internal opinions on the reporting in the consolidated annual financial statement. In addition, we have assessed the estimation accuracy and the probability of occurrence on the basis of the development of the amounts of the provisions in previous years. Our auditing procedure has not given rise to any objections to the reporting of provisions for warranty risks.

#### **Reference to related information**

The Sto Group has provided information on the accounting and valuation methods applied to the provisions for warranty risks, and on the amount of contingent liabilities resulting from warranty risks under "6. Presentation of the major accounting and valuation policies" in the subsection "Discretionary decisions, estimates, and assumptions by Management" as well as under "Notes on the consolidated statement of financial position", Note (23).

#### **2) Recognition and measurement of deferred taxes**

##### **Reasons for determining this as a particularly important audit matter**

The Sto Group carries out its business activities in countries with different local tax laws. The recognition of deferred taxes on measurement differences and on loss carryforwards has been a particularly important matter in the context of our audit, as it requires a high degree of discretionary decisions, estimates, and assumptions by the legal representatives. In particular, this affects the recoverability of deferred tax assets on loss carryforwards. Their recoverability is based on an assessment of their usability based on future taxable income. The legal representatives make estimates with regard to the economic development of the Group companies, which are subject to discretionary powers.

**Auditing procedure**

We have called in internal tax experts to assist in assessing deferred taxes. We have examined the processes established by the legal representatives which traced the tax values on the basis of tax assessment notes and the confirmation of the external tax consultant. On the basis of spot tests, we have examined the identification, completeness and correct quantification of differences between the recognition and measurement of assets and liabilities in accordance with tax regulations and IFRS accounting, as well as the calculation of deferred taxes and the application of the applicable tax rate.

As part of our audit procedures for assessing the recoverability of deferred tax assets, on the basis of spot tests we have examined whether the tax plans were derived correctly from the corporate planning drawn up by the legal representatives. Furthermore, we have valued the assumptions of the tax planning of the respective company from the perspective of the taxable income generated in the past.

Our auditing procedure has not given rise to any objections to the measurement of deferred taxes.

**Reference to related information**

The Sto Group reports on the procedure regarding deferred taxes in the Notes to the consolidated annual financial statement under "6. Presentation of the major accounting and valuation policies" in the subsection "Deferred taxes" and "Taxes".

**3) Recoverability of goodwill****Reasons for determining this as a particularly important audit matter**

Goodwill is subjected to an impairment test at least once per fiscal year as at 31 December and additionally during the year if there are indications of an unscheduled depreciation

requirement in order to determine a possible depreciation requirement. These evaluations are regularly based on the present value of future cash flows of the respective cash-generating units to which goodwill has been allocated. The result of these evaluations depends to a large extent on the assessment of the future development of the respective parts of the company by the legal representatives and on the determination of the discount rate.

Due to the complexity of this evaluation and the discretionary scope available in the context of the evaluation, this impairment test was one of the most significant matters in the context of our audit.

**Auditing procedure**

Within the framework of our audit, we have followed the methodical procedure for carrying out the impairment tests in accordance with IAS 36 with the assistance of internal evaluation experts. Among other things, we have discussed the definition of the cash-generating units and the determination of the joint assets and their allocation to the company and assessed them in accordance with the internal reporting structure. The corporate planning underlying the impairment tests of goodwill, especially regarding the future development of turnover and the EBIT margin, have been compared with the planning of the future development of the company set up by the legal representatives and approved by the Supervisory Board. We have discussed the major premises of the planning with the legal representatives and compared it to the results and the inflow of cash and cash equivalents in the past. The derivation of the discount rate and its individual components has been assessed by questioning the peer group, comparing the market data with external evidence and verifying the arithmetical accuracy of the calculation. We have also examined the growth rate assumptions on the basis of industry comparisons.

Our auditing procedure has not given rise to any objections to the measurement of goodwill of cash-generating units.

#### Reference to related information

The Sto Group reports on the procedure regarding the impairment test of cash-generating units as well as its results in the Notes to the consolidated annual financial statement under "6. Presentation of the major accounting and valuation policies" in the subsection "Intangible assets".

#### Other information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the legal representatives are responsible for other information. Other information comprises the components provided for the Annual Report, of which we had received a version by the time this audit certificate was issued, in particular the sections Foreword, Report of the Supervisory Board, Corporate Governance Report, the Sto share and the Responsibility statement by the legal representatives. In addition, other information includes the other components of the Annual Report that are expected to be made available to us after the audit certificate has been issued, in particular the sections Sto at a glance, Sustainability report and Financial calendar with the imprint. Our audit opinions on the consolidated annual financial statement of the Group and the Group management report do not extend to other information, and accordingly we express neither an audit opinion nor any other form of audit conclusion.

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information

- is materially inconsistent with the consolidated annual financial statement, the Group management report or our audit findings or
- otherwise appears materially misrepresented.

#### Responsibility of the legal representatives and the Supervisory Board for the consolidated annual financial statement and the Group management report

The legal representatives are responsible for drawing up the consolidated annual financial statement, which complies with the IFRSs, as they are to be applied in the EU, and additionally with the German legal regulations in accordance with Section 315e Paragraph 1 of the HGB (German Commercial Code) in all material aspects. They are also responsible for ensuring that the consolidated annual financial statement gives a true and fair view of the assets, financial and earnings situation of the Group. In addition, the legal representatives are responsible for the internal controls they have determined necessary to enable the preparation of a consolidated annual financial statement that is free from material misstatements, whether intentional or not.

When preparing the consolidated annual financial statement of the Group, the legal representatives are responsible for assessing the capability of the Group to continue corporate activity. Furthermore, it is their responsibility to disclose matters in connection with the continuation of corporate activity where relevant. In addition, they are responsible for preparing the balance sheet on the basis of the accounting principle of continuing corporate activity, unless there is an intention to liquidate the Group or to discontinue operations or there is no realistic alternative.

The legal representatives are also responsible for preparing the Group management report which gives a suitable view of the Group's position and which is consistent with the consolidated annual financial statement in all material aspects, complies with the German legal regulations, and suitably presents the opportunities and risks of the development in the future. Moreover, the legal representatives are responsible for the precautions and measures

(systems) which they have deemed necessary to enable the preparation of a Group management report in accordance with the applicable German legal regulations and to provide sufficient suitable evidence for the statements in the Group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for preparing the consolidated annual financial statement and the Group management report.

**Responsibility of the auditor for the auditing of the consolidated annual financial statement and the Group management report**

Our objective is to obtain sufficient certainty as to whether the consolidated annual financial statement as a whole is free from material misstatements, whether intended or not, and whether the Group management report as a whole provides a suitable view of the Group's position and, in all material aspects, is in accordance with the consolidated annual financial statement and the findings of our audit, complies with German legal regulations and suitably presents the opportunities and risks of the development in the future, as well as to issue an audit certificate which contains our audit opinions on the corporate annual financial statement and the Group management report. Sufficient certainty is a high degree of certainty but no guarantee that an audit conducted in accordance with Section 317 of the HGB (German Commercial Code) and the EU regulation on statutory audits while observing the generally accepted German principles of proper audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a materially false statement. False statements can result from infringements or inaccuracies and are considered to be material if the reasonable assumption can be made that they, individually or collectively, could influence decisions taken by addressees on the basis of this consolidated

annual financial statement and the Group management report.

During the audit we exercise due discretion and maintain a critical attitude. Furthermore,

- we identify and evaluate risks resulting from materially false statements, whether intentional or not, in the consolidated annual financial statement and in the Group management report; we plan and conduct audit procedures as a reaction to these risks, and obtain audit evidence which is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misstatements are not detected is higher in the case of infringements than in the case of inaccuracies, since infringements may involve fraudulent interaction, forgery, intentional incompleteness, misleading statements, or the repeal of internal controls;
- we gain an understanding of the internal control system relevant for the auditing of the consolidated annual financial statement and the precautions and measures relevant for the auditing of the Group management report in order to plan auditing procedures which are appropriate for the given circumstances but without the objective of issuing an audit opinion of the effectiveness of these systems;
- we assess the appropriateness of the accounting methods used by the legal representatives, and the reasonableness of estimates and related disclosures made by the legal representatives;
- we draw conclusions about the appropriateness of the accounting principle of continuing corporate activity applied by the legal representatives and, based on the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's capability to continue corporate activity. If we come to the conclusion that there is a material

uncertainty, we are obliged to point out the related disclosures in the consolidated annual financial statement and the Group management report in our audit certificate or, if these disclosures are inappropriate, to modify our respective audit certificate. We draw our conclusions based on audit evidence obtained by the date of our audit certificate. However, future events or circumstances may prevent the Group from continuing its corporate activity;

- we assess the overall presentation, the structure and the content of the consolidated annual financial statement, including disclosures, and whether the consolidated annual financial statement presents the underlying business transactions and events in such a way that the consolidated annual financial statement gives a true and fair view of the assets, financial and earnings situation of the Group in accordance with the IFRSs, as they are to be applied in the EU, and additionally in accordance with the German legal regulations in accordance with Section 315e Paragraph 1 of the HGB (German Commercial Code);
- we obtain sufficient and appropriate audit evidence for the accounting information of the companies or business activities within the Group in order to issue an audit opinion on the consolidated annual financial statement and the Group management report. We are responsible for instructing, monitoring and conducting the audit of the consolidated annual financial statement. We are solely responsible for our audit opinions;
- we assess whether the Group management report is in accordance with the consolidated annual financial statement, its compliance with the law and the view it gives of the position of the Group.
- we conduct audit procedures relating to the future-oriented statements made by the legal representatives in the Group management

report. On the basis of sufficient suitable audit evidence, we particularly retrace the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not issue an independent audit opinion on the future-oriented statements and the underlying statements. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, amongst other things, the planned scope and time schedule of the audit and significant audit findings, including any deficiencies in the internal control system, which we identify during our audit.

We issue a statement to those responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and the protective measures taken to that end.

From the matters that we have discussed with those responsible for monitoring, we determine those matters that were most significant in the audit of the consolidated annual financial statement for the current reporting period and which are therefore particularly important audit matters. We describe these matters in the audit certificate, unless laws or other legal regulations exclude public disclosure of the matter.

#### **Other statutory and other legal requirements**

#### **Other information in accordance with Article 10 of the EU regulation on statutory audits**

We were elected as Group auditors at the Annual General Meeting on 14 June 2017. We were commissioned by the Supervisory Board

on 11 October 2017. We have been the Group auditor of Sto SE & Co. KGaA without interruption since the 1989 fiscal year.

We declare that the audit opinions contained in this audit certificate are consistent with the additional report to the Audit Committee in accordance with Article 11 of the EU regulation of statutory audits (Audit report).

**Responsible chartered accountant**

The chartered accountant responsible for the audit is Dr Eckart Wetzel.

Villingen-Schwenningen/Germany, 16 April 2018

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Dr Wetzel	Busser
Chartered accountant	Chartered accountant

## Responsibility statement by the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, financial and earnings situation of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stühlingen/Germany, 6 April 2018

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



Rainer Hüttenberger  
(Spokesman)



Michael Keller



Jan Nissen



Rolf Wöhrle

# Financial calendar 2018

Electronic publication of the annual financial statements for 2017.....	27 April 2018
Interim report within the first half of 2018.....	16 May 2018
Annual General Meeting in 2018.....	21 June 2018
Report on the first half of 2018 .....	31 August 2018
Interim report within the second half of 2018.....	19 November 2018
Electronic publication of the 2018 annual financial statement .....	30 April 2019

The annual financial statements of Sto SE & Co. KGaA (HGB) are available in electronic form at [www.unternehmensregister.de](http://www.unternehmensregister.de). In addition, they are published on the website [www.sto.de](http://www.sto.de) or may be requested in writing by post:

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

This report contains forward-looking statements which are based on the Management's current assumptions and estimates concerning future developments. Such statements are subject to risks and uncertainties which Sto cannot control or estimate precisely. If any uncertainty arises or the assumptions on which these statements are based prove to be incorrect, actual results may differ significantly from these statements. Sto is under no obligation to update forward-looking statements to incorporate any events which come to light after the publication of this report.

## **Publisher's details**

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