



Sto SE & Co. KGaA | **2016 Annual Report**

# Sto at a glance

Sto Group	2011	2012	2013	2014	2015	2016	Changes in % 16/15
<b>Turnover</b>	1,106.8	1,141.7	1,166.0	1,208.7	1,216.6	1,230.7	1.2 %
Germany	529.4	524.7	534.7	549.2	535.4	548.7	2.5 %
Non-Germany	577.4	617.0	631.3	659.5	681.2	682.0	0.1 %
<b>Investments</b> (not including financial assets)	27.6	36.3	32.4	39.1	35.8	37.5	4.8 %
<b>Depreciation/amortisation</b> (without financial assets)	29.7	25.9	29.0	29.9	31.0	32.7	5.5 %
<b>EBITDA</b>	134.2	121.1	128.9	126.9	112.6	103.0	-8.5 %
<b>EBIT</b>	104.5	95.3	99.9	97.0	81.5	70.3	-13.7 %
<b>EBT</b>	103.5	94.6	99.0	96.2	81.2	68.1	-16.1 %
<b>EAT</b> (earnings after taxes)	70.3	65.4	68.4	66.0	55.7	45.7	-18.0 %
Earnings per limited ordinary share (EUR)	10.89	10.11	10.68	10.29	8.71	7.14	-18.0 %
Earnings per limited preference share (EUR)	10.95	10.17	10.74	10.35	8.77	7.20	-17.9 %
<b>Cash flow from current operating activities</b> per share (EUR)	92.7	71.8	80.9	93.9	78.9	95.4	20.9 %
<b>Total assets</b>	669.7	684.2	703.6	751.3	641.9	714.2	11.3 %
<b>Equity capital</b> in % of total assets	426.0	448.8	481.4	506.5	404.7	425.2	5.1 %
<b>Employees</b> (year end)	4,695	4,689	4,791	4,979	5,032	5,251	4.4 %
of which in Germany	2,495	2,482	2,586	2,623	2,652	2,895	9.2 %
of which non-Germany	2,200	2,207	2,205	2,356	2,380	2,356	-1.0 %

Sto SE & Co. KGaA	2011	2012	2013	2014	2015	2016*	Changes in % 16/15
<b>Turnover</b>	586.8	587.9	589.1	604.2	598.8	610.7	2.0 %
Export ratio in %	17.5	17.4	16.8	17.4	18.7	20.5	
<b>Investments</b>							
in property, plant, and equipment, and intangible assets	11.9	17.3	12.3	11.6	20.1	15.5	-22.9 %
in financial assets	16.3	3.9	6.1	6.4	9.6	14.7	53.1 %
<b>Depreciation/amortisation</b> (without financial assets)	12.2	12.2	12.8	13.4	13.4	12.7	-5.2 %
<b>Earnings before income taxes**</b>	83.3	78.2	88.8	79.1	64.6	56.5	-12.5 %
<b>Net profit for the year</b>	65.4	62.9	71.7	62.8	48.2	45.4	-5.8 %
<b>Cash flow from current operating activities***</b>				35.1	41.9	35.6	-15.0 %
<b>Dividend</b>							
per limited ordinary share (EUR)	0.25/4.56	0.25/4.56	0.25/4.56	0.25/25.14	0.25/4.56	0.25/3.00	
per limited preference share (EUR)	0.31/4.56	0.31/4.56	0.31/4.56	0.31/25.14	0.31/4.56	0.31/3.00	
<b>Total assets</b>	492.0	497.2	526.0	560.6	446.0	475.2	6.6 %
<b>Equity capital</b> in % of total assets	329.5	361.4	402.0	433.9	318.7	333.1	4.5 %
<b>Employees</b> (year end)	2,057	2,100	2,118	2,134	2,148	2,133	-0.7 %

(figures in EUR million)

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

\*\* Until 2015 earnings on ordinary activities

\*\*\* Cash flow was adapted from 2014 to conform with the new DRS 21 (German accounting standard)

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

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

## Picture caption for title page:

The design and preservation of valuable and sustainable buildings has been the goal of Sto SE & Co. KGaA for many years. Sto is even living up to its claim to "Building with conscience." at its own company premises in Stühlingen, where the new reception and office building at headquarters has been built in line with zero-energy standards. Its innovative energy concept is based on the proviso of minimising energy consumption through passive and active measures, and optimising the energy supply through efficient technology. Major contributors to this are the photovoltaic system on the roof of the office wing, with an annual output of 26,400 kilowatt hours, plus a StoVentec ARTline Invisible rainscreen cladding facade system featuring photovoltaic panels with non-visible fixing (annual output: 15,800 kilowatt hours) on the south side. The many other Sto products and systems that have been installed, from acoustic elements to the natural stone floor, allow both parts of the building to simultaneously function as an appealing showcase for the company's extensive range. At the inauguration in September 2016, the German Sustainable Building Council (DGNB) honoured this exemplary building with its platinum seal of quality.

## Foreword



Rainer Hüttenberger, Spokesman of the Executive Board

### Dear Shareholders,

2016 was a difficult year for the Sto Group to navigate, and the obstacles presented by a challenging business environment resulted in the company developing significantly below expectations, particularly from the midpoint of the year onwards. Although we had expected a challenging situation ahead of us, the extent of the declines we experienced – especially in the area of facade systems – was worse than we had anticipated, requiring us to revise down our targets in November.

We revised our consolidated turnover forecast of EUR 1,277 million down to EUR 1,217 million, and our EBIT forecast from an original EUR 80 million to EUR 90 million range down to between EUR 52 million and EUR 62 million. The excellent weather conditions that prevailed during the final weeks of the year ultimately resulted in these values being exceeded, allowing us to achieve turnover of EUR 1,230.7 million and an EBIT operating result of EUR 70.3 million. The growth in turnover compared with the previous year was exclusively the result of

positive first-time consolidation effects, however: a total of EUR 38.1 million of the Group turnover was attributable to the new additions of Ströher and Hesselberg Bygg. Adjusted for these effects as well as currency translation effects, which had a negative impact of EUR 9.1 million, turnover across the Group decreased by 1.2 % compared with 2015.

Abroad, our subsidiaries in China, Switzerland, France, and Italy in particular recorded weaker development than had been forecast. However, the main cause of the declines experienced in the Group was undoubtedly the German market for external wall insulation systems. In this area, demand continued to suffer significantly in the wake of controversial media reports. The debate on the use of thermal insulation for buildings, which has been highly emotionally charged in some cases, is causing sustained uncertainty among customers – and is increasingly affecting not only private building owners, but also other target groups such as architects and housing companies. In spite of a comprehensive package of measures put together early on with the aim of combating these effects, our market-leading position means that we are particularly heavily affected by declines in sales.

Not only are we using targeted information that we hope will remove emotion from the debate and assuage doubts through objective arguments, we are also meeting people's reservations head-on with a quality-focused offensive that will bring the high-quality nature of our products more firmly to the forefront. We have also expanded our product range in a way that is specifically aimed at intercepting the declines. These efforts have focused on areas such as facade systems with improved properties relating to ecology, fire protection, energy efficiency, and recyclability. Products from the newly incorporated Ströher and Hesselberg Bygg Groups are also adding to our range.

Sto systems have received an overwhelmingly positive response on the market, as evidenced

by the numerous awards and prizes they have received. One example is the recyclable Sto-Systain R facade system, which is setting new standards in the area of building envelopes and received the "Special Award" as part of the Architecture + Construction Innovation Prize awarded annually at the world-leading trade fair BAU. This system uses no adhesive at all and is instead installed with hook-and-loop fasteners. It can also be fully dismantled and almost every element is recyclable.

A key focus of our New Balance programme, to which we have been devoting significant efforts over the year under review, is to consolidate those product groups with global potential for growth and develop initiatives targeted towards growth, particularly on the German market. The second focus is on systematically improving the efficiency of our core processes and structures. Striking the right balance between these key pillars of our activities will allow us to boost profitability and bring the Group back onto a healthy earnings track. We expect the 2017 fiscal year to show the first effects of the improvements in earnings.

During the year under review, integrating our new acquisitions was also high on the agenda. Acquiring a majority shareholding in the Ströher Group has allowed us to strengthen our position on the facade market with respect to the products we offer, and expand our range in specific areas. Ströher brick slips open up a whole host of design possibilities in external wall insulation systems as well as rainscreen cladding facade systems. The takeover of Ströher also represents an excellent step in the direction of our strategic objectives. Ströher's culture of innovation and expertise in surfaces, for example, perfectly complement our vision of becoming the leader in technology. Additionally, Ströher is helping us pursue our aim of expanding our project business in the area of facades and penetrating the market using a two-tiered approach to distribution. The Hesselberg Bygg Group, which Sto

took over in mid-2016, will allow us to expand our range of floor coatings. The company is one of the leading forces in the market in this area.

2016 also saw us reshape the Executive Board of STO Management SE. Following the April 2016 announcement by Gerd Stotmeister, long-standing Chief Technology Officer and Deputy Chief Executive Officer, of his intention to step down at the end of the year, Jan Nissen was appointed as his successor soon afterwards. This gave us sufficient time to put the necessary preparations in place. An employee of Sto since 1993, Jan Nissen has extensive experience in the company and most recently held the post of Head of Materials Management within the Sto Group. Since the change, the Executive Board of the personally liable partner STO Management SE now includes no members of the Stotmeister family. Despite this, Sto remains a medium-sized, reliable, family-run company.

The Sto brand has always been and remains a significant factor in helping our national and international business activities stand out and succeed. Reflecting its significance, in recent years we have refined our core values to ensure they remain in tune with contemporary tastes, and have worked on the brand's visual appearance. The section of this report entitled "The Sto brand" on the next few pages presents the results of our efforts.

One thing that is already clear is that Sto's re-configured management team will once again be faced with significant challenges in 2017. One of these comes in the form of the significant levels of uncertainty affecting the global economy due to a whole host of factors: political developments in countries including the USA and Turkey, the ongoing war in Syria, refugee-related issues, and worldwide concerns about terrorism. In Europe, elections with the potential to make large waves are taking place or have already taken place in France, the Netherlands, and Germany. Not only that, but the consequences of the Brexit vote in the United Kingdom also remain unclear

and the German economy, which focuses heavily on exports, could suffer as a result of the growing moves in favour of protectionism seen in several countries.

Another challenge is the need to prepare ourselves for the fact that the reticence expressed on the German EWIS market may not be merely a temporary phenomenon. We have responded appropriately to this, laid the necessary foundations that will enable us to compensate for declines, and believe firmly that energy-related facade insulation continues to hold significant potential for sales. Even the targets that were agreed as binding for the first time at the United Nations Climate Change Conference in Paris are testament to this. Without boosting energy efficiency in buildings, they will be impossible to achieve. The large stock of older, non-energy-efficient buildings around the world is another undeniable argument in favour of facade insulation. Despite this, it is not possible for us to estimate when the tide might turn – partly because there is as yet only a limited amount of political support for putting the required measures in place. Over the course of 2017, we expect to see a slight rise in business volume in the area of facades, due in no small part to our product diversification and new acquisitions.

Throughout the Group as a whole, we believe that 2017 will bring a 3 % growth in turnover to around EUR 1,268 million 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 our current expectation is that return on sales will rise to between 6.2 % and 6.9 %.

As one of the leading providers of high-quality facade systems and coatings, our future prospects remain healthy. This is especially due to the fact that we are building on a foundation of winning success factors: Sto boasts an extensive, first-class range of products, 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. For reasons including our wide sales base and our dedicated, highly qualified workforce, we are in the best possible position to write more chapters in the Sto Group's success story over the coming years.

As usual, we want to include our shareholders in our income. At the Annual General Meeting on 14 June 2017, the personally liable partner STO Management SE will propose for its shareholders 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 3.00 for each limited preference and limited ordinary share, based on the 2016 profit of the Sto SE & Co. KGaA parent company. This would result in a dividend yield per preference share of 3.6 % based on the 2016 closing price of EUR 93.04.

The New Balance programme, the challenging general conditions presented both on a domestic level and abroad, and all the other tasks that lie ahead of us mean that 2017 will once again demand an exceptional level of commitment from the entire Sto workforce. Our highly qualified team of experts is one of the company's strongest assets and a major factor in setting ourselves apart from the competition. On behalf of the entire Executive Board, I would like to take this opportunity to express my sincere thanks to our employees for their dedication during recent years and this current year alike.



**Rainer Hüttenberger**

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



## The Sto brand

### An evolved corporate design

Sto renews its corporate design and hence creates a balance between its origins and its future. A consistent appearance that reflects the brand values of a company provides guidance to its customers and strengthens the identification of the employees with the company.

Based on the Hidden Champions study of a popular German economic journal as well as due to major changes in the company's environments in the past few years, Sto decided to review its brand strategy, brand values, and corporate design. Despite all changes – Sto's mission has been stable for

are almost 15 years old. In the meantime, the company has grown into an international Group and has significantly expanded its portfolio. This has had a major impact on the company's internal and external communication. Especially in the digital but also in other areas, modes of communication and requirements have developed that necessitate an adaptation of the corporate design (CD). After all, it's the corporate identity and corporate design that help build a context in which Sto employees and customers can interact in a close, personal, and trustful manner.

Sto has ample experience in brand development: Already in 1962, the company



The development of the Sto logo from 1962 to 2017.

years and will remain unchanged: contributing to "maintaining the value and aesthetic appeal of buildings". This mission is reflected in the brand claim "Building with conscience." which the company has been using since the 1980ies. On this basis, a global review was launched in 2012 to determine both externally and internally: What does Sto stand for? The result was clear. Various cultures confirmed four characteristic values of the company: experienced, performing, advanced and close to its customers. These are all values that only a family-run business with direct sales and distribution could embody. This canon of values forms the basis for all activities of the company worldwide. It is just as crucial for addressing the customers as it is for internal management and product development. On the basis of these values the appearance of the long-established company needs to be revived as the guidelines on brand appearance

presented itself with the wordmark "sto". In 1972, the first comprehensive CD was introduced which was geared towards craftsmen and which was rather colourful. Along with the company's conversion into a limited company in 1988, the CD underwent a change as well. It now had a clear concept, less colour and a refined logo which meant an increase of acceptance among architects. In 2003, the corporate design was further developed and still applies today. Such renovation cycles are rather typical as companies and their environments constantly undergo change. New design elements due to expanded product lines, changed structures and new means of communication have an influence on the CD over the years.

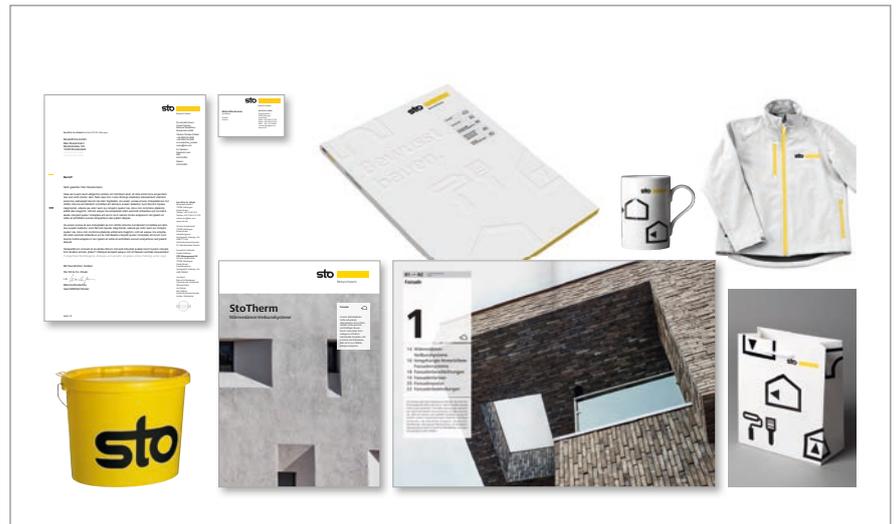
An international team of communication experts at Sto identified major elements in the former appearance of the company as the visual "DNA of Sto".

- 1) large white spaces that coin buildings, vehicles, and brochures,
- 2) the word and figurative mark,
- 3) the brand claim "Building with conscience.",
- 4) the two brand colours: yellow for Sto and red for StoCretec
- 5) the special type of architectural photography,
- 6) and the yellow pail.

The new CD now turns the bar of the logo into a functional element that is used in various forms, e.g. as navigational aid or as information stripe in brochures, presentations, and labels. Photography continues to have an emphasis on architecture and works more with graphically concise close-ups. The brand claim "Building with conscience." will be more present. In the future, it will be placed directly next to the logo. In certain situations, e.g. on



In certain cases the claim may be displayed separately from the logo.



flags or banners, it will also be used independently. Pictograms that are already used on product labels today, will be more widely used in communication to provide guidance to the customers. They refer to the core competencies of Sto and StoCretec: the best solutions for facades, interior walls, acoustic systems, floor coatings, concrete repair, and the protection of buildings.

The new appearance is more spacious and modern without seeming trendy. What's particularly important, is the enhanced functionality: The new CD is easy to use, internationally applicable, ensures consistency and offers greater regional flexibility at the same time. This is compliant with Sto's constitution from 2005. It states that "communication must follow a system" and that the brand with its marks must have "long-term validity". In fact, the new CD develops existing strengths even further in an evolutionary way. The old and the new forms can even coexist. Hence, the stock of communication material can still be used and will be replaced by new material step by step starting in June 2017. The change-over is to be completed by the end of 2019. Until then, the company will be working on further major topics, e.g. developing a

The new corporate design coins the entire appearance of Sto. It is easy to apply, ensures uniformity on the one hand, and offers greater regional flexibility on the other.

Sto-specific corporate design for the world of digital media, for international market launch campaigns as well as strengthening internal awareness of the brand.

At Sto, brand management and CD development are evolutionary processes. The current status indicates a direction, but the development is by no means completed. The renewal process of the appearance continues: The corporate design will be applied to digital design, different visual imagery will be developed, and rules will be established for business partners, e.g. in those countries where Sto does not have its own sales organisation.

With that in mind, the appearance of the Sto brand is not self-serving but an indispensable strategic tool for setting the company apart from its competitors. The goal is to keep the brand engaging and true to its tradition so that the phrase "Typically Sto!" continues to stand for more than just a yellow pail to both employees and customers.



The new cover page concept for brochures can be applied internationally.

### The built brand

The brand claim “Building with conscience.” is both its own benchmark and an obligation for Sto. This is why the company has been active in the building culture for decades and has been developing its own architecture into a built corporate culture for more than 20 years. This also excites the approx. 6,000 visitors who come to Sto’s headquarters in Stühlingen/Weizen every year to learn more about the development and production of pioneering building products.

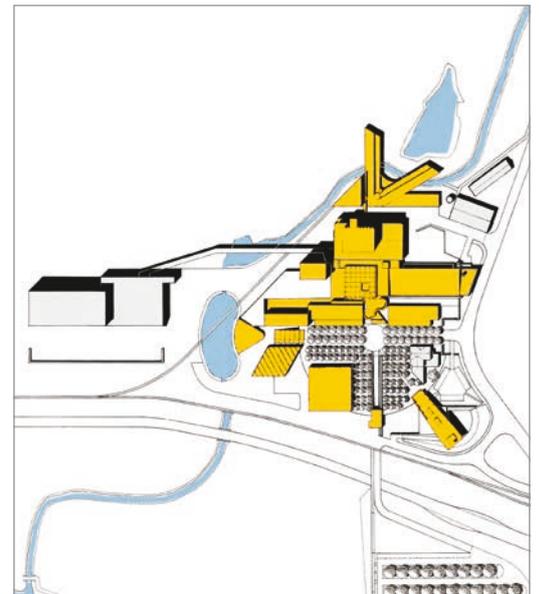
The newest buildings at Sto’s headquarters set benchmarks in corporate architecture and energy efficiency. Both buildings are designed as zero-energy houses and were awarded a platinum certificate by the German Sustainable Building Council (DGNB). The impressive reception and office building is a yellow rotunda (see cover page). Its oval shape clearly indicates which brand element inspired the architects: the typical, yellow Sto pail. More than 6.5 million of these pails are filled with paints and renders in Stühlingen every year and are sent to construction sites all over the world. An elongated building with a shiny black photovoltaic facade is connected to this hub located at the centre of the company premises. The open office space offers workstations for around 150 employees.



This makes it a total of six buildings that Michael Wilford has designed for Sto in Stühlingen together with Manuel Schupp. It all began in 1993 with a master plan that looked far ahead into the future and which made use of an urban development approach to develop Sto’s headquarters step by step. Instead of a rigid construction grid, Wilford defined structuring axes across the premises along which future buildings were to be placed and the entire area would be united to form an ensemble.

The architectural visions do not aim for homogeneity. There is no uniform, reproducible “Sto style”. Instead, building is regarded as a process that is open for impulses from the architects. This means: Sto follows the architecture, not the other way around. The buildings at Sto are always an expression of their times of origin, which reflect the development of the company and the technological options at that time. In 1997, the communications building (also known as “K building”) was completed. Its ship-like shape stands for the company’s venturing into international markets. It displays a cross-section of Sto’s product portfolio: brilliant, white facade render, a durable external wall insulation system as well as innovative design techniques in the interior.

The design of the corporate headquarters according to the master plan began with the construction of the K building which was finished in 1997.



Michael Wilford’s master plan from 1993.

In 2003, the “just-in-time plant” was built, including a 54-m-high silo tower. The limited available space is fully exploited thanks to cleverly organised production processes. And again, Sto uses a new building as a model building project: recycled glass granulate boards make up the facade. The conversion of two historic lime kilns into a visitor centre sets the scene for the origins of our company and links them with the current product range of Sto. The extension of the logistics centre with its open-space office concepts incorporates surfaces from the company’s own limestone quarries as well as current acoustic systems.

And finally the two current zero-energy buildings: Apart from a ventilated rainscreen cladding photovoltaic facade and the curved render facade of the reception building, the buildings also feature individually milled Verolith boards, innovative interior and exterior



The Factory 2003 also showcased new developments in the product portfolio: boards made of recycled glass form the elongated facade.



A shining entrance: The glossy black office building with its impressive glass photovoltaic facade leads the visitors to the yellow reception building at the centre of the premises.

coatings, acoustic systems, and floor coatings. Hence, Sto impresses with its vast product portfolio which has grown over the years. This is a special type of evolution; every building is more advanced than the previous one and incorporates the newest product systems from Sto at the time of their construction. This is also visible evidence of Sto's expertise and history.



The generous staircases in the new reception building provide a spatial experience across four levels up to the roof terrace.

Building culture, however, does not only manifest at headquarters, but also at many Sto locations in Germany and across the world. With only a few graphic attributes of the Sto brand, the regional and international subsidiaries display the highest degree of independence. Their individual architecture is developed together with architects from the respective regions. This approach is highly beneficial to both Sto and its subsidiaries: The knowledge the company has gained working with different architects during these sustainable building pro-

jects is of great importance. Since Sto's building culture – and hence Sto's corporate culture - is not supposed to be a rigid dogma, but rather a permanent, innovative and creative process, Sto is thankful for all the experience and ideas that it acquires through the cooperation with architects and planners either during its own construction projects or as service provider.

The Sto brand does not follow a single architectural style and formal uniformity, it follows the intention of creating buildings of the highest quality in terms of ecological, architectural and technological aspects combined with quality craftsmanship. And this is exactly what Sto means by "Building with conscience." This is also why architecture plays such an integral part in the value-based brand appearance of Sto: close, experienced, performing, and advanced.

## Report of the Supervisory Board



Dr Max-Burkhard Zwosta, Chairman

### Members of the Supervisory Board

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

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

**Holger Michel\*,** Dresden/Germany,  
Trade union secretary IG BCE (until 29 February 2016),  
retired (since 1 March 2016) | Deputy Chairman

**Gertrud Eisele,**  
Rottweil/Germany, Publisher

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

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

**Jochen Stotmeister,**  
Grafenhausen/Germany,  
Managing Director of Stot-  
meister Beteiligungs GmbH

**Peter Zürn,**  
Osterburken/Germany,  
Member of the Management  
of the Würth Group

**Uwe Bruchmüller\*,**  
Thalheim/Germany, Head  
of Business Development  
for Water Technologies,  
Veolia Water Technologies  
Deutschland GmbH

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

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

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

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

**Jan Nissen\*,**  
(until 31 December 2016)  
Trossingen/Germany, Head of  
Materials Management within  
the Sto Group (until 31 De-  
cember 2016), Chief Technol-  
ogy Officer at STO Manage-  
ment SE (from 1 January 2017)

\* Employee representatives

## Dear Shareholders,

The Supervisory Board of Sto SE & Co. KGaA monitored, audited, and advised the personally liable partner STO Management SE in the management of the company in the 2016 fiscal year. It faithfully fulfilled the duties awarded to it according to law, regulations, the Corporate Governance Code, and rules of procedure, and is assured of the lawfulness and expediency of the Management Board of the personally liable partner STO Management SE.

The personally liable partner STO Management SE briefed the Supervisory Board on a regular, timely, and comprehensive basis on all issues relating to Sto SE & Co. KGaA – particularly those relating to planning – as well as on operational business trends and the Group's situation, including its risk situation, risk management, and compliance. Departures of business developments from defined plans and targets were discussed in detail, and the reasons for these decisions and the measures introduced were discussed with the Supervisory Board and its committees. The members of the Supervisory Board also worked closely with the Executive Board of the personally liable partner STO Management SE in order to advise it between regularly scheduled meetings, and the Chairman of the Supervisory Board in particular was kept continuously informed about business development. During the reporting period, there were no conflicts of interests affecting the Supervisory Board members' abilities to perform their duties.

The Supervisory Board held five ordinary Supervisory Board meetings during the 2016 fiscal year. These took place on 22 April, 9 June, 28 July, 3 November, 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 the meetings unless topics had to be discussed in their

absence. These included consultations about personnel changes.

The topics that were regularly discussed at each of the ordinary meetings included economic and business developments; financial, investment, and personnel planning; operational targets; and the effectiveness of the risk management strategies. The New Balance programme, designed to boost profitability within the Sto Group, was also a continuous subject of consultation.

At the Supervisory Board Meeting held on 22 April 2016 in the presence of the auditor, the Supervisory Board thoroughly reviewed the 2015 annual financial statement of Sto SE & Co. KGaA and the 2015 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 thorough consultation and review by the Supervisory Board of Sto SE & Co. KGaA, the statements, dependent company report, and risk report were approved on the recommendation of the Audit Committee without any objections made. The appropriation of earnings proposed by the personally liable partner was also approved by the Supervisory Board. The report of the Supervisory Board for the 2015 fiscal year and the agenda for the Annual General Meeting on 9 June 2016 were also finalised. In addition, a discussion was held on the planned takeover of the Hesselberg Bygg group. As one of the leading manufacturers of floor coatings on the Norwegian market, its product range perfectly complements the floor coatings business field of the Sto Group.

Additionally, the Supervisory Board extensively studied the information on the STO Management SE Supervisory Board's appointment of former Supervisory Board member Jan Nissen to the STO Management SE Executive Board on 22 April 2016, to take effect on 1 January 2017. On 1 January 2017, Jan Nissen took over the Technology portfolio from Gerd Stotmeister,

who left the STO Management SE Executive Board voluntarily at the end of 2016. Jan Nissen was previously Head of Materials Management within the Sto Group. He resigned from his position as representative of management employees on the Supervisory Board of Sto SE & Co. KGaA on 31 December 2016.

The Supervisory Board meeting on 9 June 2016 focused on preparations for the Annual General Meeting scheduled for that same day.

During the Supervisory Board meeting on 28 July 2016, the attendees primarily looked at the projections for 2016 and the progress made by the New Balance programme. As well as this, the Supervisory Board obtained information about the extensive changes being made to the European Market Abuse Regulation (MAR), which came into force on 3 July 2016, and the extension to the syndicated loan agreement from its original five years to a term length with one additional year, taking it to 2021.

The agenda of the meeting on 3 November 2016 primarily included current business developments and projections on the basis of September's results. There was also discussion on the changes in the German market for external wall insulation systems and the resulting risks and opportunities for Sto.

The meeting on 21 December primarily focused on planning for 2017. The outline for the 2017–2021 Strategic Planning was also a subject of discussion. There was extensive discussion on the current progress of the New Balance programme in the light of the unexpectedly weak business development that had been experienced over the course of 2016. The Supervisory Board received comprehensive reporting on the risk situation as well as activities relating to risk provisioning and securing earnings, and it also provided support for planned measures following in-depth discussions. Another important subject was the auditor's preliminary audit of the 2016 annual financial statement of Sto SE & Co. KGaA. Results from

the audit were presented and information was provided about examining the effectiveness of the internal control system. As of 1 January 2017, Supervisory Board member Lothar Hinz was elected a member of the Finance Committee and the Audit Committee of Sto SE & Co. KGaA, acting as a successor to Jan Nissen, who stepped down on 31 December 2016.

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 organisation meeting.

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

The Supervisory Board of Sto SE & Co. KGaA has formed an Audit Committee and a Finance Committee. These bodies make preparations for the agenda items to be discussed by the Supervisory Board and the decisions it is to reach.

In 2016, the Audit Committee and Finance Committee held four meetings each. They primarily concerned themselves with the 2015 annual financial statement of Sto SE & Co. KGaA, the consolidated annual financial statement of the Sto Group, the management reports, the dependent company report, and the auditor's report, and also dealt with interim reports and the half-year report in detail. As well as this, the committee members discussed the 2016 Declaration of Compliance, plus the effectiveness of the internal control and risk management system and 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.

A Nomination Committee was also formed and met once during 2016. This committee focused on the election of the new shareholder representatives to the Supervisory Board, due to take place in 2017, and gave particular attention to the gender quota during its discussions.

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

During the 2016 fiscal year, the Supervisory Board once again dealt with 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 2016. Details of this can be found in the Corporate Governance section of the 2016 Annual Report.

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

On 9 June 2016, the Annual General Meeting of Sto SE & Co. KGaA appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, to act as the auditor for the 2016 fiscal year. It audited the annual financial statement of Sto SE & Co. KGaA, prepared by the personally liable partner STO Management SE, the management report, the consolidated annual financial statement of the Sto Group, and the Group management report for the 2016 fiscal year as well as the dependent company report, prepared by the personally liable partner STO Management SE in accordance with Section 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 Robin Traub. 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, they positively assessed the quality of the risk management system. The auditors awarded an unqualified Audit Certificate.

The annual financial statements of the company and the Group, the management reports, and the auditor reports were distributed to all Supervisory Board members in a timely manner. The Audit Committee reviewed these docu-

ments in its meeting held on 25 April 2017. In the ordinary Supervisory Board meeting on 26 April 2017, the Supervisory Board discussed the statements and reports 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 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 final in-depth review of the annual financial statements and the management reports of Sto SE & Co. KGaA and the Sto Group by the Supervisory Board did not result in any objections. The Supervisory Board 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 2016, and the dependent company report, and accordingly proposed the approval and consent of the annual financial statements at the Sto SE & Co. KGaA Annual General Meeting to be held on 14 June 2017.

The Supervisory Board agrees to the proposal of the personally liable partner STO Management SE to propose a dividend distribution of EUR 21,036,780.00 at the Annual General Meeting on 14 June 2017. This means that limited preference shareholders are expected to

receive an ordinary dividend of EUR 0.31 and a one-off bonus of EUR 3.00 per share and limited ordinary shareholders an ordinary dividend of EUR 0.25 and also a one-off bonus of EUR 3.00 per share.

The Supervisory Board thanks all employees of Sto SE & Co. KGaA and the Executive Board members of the managing STO Management SE for their work and dedication over the past fiscal year. We would like to wish both the Executive Board members and all employees every success in tackling the challenges that the 2017 fiscal year is set to bring.

Stühlingen/Germany, April 2017



**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). The report also contains a declaration on our key company management practices in accordance with Section 289a of the German Commercial Code (HGB). The combined document is part of this Annual Report, which is also published under "Investor Relations" on the section of the Sto website ([www.sto.de](http://www.sto.de)) containing information about the company. This is supplemented by the remuneration report, which is part of the Notes.

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

Statutory regulations, ethical standards, a sound financial policy, and the German Corporate Governance Code all provide anchor points that ensure we are pursuing the right course of action. Departures from the Code only arise regarding issues that concern the specific requirements of a medium-sized family business or the legal form of a partnership limited by shares. We apply revised standards to deal with this case. Departures from the recommendations of the Code in its current version of 5 May 2015 and the respective reasons for doing so are explained in the Declaration of Compliance in accordance with Section 161 of the German Companies Act (AktG), which is available on the Internet (both the latest version and older versions).

## Bodies

Sto SE & Co. KGaA is managed by the personally liable partner STO Management SE which together with the Supervisory Board of Sto SE

& Co. KGaA and the Annual General Meeting form the bodies of the company in accordance with law and the applicable regulations. Accordingly, the management of the Company and the process of monitoring it are separated on a personnel level. 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 2016, Sto SE & Co. KGaA's share capital amounted to an unaltered figure of EUR 17.556 million. It is divided into 4.32 million registered limited ordinary shares and 2.538 million limited preference bearer shares. Shareholders have a right to vote in the Annual General Meeting and use it to decide on key company affairs. Each ordinary share 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 Annual General Meeting is held once a year within the first eight months of the fiscal year. As the personally liable partner of Sto SE & Co. KGaA, STO Management SE ensures the collection and timely dispatch of all reports and documents required by legislation for the Annual General Meeting, including the agenda. These documents as well as the Annual Report are also available on the Sto website.

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

shareholder rights, shareholders, who cannot or choose not to exercise their voting rights, can appoint a company representative voting in accordance with their instructions to vote on their behalf in the Annual General Meeting.

### **Supervisory Board**

The Supervisory Board of Sto SE & Co. KGaA is equally composed of shareholder and employee representatives in accordance with the German Co-Determination Act; there are six of each type of representative. The members are presented in the report of the Supervisory Board. The work of the Supervisory Board is regulated through rules of procedure. Its most important task is to monitor the personally liable partner STO Management SE in the management of Sto SE & Co. KGaA's affairs.

The Supervisory Board becomes involved immediately in all decisions that are of fundamental importance to Sto SE & Co. KGaA. Furthermore, it ensures that the personally liable partner STO Management SE complies with the statutory disclosure rules in the manner detailed at greater length by the Supervisory Board, as required by law.

The Supervisory Board holds regular meetings. A total of five ordinary meetings were held in the 2016 fiscal year. The report of the Supervisory Board contained in this Annual Report provides detailed information on the topics discussed. If required, meetings of the Supervisory Board are separately prepared by the shareholder and employee representatives.

The Supervisory Board 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 crucial documents in a timely manner.

It is the job of the Chairman of the Supervisory Board to coordinate the Board's work, steer its meetings, and represent its interests externally. He also maintains close contact with the members of the Executive Board of the personally liable partner STO Management SE between meetings, discussing issues including 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. This review is based on the findings of the auditor. Moreover, the half-year financial report and the interim reports are discussed with the Chairman of the Supervisory Board within the first and second half of the year prior to their publication. The Chairman then consults with other members.

On 1 January 2017, Jan Nissen moved over 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 is only a short time between this and the upcoming election of the new employee representatives in May 2017, those responsible for employees on the Supervisory Board declared that there was no need to replace Jan Nissen's position within this period.

When voting in new members to the Supervisory Board of listed joint stock companies, since 1 January 2016 it has been necessary to ensure that at least 30 % of the positions are held by women or men respectively. Two of the twelve members of the current Supervisory Board of Sto SE & Co. KGaA are women. Alongside this statutory regulation, Items 4.1.5, 5.1.2, and 5.4.1 of the new version of the Corporate Governance Code also contain regulations regarding equality between men and women. They make provisions in the declaration on management of the company for establishing benchmarks regarding the gender quota on the Supervisory Board, Executive Board, and both management levels below the

Executive Board, as well as regular reporting on the fulfilment of these targets within a specified period.

The employee and shareholder representatives on the Supervisory Board of Sto SE & Co. KGaA unanimously decided that the percentages of women and men on the Supervisory Board were to be met separately. Accordingly, both the employee and shareholder representatives on the Supervisory Board of Sto SE & Co. KGaA are obliged to independently fulfil the gender quota for the members they appoint to the Supervisory Board.

The composition of the Supervisory Board 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.

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 remuneration that Sto Supervisory Board members receive is at a level that appropriately reflects their duties and the position of the Sto Group. For more information on remuneration, please consult the Notes to this Annual Report and the Declaration of Compliance in accordance with Section 161 of the German Companies Act (AktG). The Supervisory Board regularly checks the efficiency of its work.

One way to improve efficiency is through appropriately qualified committees. Sto SE & Co. KGaA features an Audit Committee and a Finance Committee. In the periods leading

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

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 2017. The elections of employee representatives, which are conducted in compliance with the German Co-Determination Act of 1976, started with the announcement by the company on 7 November 2016 and will finish with the election process in May 2017.

#### **Personally liable partner**

The personally liable partner STO Management SE manages the company through its Executive Board 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. It develops the company's strategic orientation, ensures its implementation, and makes any arrangements necessary to ensure compliance with legal requirements and internal corporate guidelines within the Sto Group.

The functions 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 controlling system. Detailed information about risk

management is provided in the management report of this Annual Report.

The personally liable partner STO Management SE complied with statutory regulations over the entire reporting period and also observed the Code, 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.

On 31 December 2016, Gerd Stotmeister – who was responsible for the Technology portfolio on the Executive Board of STO Management SE – voluntarily resigned from his position. The Supervisory Board of STO Management SE appointed Jan Nissen as his successor during its meeting on 22 April 2016. Most recently, Jan Nissen was Head of Materials Management within the Sto Group and was also a member of the Supervisory Board of Sto SE & Co. KGaA, acting as a representative of management employees. Due to his appointment to the Executive Board of the personally liable partner STO Management SE on 1 January 2017, Jan Nissen resigned from his position on the Supervisory Board of Sto SE & Co. KGaA on 31 December 2016.

The personally liable partner STO Management SE also promotes diversity as required by the Code. As of 31 December 2016, of all the management positions on the level below the personally liable partner, 0 % on the division management level and 9.4 % of the department manager positions were held by women. By 30 June 2017, these percentages are required to be at 0 % and 10.2 % respectively, and at 0 % and 12.0 % respectively by 31 December 2020. 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 2016 fiscal year. This means that the pro-

portion of women at this level is still below the quota target to be reached by 30 June 2017.

### **Key practices of corporate governance**

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”, a worldwide initiative set up under the auspices of the United Nations. We joined this compact in 2009. It involves ten principles taken from the areas of human rights, labour standards, environmental protection, and anti-corruption practice. Measures that we have put in place in order to implement the “Global Compact” are outlined in the “Sustainability and Corporate Social Responsibility” section. This report also represents the annual Communication on Progress (COP) required by the “Global Compact”.

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

### **Transparency**

Sto SE & Co. KGaA is even-handed and timely in keeping its shareholders, financial analysts, the media, and the general public informed through regular, open, and up-to-date communication about the company's economic situation as well as any significant changes or developments in its business.

We publish all key information – such as annual and interim reports, press releases, ad-hoc disclosures, and voting rights announcements, as well as all financial and sustainability reporting – online under “Investor Relations” on the section of the Sto website ([www.sto.de](http://www.sto.de)) containing information about the company.

Annual and half-yearly reports are lodged with the Companies Register and the German federal government gazette ("Bundesanzeiger") on the day of publication.

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 2016.

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 2017, can be found both in the 2016 Annual Report and on the company's website.

### **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 both 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 can be precluded early on. The auditing company commissioned by Sto, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, has issued an appropriate statement in this regard. The audi-

tor responsible takes part in the deliberations of the Supervisory Board of Sto SE & Co. KGaA concerning the annual financial statements and the consolidated annual financial statement and reports on the key findings of his audit at the Audit Committee meeting.

## Management Report for the Sto Group (IFRS)



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

### **Members of the Executive Board of STO Management SE in the fiscal year of 2016** (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 Technical Officer  
responsible for Process Engineering, Innovation,  
Materials Management, and Logistics  
(since 1 January 2017)

**Gerd Stotmeister,**  
Allensbach/Germany | Chief Technical Officer  
responsible for Process Engineering, Innova-  
tion, Materials Management and Logistics  
(until 31 December 2016)

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

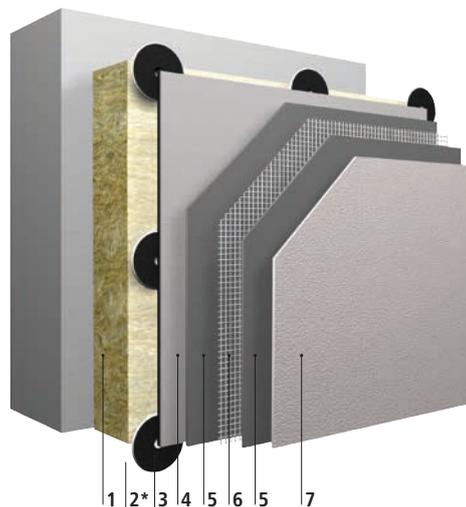
## The fiscal year 2016 at a glance

- Consolidated turnover increases by 1.2 % to around EUR 1,230.7 million due to first-time consolidations
- Domestic volume increases by 2.5 % to EUR 548.7 million, and growth abroad rises by 0.1 % to EUR 682.0 million
- Consolidated EBIT decreases from EUR 81.5 million to EUR 70.3 million and earnings before tax (EBT) drop from EUR 81.2 million to EUR 68.1 million
- Return on sales of 5.5 % compared to 6.7 % in the previous year
- Dividend of EUR 0.31 per limited preference share and EUR 0.25 per limited ordinary share plus a bonus of EUR 3.00 per share
- Cash flow from operating activity at EUR 95.4 million (previous year: EUR 78.9 million)
- Increase in the number of employees in the Group by 219 to 5,251 due to the expansion of the companies consolidated
- Outlook for 2017: increase in turnover of 3 % to around EUR 1,268 million and an EBIT of between EUR 80 million and EUR 90 million expected

## A. Group fundamentals

### Business model

Sto SE & Co. KGaA specialises in products and systems for building coatings and is one of the most important global manufacturers in this industrial sector. The product range 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 rain-screen cladding facade systems (RSC). In 2016, this product group accounted for 46.0 % of the total Group turnover. **Facade coatings**, which include external render and paint systems, accounted for 24.7 % of the turnover in the year under review, and **products for interiors**, such as plaster and paint systems optimised for home and office interiors, decorative coatings, interior claddings, and acoustic systems for regulating sound, reported a turnover share of 13.8 %. Furthermore, Sto produces and sells high-quality floor coatings and products for



- 1 **Insulation**  
Sto-Stone Wool Insulation Board
- 2\* **Fixing (not shown)**  
Sto-Insulation Dowel
- 3 **Fixing element, multi-part**  
Adjustable sleeve  
Threaded element  
Frame anchor
- 4 **Carrier board**  
StoSustain Panel
- 5 **Base coat**  
StoLevell Classic
- 6 **Reinforcement**  
Sto-Glass Fibre Mesh
- 7 **Top coat**  
StoSilco K/R/MP

concrete repair which are attributed to **Other product groups**.

The Sto Group benefits from its comprehensive **expertise**. Thanks to the Sto range with products that complement one another perfectly, we can provide our customers with everything relating to facades from a single source and give building owners maximum

The new StoSustain R facade insulation system can easily be dismantled after its lifetime and recycled thanks to an innovative grip fastening system consisting of mushroom-shaped heads and loops.

freedom to create their own designs. We not only boast extensive knowledge about our core business of facade systems, but also about related areas 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 are also ideally matched, ensuring a high level of efficiency during the application process and maintaining the value of construction works.

Our consistent implementation of this business model, which is based on expertise, quality, and customer benefits, as well as our uniform market presence in every country, have established Sto as one of the **most internationally recognised product brands** in the industry. Our successful brand strategy is based on the four core brand values "Close", "Experienced", "Performing", and "Advanced". It is continually being optimised and adapted in line with the prevailing general conditions.

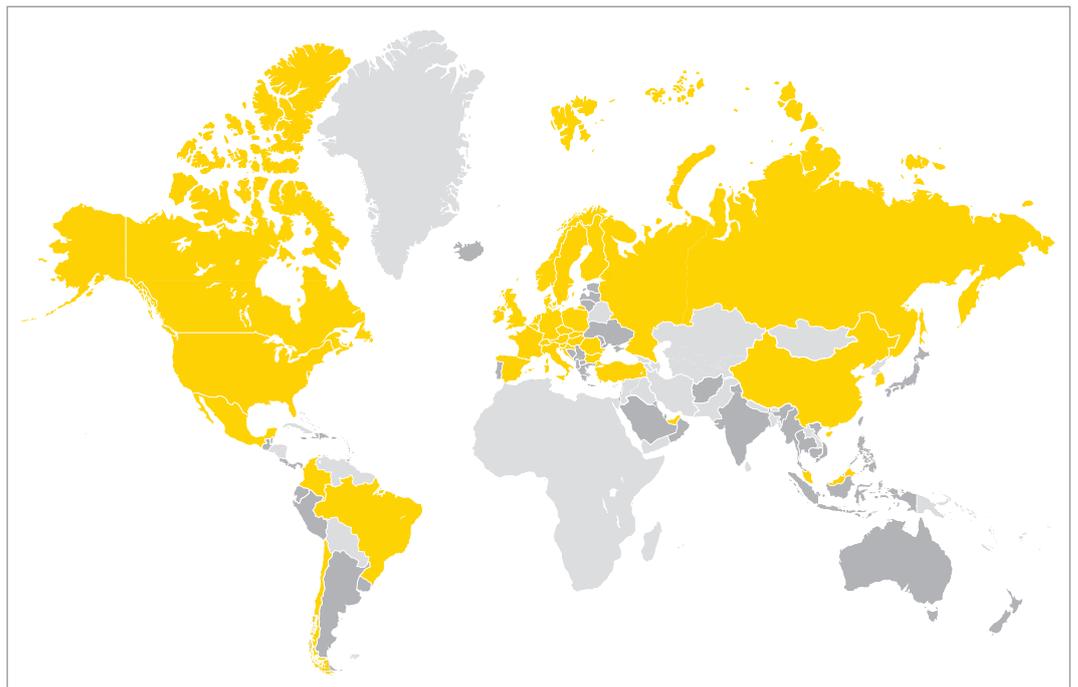


Sto's **innovative strength** also contributes to the brand's positive image and the Group's success. Our company is regarded worldwide as a technological pacesetter in the industry, setting trends with products, systems, and services. To consolidate this leading position while also developing new growth 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**

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

- Sto subsidiaries
- Sto partners



The most important market is Western Europe, where, in 2016, Sto generated 76.7 % of the consolidated turnover – including Germany. 12.2 % was attributed to America and Asia while Northern and Eastern Europe generated 11.1 % of the business volume. The most significant individual market is Germany. In the year under review, it contributed around 44.6 % to the consolidated turnover.

The globalization of our business activities is of vital importance to the development of the Sto Group. 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. At the end of 2016, the Sto Group was represented in 36 countries with 48 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 Sto Group turnover worldwide.

### Customers and distribution system

The range of the Sto brand is targeted at professional applicators such as painters, plasterers, 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 Germany, covers almost the entire country. Sto has also been developing a second distribution channel, **multi-stage distribution**, for a number of years now. Through wholesalers and specialist retailers we provide customers with selected products that we have clearly defined as distinct from our core business and that have their own market niche:

these include lacquers and fillers. Since we see additional potential in this channel, we intend to expand two-stage distribution gradually over the coming years. The acquisition of Ströher has strengthened the multi-stage distribution channel.

### Corporate structure

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

The following domestic units also belong to the Sto Group:

- **StoCretec GmbH**, located in Kriftel/Germany, which is responsible for the areas of floor coatings and concrete repair within the Group, including the activities of the Hesselberg Bygg Group,
- **Innolation GmbH**, located in Lauingen/Germany, which produces insulants and carries out further developments in the area of innovative insulant technologies,
- **Verotec GmbH**, located in Lauingen/Germany, which produces carrier boards for acoustic systems, rainscreen cladding facade systems, and architectural elements on behalf of other Group companies, as well as selling its products and services to external industry customers,
- **VeroStone GmbH**, located in Kirchheim/Germany, which specialises in natural stone work,
- **Ströher GmbH**, located in Dillenburg/Germany and consolidated into the Sto Group since the start of 2016 – and its subsidiaries – with a 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.

This associate particularly focuses on working with retailers, but also contributes its extensive expertise in its core field of activity to the pool of knowledge that the Sto Group has as a whole.

Foreign 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. The products are usually either produced locally by the companies themselves or purchased via the Group. A list of all subsidiaries of Sto SE & Co. KGaA is reproduced in the Notes for the Group.

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. In this way we are able 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 or product groups and assistance in dealing with overarching issues. 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. The ROCE key figure is a new parameter used to monitor the return on investment. 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. The control system used by Sto SE & Co. KGaA strengthens the decentralised entrepreneurial responsibility of our employees at a local level while also guaranteeing transparency within the Group.

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

Information on the declaration on management of the company in accordance with Paragraph 315 Section 5 of the German Commercial Code (HGB) contains the Corporate Governance Report / Declaration on management of the company.

### Fundamentals of the remuneration system

Remuneration of the Executive Board of the personally liable partner Sto Management SE is paid by STO Management SE, which, as stipulated in Paragraph 6, Section 3 of the articles of association of Sto SE & Co. KGaA, receives a compensation of expenditure from Sto SE & Co. KGaA to the full amount. The remuneration of the members of the board consists of a fixed component and a variable component, which can carry significantly more weight, yet is also capped. The variable element comprises a long-term incentive, based on the turnover development of the Sto Group and ROCE key figures, as well as an earnings-oriented short-term incentive. In case of an existing contract, which expired at the end of 2016, the amount of the variable salary component is calculated exclusively on the earnings trend without a long-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, the remuneration shall be proportionate.

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

### Strategic objectives

Sto's business model is geared 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, providing employees

and managers with guidance when making strategic and operational decisions. The key foundation to 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** – Gradual development of our multi-stage distribution concept, alongside the tried-and-tested Sto direct distribution system, attracts additional groups of customers and expands our base.
- **Group expertise** – Organic further development or suitable acquisitions reinforce the Sto Group's expertise and is expanded in specific areas.
- **Attractive employer** – We 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 respon-

sibility towards customers, the company, employees, other stakeholders, shareholders, and the environment.

## B. Financial report

### Overview of business performance in 2016 and general statement on economic development

Once again Sto SE & Co. KGaA navigated through a challenging business environment in 2016. Global economic development was thwarted by numerous influencing factors such as geopolitical tensions, international terrorism, the refugee situation, the Brexit decision, the knock-on effects of the financial crisis, the structural change in China, and the elections in the U.S. As a whole, we were not able to offset losses recorded in individual countries by positive business development in other regions. We also had to bear negative currency conversion effects. The generated net growth in turnover was solely attributed to acquisitions made by the company.

On a domestic level the construction industry was dominated by a flurry of new building activities and respective growth, yet the important EWIS market again went against this trend in Germany. This segment had to face another drop in its market volume in 2016 for the fifth consecutive year. The continuing, unabated unease among private building owners especially had a significant effect on this decline. It was triggered by the contradictory and partly very exaggerated media reports and the resulting controversial discussion on the use of external wall insulation systems. To offset this decline, we were quick to respond by initiating an extensive information campaign. By raising the awareness amongst specific target groups, our aim is to inject objective information into the debate and dismiss user concerns by taking an objective line of argumentation. We have also

responded with a quality campaign to focus more intently on the value of our services. The expanded range of products in the facade segment is also expected to offset this decline: over the last few years we have developed several alternatives that display outstanding properties with regards to ecology, fire protection, energy efficiency, and recycling. The product range of the Ströher Group, consolidated in 2016 for the first time, has also expanded our position in the facade segment.



Business development of the Sto Group as a whole remained significantly below our expectations in 2016. Primarily due to the losses in the facade systems product group, the consolidated turnover failed to increase by 5 % to around EUR 1,277 million as was expected at the start of the year but rose only by 1.2 % to EUR 1,230.7 million. The increase was solely attributable to the acquisitions consolidated for the first time: The Ströher Group, consolidated since the beginning of 2016, as well as the Hesselberg Bygg Group, acquired on 1 July. Without first-time consolidation and negative currency conversion effects, there is a decline in turnover across the Group of 1.2 % compared to the same period of the previous year. The forecast of EUR 1,217 million, which had been adjusted in November, was slightly exceeded due to the favourable weather conditions in the last few weeks of the fiscal year.

The earnings performance for 2016 was hit even more drastically than the turnover by negative impacts. Consolidated earnings before interest and taxes (EBIT) fell by 13.7 % to EUR 70.3 million. The operating profit was below initial expectations of between EUR 80 million and EUR 90 million yet managed to remain above the range of EUR 52 million and EUR 62 million which had been adjusted in autumn. Earnings before taxes (EBT) were recorded at

EUR 68.1 million (corrected forecast: between EUR 50 million and EUR 60 million; original forecast: between EUR 78 million and EUR 88 million) and return on sales of 5.5 % (corrected forecast: between 4.1 % and 4.9 %; original forecast: between 6.1 % and 6.9 %). Consolidated net profit for the year dropped to EUR 45.7 million in the year under review. The improvement of EBIT and EBT compared to the corrected forecast were mainly attributable to the higher than expected turnover at year end and the charges from risk provisions which were lower than originally expected.

Within the company we have invested a lot of time and commitment on to the New Balance programme in 2016. The aim of this programme is to recover a balance between turnover and cost increase in the Sto Group and improve profitability so we steer our course back to our long-term set of objectives. A key focus of this programme is to consolidate those product groups with a global potential for growth and develop initiatives targeted towards growth particularly on the German market. We have already identified opportunities for growth in Germany and are in the process of launching concrete measures to increase turnover. The aim is to successively tap into other areas of growth offering medium-term turnover potential, for example digitisation or new product applications. The second focus of this program is to systematically improve the efficiency of our core processes and structures. During the first phase all company areas were thoroughly analysed and measures identified which were then fleshed out in detail in the second phase. The resulting activities were then developed by mid-2016. Since business development was below expectations in the second half year, an additional package was rolled out, aimed at optimising earnings. Along with steps to reduce material costs and improve margins, Sto SE & Co. KGaA has also planned human resource measures. This supplementary program will

be fleshed out in more detail in negotiations with employee representatives. We expect the first positive contribution to earnings from this program in the 2017 fiscal year.

The financial and asset situation continued to be very solid with the Group equity ratio standing at 59.5 % (previous year: 63.0 %) and cash and cash equivalents amounting to EUR 70.1 million (previous year: EUR 70.9 million). Taking borrowings into account, net financial assets stood at EUR 55.5 million (previous year: EUR 66.4 million). Cash flow from operating activities improved from EUR 78.9 million to EUR 95.4 million.

The Executive Board of the personally liable partner STO Management SE will propose a dividend distribution of EUR 21,036,780.00 at the annual general meeting on 14 June 2017. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and a one-off bonus of EUR 3.00 per share, and limited ordinary shareholders will receive an ordinary dividend of EUR 0.25 and also a one-off bonus of EUR 3.00 per share.

The first quarter of 2017 has marked a positive start to the current reporting period taking into account weather conditions. Consolidated turnover was above the previous year's level during the first three months of 2017.

For 2017 as a whole, we expect to see growth in consolidated turnover of 3 %, up to around EUR 1,268 million. As things stand, we anticipate consolidated earnings before interest and taxes (EBIT) to amount to between EUR 80 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 2016

### Global economic development

The worldwide economy experienced a more moderate growth than originally expected in 2016. Calculations by the International Monetary Fund (IMF) indicate that the global economy rose by only 3.1 %, a similarly subdued growth as in 2015 (previous year: 3.2 %). The IMF originally predicted a 3.4 % rise yet was forced to revise down their forecasts over the course of the year. The structural change in China, ongoing economic difficulties in several EU countries, the Brexit vote in the UK, and the US elections all contributed to economic uncertainty. In many countries, regional crises, the refugee situation, and international terrorism also had a negative effect on economic sentiment.

In industrial nations, the gross domestic product (GDP) rose by 1.6 % in 2016 (previous year: 2.1 %). Driving forces behind this upturn was the U.S. economy which gained impetus in the second half after a disappointing first half to record an increase of 1.6 % (previous year: 2.6 %), and the eurozone which grew as expected by 1.7 % (previous year: 2.0 %). Stable progress in Spain and Germany compensated for the extremely restrained economy in Italy and France.

The developing and emerging countries witnessed a more dynamic development on the whole: with a growth rate unchanged on last year's figure of 4.1 %, this group of countries still remained below the original forecast of 4.3 % at the start of the year. China set the pace in the year under review with a 6.7 % expansion thanks to state-funded subsidies. Brazil and Russia remained stuck in a recession.

According to calculations from the German Federal Statistics Office, gross domestic product rose by 1.9 % on the previous year which had

seen an increase of 1.7 %. The consumer sector was again the cornerstone of economic growth in Germany: private consumer spendings were up 2.0 % on the previous year. State spendings increased by 4.0 % mainly due to the high rate of immigration and associated costs. Investments also contributed to the rise in the German GDP: building investments rose strongly by 3.0 % (previous year: +0.3 %), attributed mainly to residential construction. 1.1 % more was invested in equipment (previous year: +3.7 %). Exports also increased by 2.6 % (previous year: +5.2 %).

### International trends for the construction sector

The construction industry in **Europe** as a whole continued on a solid course of expansion in 2016. According to calculations from the EUROCONSTRUCT research network, the volume of construction in the 19 partner countries rose again for the third year in succession. A 2.0 % increase on last year to EUR 1.44 trillion was generated although this rise is around half a percent less than the forecast originally published by experts in summer 2016. The building activities in some countries were restrained mainly due to political unrest and a reduced level of public investment. The upswing in Europe witnessed in 2016 can be traced to the residential construction sector which rose by 3.9 %, amounting to 46.6 % of the total revenues. The new construction sector was the major growth momentum, recording an increase of 7.2 % while maintenance and modernisation measures on existing residential buildings rose by only 1.7 %. Non-residential construction, where the volume of construction services rose by 1.5 %, was attributed to 32.1 % of the total revenues and the remaining 21.3 % to civil engineering services, which was slightly down on last year's figures.

According to figures released by the **Central Federation of the German Construction Indus-**

try, the turnover of the German construction industry increased by 4.8 %, higher than the figure forecast at the start of the year. Figures were above expectations mainly due to the good weather conditions which, in contrast to last year, enabled an all-year round production without any serious gaps in work. Residential construction recorded a strong growth of 8.5 % in 2016 which was attributed to low interest rates, the high number of refugees and the continuing migration within Germany to large urban cities. The public construction sector (+6.4 %) and commercial construction (+3.9 %) also proved to be more productive than expected.

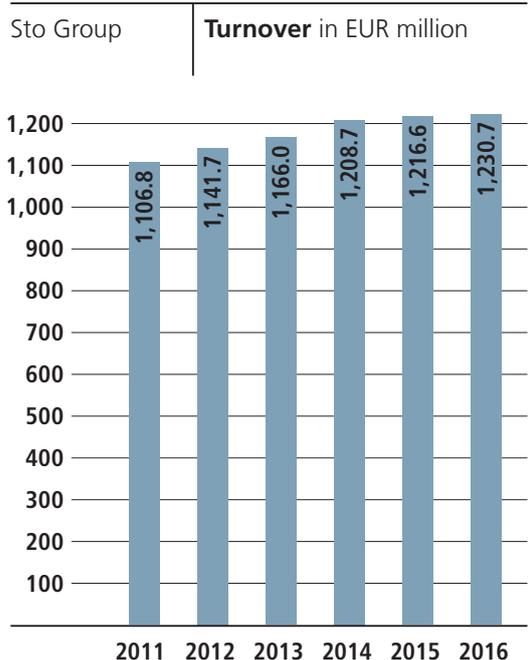
A positive trend in building construction was again recorded in the **USA** in 2016 but was slightly less dynamic than last year. Based on the nominal 8 % increase in expenditure on construction in the first half of the year, "Germany Trade and Invest" (GTAI) expects a medium single-digit growth for the year as a whole after the exponential 16 % increase in 2015. According to the forecast of the NAHB (National Association of Home Builders) from September, the entire residential construction sector will grow by 7.7 % in 2016. The boom in the commercial real estate sector also continued at the same rate. The first six months of 2016 saw a sharp rise in hotels (+27 %) as well as offices (+20 %) and commercial buildings (+10 %) in comparison to the same period last year. The growth momentum of the manufacturing industry and the institutional sector slowed down in 2015.

In **China**, the position of the construction industry has relaxed slightly according to GTAI figures. After a very weak 2015, where production figures reached their lowest rise of 2.3 % since the monitoring of figures started in 2001, a 7.0 % rise was generated in the first half of 2016. The number of new construction projects increased by 12 % between mid 2015 and August 2016, for the first time after two years of decline. Many construction projects from the residential construction and commercial

sectors were either stopped or put on hold due to the sluggish economy. The Chinese economy was only able to manage a 6.7 % rise in 2016 as a whole – the slowest rate since 1990. Many Chinese citizens are concerned about the future development and are therefore showing caution despite the government's massive investments in infrastructure. This has caused a far more competitive environment in the construction industry. Price-conscious building owners usually prefer local suppliers and are lowering building costs in non-visible areas such as energy-efficient measures. The very low energy prices are also slowing down the demand for energy-efficient constructions.

## Business performance and development of turnover

The consolidated turnover of Sto SE & Co. KGaA in 2016, including the acquisitions factored in for the first time, increased by 1.2 % to EUR 1,230.7 million (previous year: EUR 1,216.6



million). Of this, an amount of EUR 32.2 million was attributable to the Ströher Group, part of the Group since the beginning of the year, and EUR 5.9 million to the Hesselberg Bygg Group, taken over on 1 July 2016. Without first-time consolidation effects, the result would have represented a decline of 2.0 %. These positive effects of first-time consolidation were contrasted by losses arising from currency translations, amounting to EUR 9.1 million. Adjusted for the effects of first-time consolidation and currency translation, the Group experienced a decline in turnover of 1.2 % compared with 2015.

In Germany, consolidated turnover increased by 2.5 % to EUR 548.7 million as a result of the expansion of companies consolidated (previous year: EUR 535.4 million). On a purely organic level – that is, without the Ströher Group consolidated for the first time – the domestic volume fell by 1.2 % compared with the previous year. Conditions in the core business of facade systems were especially unfavourable. Although we were prepared for a difficult market situation due

to the falling demand that had already persisted for a number of years, the extent of the decline was worse than we had anticipated. The conflicting and, in some cases, highly exaggerated media reports on the subject of using external wall insulation systems, as well as the controversial debate that arose as a result, increasingly began to have an impact on not only private building owners, but also other target groups such as architects and housing companies – and this was primarily responsible for the noticeably cautious attitude adopted among users.

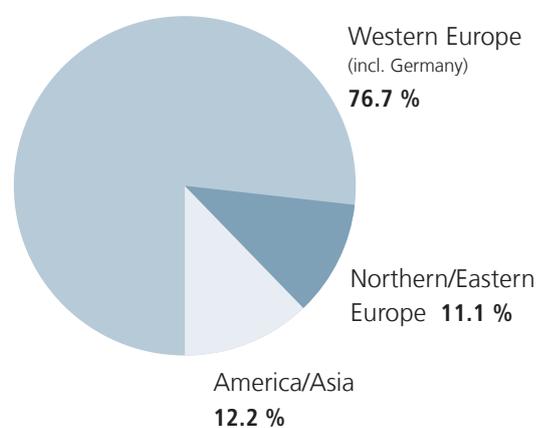
Additionally, renovation in the domestic construction market – a crucial segment for Sto – experienced stagnation. While a boom is taking place in new building, demand for maintenance and modernisation has remained lukewarm for some years now.

Abroad, the Sto Group recorded a slight increase of 0.1 % to EUR 682.0 million (previous year: EUR 681.2 million), although countries including China, Switzerland, and Italy were required to absorb significant losses in the process. In comparison to the previous year, the share of Group turnover generated abroad decreased from 56.0 % to 55.4 %.

Sto Group | Domestic and foreign turnover in EUR million



Sto Group | Regional breakdown of consolidated turnover



Turnover in the **Western Europe segment** (including Germany) increased by 1.3 % to EUR 944.0 million (previous year: EUR 931.5 million) in 2016, exclusively as a result of the first-time consolidations. Without Ströher, this would have meant a 2.1 % decrease. This was attributable to declines in Germany, Italy, and Switzerland, which is continuing to suffer effects relating to exchange rates; all of these countries demonstrated significantly weaker business development during the second half of the year.

In the **Northern/Eastern Europe** region, Sto recorded a 5.5 % growth to EUR 136.9 million (previous year: EUR 129.8 million) thanks mainly to the first-time incorporation of the Hesselberg Bygg Group. Adjusted for this first-time consolidation effect, this represents a slight increase of 0.9 %. Development varied across the remainder of the Northern Europe countries. Sales in Eastern Europe experienced a significant drop during the second half of the year, although it was still possible to generate net growth in turnover. Business development continued to prove difficult in Russia in particular.

The decline in the **America/Asia segment**, where the turnover figure of EUR 149.8 million was around 3.5 % below the previous year's volume (previous year: EUR 155.3 million), was principally the result of dwindling demand in China. The healthy conditions in the economy of the USA as a whole increasingly made an impact, while development in Brazil was markedly negative, mirroring the country's economic situation. The other countries in South America were able to make gains after starting at a low level.

### Performance of product groups

The facade systems business dropped by 3.3 % to EUR 566.1 million, prompted by the difficult market situation in Germany. As a result, this largest product group accounted for a total of 46.0 % of the Group turnover in 2016. The turnover attributable to facade coatings fell by

1.6 % to EUR 304.0 million, reducing the corresponding share in Group turnover to 24.7 %. Turnover relating to interior products increased by 5.9 % to EUR 169.8 million (share: 13.8 %), and by 17.9 % to EUR 190.8 million in the other business fields (share: 15.5 %).

### Earnings situation

In 2016, it was possible to cut **material costs** in the Sto Group by 1.8 % to EUR 534.6 million, resulting in the cost of sales percentage decreasing from 44.8 % in the previous year to 43.4 %. Group-wide procurement advantages and the effects of a mix of products compensated for the persistently high pressure exerted on sales prices. The price of crude oil, which on average fell below the price in the previous year, helped particularly in alleviating the cost situation.

On the other hand, **personnel expenses** increased disproportionately in relation to consolidated turnover, by 7.7 % to EUR 348.9 million. One cause of this was the increase in the Group's workforce, which as a net effect, was solely attributable to the expansion in companies consolidated. It was also attributable to increases resulting from collective bargaining agreements as well as one-off expenses from the personnel measures planned as part of the New Balance programme. These measures are likely to start creating positive outcomes from 2017 onwards.

Other operating expenses in 2016 increased by 2.7 % to EUR 269.7 million, primarily as a result of first-time consolidation effects. Adjusted for these first-time consolidation effects, the result represents a slight decrease compared with the previous year. At the same time, other operating income fell by 9.3 % from EUR 27.9 million to EUR 25.3 million, as a result of which the balance of **other operating income** and **other operating expenses** stood at EUR -244.4 million compared with EUR -234.6 million in the previous year.

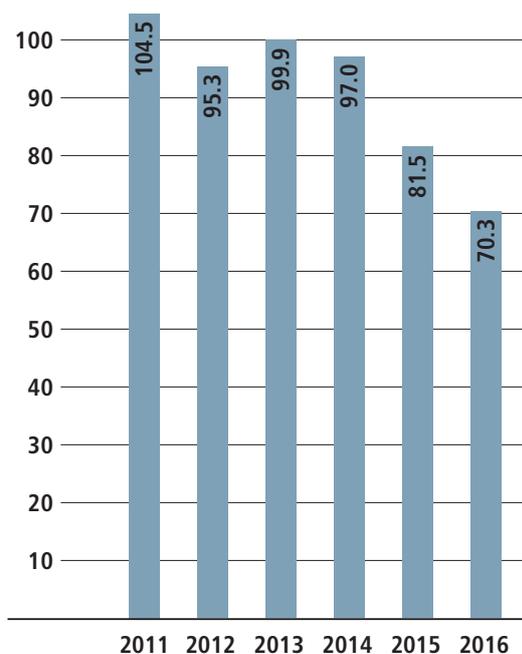
In comparison to the previous year, earnings before interest, taxes, and depreciation/amortisation (**EBITDA**) fell from EUR 112.6 million to EUR 103.0 million. **Depreciation/amortisation** of intangible assets as well as property, plant, and equipment amounted to EUR 32.7 million, 5.5 % above the previous year's level. In total, consolidated earnings before interest and taxes (**EBIT**) amounted to EUR 70.3 million compared with EUR 81.5 million in the previous year.

In 2016, EBIT in the Western Europe segment fell to EUR 57.0 million (previous year: EUR 75.1 million). However, Northern/Eastern Europe recorded an improved EBIT of EUR 5.7 million (previous year: EUR -0.02 million). The America/Asia segment contributed EUR 7.1 million to the Group's EBIT (previous year: EUR 7.3 million).

EUR -2.2 million in 2016, following EUR -0.3 million in the previous year. Interest income fell from EUR 1.5 million to EUR 1.0 million due to persistently low market interest rates, while interest expense increased slightly from EUR 2.7 million to EUR 2.8 million, particularly as a result of first-time consolidation effects. Other sources of financial income has not been reported. The previous year included EUR 0.9 million from the deconsolidation of WT Gebäudemanagement GmbH.

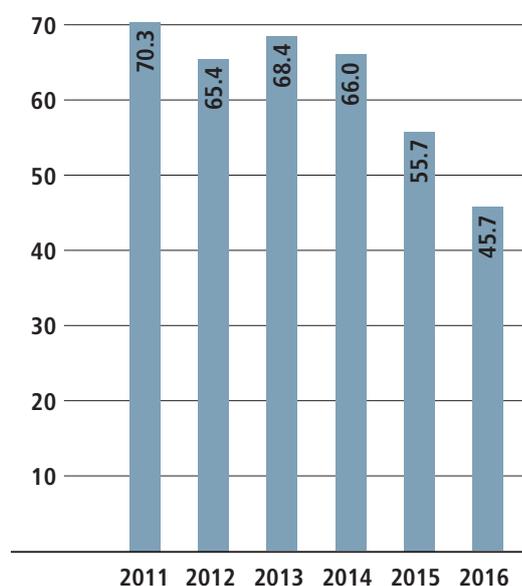
The Sto Group recorded total consolidated earnings before tax (**EBT**) of EUR 68.1 million (previous year: EUR 81.2 million), with a return on sales of 5.5 % – following 6.7 % in the previous year. The tax rate rose from 31.4 % in the previous year to 33.0 %. Due to the changes in earnings situation within the Group, factors such as differences in the income tax between the individual companies had an impact. In total, **net profit for the year** fell to EUR 45.7 million compared with EUR 55.7 million in the 2015 fiscal year.

Sto Group | **EBIT in EUR million**



Income from financial investments and investment property in the Sto Group totalled

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



Diluted and basic earnings were EUR 7.20 per limited preference share (previous year: EUR 8.77) and EUR 7.14 per limited ordinary share (previous year: EUR 8.71).

As at 31 December 2016, at 13.9 %, the **ROCE** (Return on Capital Employed) figure was below the previous year's value of 17.6 %.

### Sto SE & Co. KGaA – Dividend

The parent company Sto SE & Co. KGaA experienced a decline in **earnings before income taxes**, determined in accordance with the German Commercial Code (HGB) from EUR 64.6 million to EUR 56.5 million, with a decline in the **net profit for the year** from EUR 48.2 million to EUR 45.4 million. The financial and asset situation of Sto SE & Co. KGaA remained extremely solid, with an equity ratio of 70.1 % (previous year: 71.5 %).

The Executive Board of the personally liable partner STO Management SE will propose a total dividend distribution of EUR 21,036,780.00 at the Annual General Meeting on 14 June 2017. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and a one-off bonus of EUR 3.00 per share. Limited ordinary shareholders will be paid an ordinary dividend of EUR 0.25 as well as a one-off bonus of EUR 3.00 per share. In the previous year, a one-off bonus of EUR 4.56 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 a combination of 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 2021. Furthermore, we made use of leases during the year under review. At the 2016 year end, the present value of disbursements due from finance leases in the future stood at EUR 0.7 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, we determine the foreign currency cash flows within the Group during the planning phase for the following year, on the basis of which we devise suitable **hedging strategies**. Planned cash positions are hedged through instruments congruent to the time and economic state from the area of derivatives.

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

The **treasury activities** in the Sto Group are managed by an independent department which is responsible for areas such as the recognition and control of financial resources, internal and external financing, as well as financial risk management. By doing this, we are taking into account the Group's continuing internation-

alisation and the increasing risk management requirements that come with it.

### Liquidity movements in 2016

**Cash flow from operating activities** within the Sto Group grew from EUR 78.9 million in the previous year to EUR 95.4 million. This lower result stood in contrast to the positive effects from the change in provisions and the reduced income tax payments compared with the previous year. Net interest and other net financial income/expense amounted to EUR -1.8 million (previous year: EUR -0.3 million). The cash flow margin increased from 6.5 % to 7.8 %.

**Cash flow from investment activities** stood at EUR -61.4 million (previous year: EUR 44.6 million) in 2016. This included EUR 10.9 million spent on the acquisition of consolidated companies (previous year: EUR 0.05 million). Outflows relating to investments in property, plant, and equipment as well as intangible assets increased from EUR 35.8 million to EUR 37.5 million. During the year under review, funds amounting to EUR 27.7 million (previous year: EUR 107.9 million) also became available after the end of the period, while a sum of EUR 42.2 million was reinvested (previous year: EUR 30.3

million). **Cash flow from investment activity adjusted** for deposits and disbursements for financial investments amounted to EUR -46.9 million (previous year: EUR -33.0 million).

The **cash outflow in financing activities** fell from EUR 167.8 million to EUR 34.6 million. This significant decline was attributable to the previous year's high dividend distribution to our shareholders, amounting to EUR 163.3 million. The outflow in the year under review totalled EUR 31.1 million.

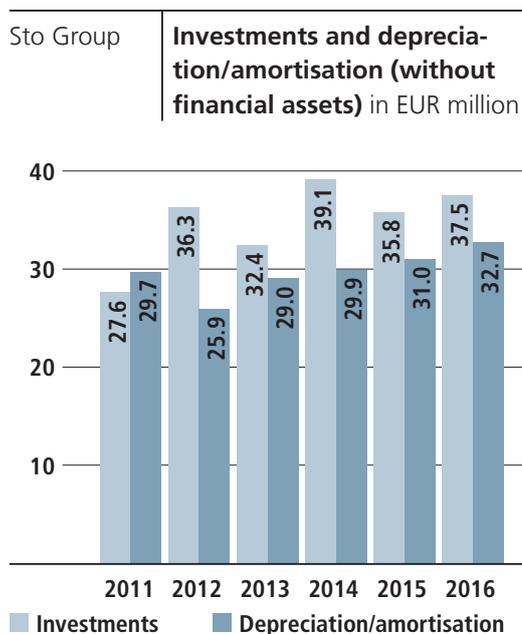
Changes related to the exchange rate had very little impact on the 2016 results and amounted to EUR -0.1 million (previous year: EUR +2.2 million), resulting in **cash and cash equivalents** falling by a total of EUR 0.8 million to EUR 70.1 million. This sum once again clearly exceeded the borrowings of EUR 14.6 million on the balance sheet date (previous year: EUR 4.5 million).

### Investments continue at a high level

In the 2016 fiscal year, the Sto Group invested EUR 37.5 million in property, plant, and equipment as well as intangible assets compared to EUR 35.8 million in the previous year. This amount was below the budget of EUR 45 million, as economic developments led some of the measures that had been planned for implementation within the individual Group companies to be cancelled, reduced or postponed. One of the Group's largest investment projects was erecting the new reception and office building in Stühlingen. It was inaugurated in September 2016. Created using low-emission building products, one of the special features of this building complex is its innovative energy concept that makes use of renewable sources. The new building has received the German Sustainable Building Council's highest possible award: a platinum certificate.

In April 2016 the green light was given to Lauringen-based Verotec GmbH's highest single investment to date. The subsidiary's focus is on

Sto Group	Cash flow statement in EUR K	
	2016	2015
<b>Cash flow</b>		
from operating activities	95,391	78,912
from investment activities	-61,443	44,592
from financing activities	-34,605	-167,833
Change in cash and cash equivalents from changes in exchange rates	-134	2,174
<b>Cash and cash equivalents at beginning of period</b>	<b>70,862</b>	<b>113,017</b>
Change in cash and cash equivalents	-791	-42,155
<b>Cash and cash equivalents at the end of period</b>	<b>70,071</b>	<b>70,862</b>



producing carrier boards for acoustic systems, rainscreen cladding systems, and architectural elements. Production capacity at this site is set to double by mid-2017 in order to accommodate the growing demand for lightweight construction boards. The work at Verotec GmbH includes building additional production and logistics halls, office space, and raw material silos.

Measures relating to the long-term “Retrofit” programme also continued. These include replacing older production plants within the Sto Group or bringing them up to the latest standards of technology.

#### Asset situation

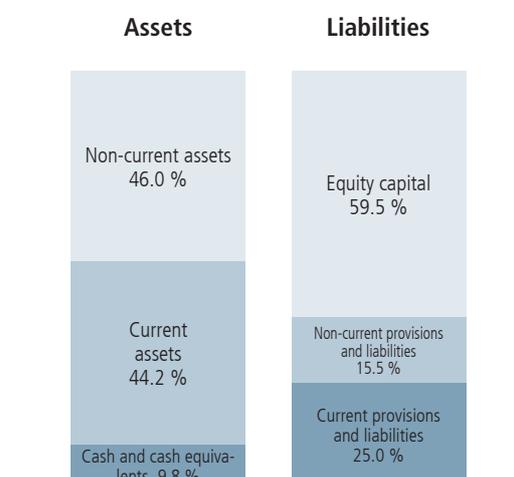
On the reference date of 31 December 2016, Sto SE & Co. KGaA's **consolidated statement of its financial position** had increased by 11.3 % to EUR 714.2 million, primarily due to the first-time consolidation of the Ströher Group and the Hesselberg Bygg Group. On the assets side, total **non-current assets** rose by 9.1 % to EUR 328.4 million, with EUR 21.5 million attributable to the companies that were

incorporated into the consolidated annual financial statement of the Sto Group for the first time. The growth mainly resulted from the higher asset level, which grew by EUR 26.3 million to EUR 308.3 million. Other non-current assets increased by a total of EUR 1.2 million to EUR 20.1 million.

**Current assets** demonstrated a net gain of 13.1 % to EUR 385.8 million. This included a rise in inventory of EUR 21.3 million to EUR 92.5 million, of which an amount of EUR 16.5 million was recorded by the Ströher Group and the Hesselberg Bygg Group. At the same time, strategic provisioning was expanded in anticipation of rising raw material prices in 2017. Current financial assets increased by EUR 13.8 million to EUR 72.6 million. This item includes funds that had been invested with a time to maturity of more than three months to one year. The EUR 11.0 million increase in other current assets to EUR 22.0 million (31 December 2015: EUR 11.0 million) was mainly the result of refund claims. Current trade receivables remained virtually unchanged at EUR 122.5 million (31 December 2015: EUR 123.0 million). Similarly, cash and cash equivalents were, at

Sto Group

**Balance sheet structure as at 31 December 2016**



EUR 70.1 million, only slightly below the previous year's value of EUR 70.9 million.

On the **liabilities side, equity** totalled EUR 425.2 million at the end of December 2016, taking it to 5.1 % above the value on the 2015 reference date. Although profit was lower, there was also a lower dividend distribution. Non-controlling interest increased by EUR 6.7 million to EUR 7.4 million (31 December 2015: EUR 0.7 million), primarily due to the proportion of minority shareholders with a stake in Ströher. The **equity ratio** in the Sto Group stood at a robust 59.5 % on 31 December 2016 (31 December 2015: 63.0 %).

The total **non-current provisions and liabilities** increased by 20.9 % from EUR 91.4 million to EUR 110.5 million. The share held by newly consolidated companies in non-current provisions and liabilities amounted to EUR 9.4 million. Post-employment benefit provisions increased by EUR 11.7 million to EUR 93.2 million; around EUR 6.4 million of this was attributable to first-time consolidation. Other non-current provisions increased from EUR 8.4 million to EUR 13.3 million, while non-current borrowings grew from EUR 0.3 million to EUR 1.1 million. Deferred tax liabilities increased from EUR 0.5 million to EUR 2.1 million.

Meanwhile, **current provisions and liabilities** increased by 22.4 % to EUR 178.5 million. In this case, the amount attributable to Ströher and Hesselberg was EUR 14.3 million. Other current provisions rose by EUR 18.6 million to EUR 44.4 million, primarily as a result of necessary risk provisioning. This included a significant individual provision in the area of warranty provisions within sales, relating to insurance refund claims. These were recorded on the balance sheet as gross items in line with accounting requirements. The offsetting entry was attributable to other current assets on the assets side of the balance sheet. Trade payables in the Sto Group increased only slightly by EUR 2.0 million to EUR 46.4 million, while current

financial liabilities grew by EUR 1.5 million to EUR 27.8 million. At the 2016 year end, current borrowings amounted to EUR 13.5 million as compared with EUR 4.2 million on the same day of the previous year, almost exclusively as a result of first-time consolidation effects. On the other hand, current income tax liabilities fell from EUR 4.1 million to EUR 3.0 million.

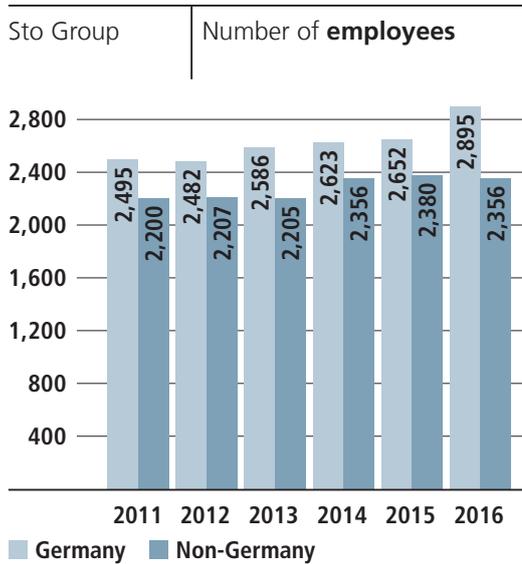
At the end of December 2016, total borrowings amounted to EUR 14.6 million after EUR 4.5 million in the previous year. Taking into account cash and cash equivalents of EUR 70.1 million, **net financial assets** stood at EUR 55.5 million (31 December 2015: EUR 66.4 million).

## C. Other performance indicators

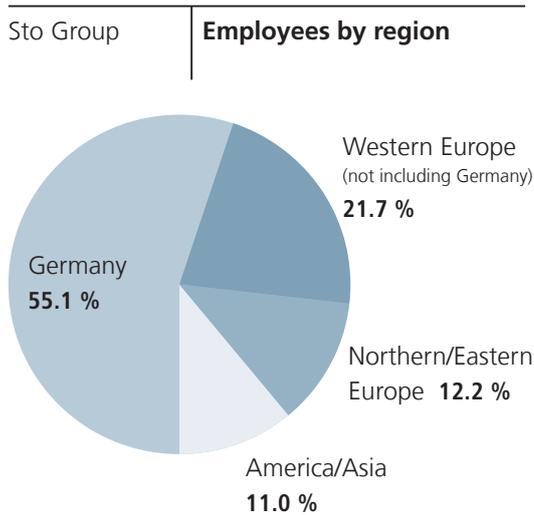
### Employees

At the 2016 year end, the Sto Group had 5,251 employees worldwide as compared to 5,032 on 31 December 2015 (+219 employees; +4.4 %). On the reference date, a total of 275 people were employed at Ströher and 30 at Hesselberg Bygg, which means that, without first-time consolidation, there would have been a 1.7 % decline across the whole Group.

On a domestic level, there were 2,895 employees (previous year: 2,652) including the Ströher Group, which is located exclusively in Germany. Meanwhile, the net Sto workforce abroad experienced a slight reduction from 2,380 to 2,356 employees in spite of the first-time consolidation effect produced by Hesselberg Bygg. Targeted restructuring measures in regions battling difficult economic conditions were contrasted with new appointments in countries with medium-term growth prospects. Year-on-year, the percentage of the Group's workforce employed abroad fell from 47.3 % to 44.9 %.



Dividing these figures into segments, the situation was as follows: Sto had a total of 4,032 employees in Western Europe (including Germany), 638 in Northern/Eastern Europe, and 581 in America/Asia.



In 2016, Sto's employees were 43.1 years of age on average (previous year: 42.7), and the proportion of female employees in the Group rose from approximately 24 % to around 25 % throughout the entire workforce.

### HR strategy

We believe that a well-qualified, dedicated workforce represents one of the key competitive advantages that we possess. Our employees make a significant contribution to the long-term success of the Group, are Sto's representatives to our customers and business partners, and act as brand ambassadors. With this in mind, our HR strategy for 2016 remains unchanged, aiming to exploit and develop the potential available within the company as effectively as possible, foster a positive working environment, and position the company as an attractive employer. As part of this, the following will be our main focal points:

- 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. Using our human resources tools, we continue to develop the Sto culture in a targeted manner and maintain its core. One step we took in 2016 was to completely change the format of employee performance reviews. In Germany, we launched a pilot project and delivered training to the managers of the areas involved.
- Professional personnel and management development:** At the forefront of these measures are customised qualification programmes designed to prepare our workforce for the demands of the future. Additionally, we want to reveal the management potential that is present in the Group and take a methodical approach to honing our employees' skills. We offer our managers attractive promotion opportunities and provide them with support in developing their employees. The year under review saw measures such as the creation of a succession planning concept for managerial positions and a new seminar programme for managers.

- **Employer attractiveness and securing the next generation of employees:** Filling workplace positions with appropriately qualified employees and sustainably promoting talented young in-house professionals will ensure that Sto achieves growth on a global scale and represents a proactive means of combating a shortage of young talent and skills in the future. We also aim to establish attractive general conditions for applicants and employees, as well as a solid vocational training programme. In 2016, one of our measures involved implementing a new IT infrastructure with the aim of improving the quality of training. In addition, we designed a new Internet presence for presenting Sto as an employer. The careers page, which went online in December 2016, represents an even stronger way of appealing to our target groups.
- **Creating competitive employment conditions:** Through agreements with our employee representatives, we aim to ensure a high level of flexibility for our employees and, at the same time, put efficient cost structures in place. In 2016, we reached a global agreement on a new, variable remuneration system for top-tier managers, allowing us to establish an appropriate remuneration structure within the company. We implement forward-looking personnel concepts in order to take account of demographic effects.

### 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 2016, the rate at Sto SE & Co. KGaA was 12.9 after 19.8 in the previous year. The accidents that did occur were primarily the results of inattentiveness or inappropriate practice. In order to counteract this, managers and employees alike

receive ongoing training in occupational safety and we raise their awareness on the subject. Serious accidents are systematically subjected to an accident analysis and the relevant risk assessment is adapted and revised with this in mind.

Our aim is to keep our fluctuation rate low across the Group – that is, in the lower single-digit range where possible. In Germany, this is a goal we met in 2016, with a value of 3.1 % (previous year: 2.8 %). 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 an exceptionally attractive employer to work for. In the coming year, we believe that the fluctuation rate is set to rise slightly.



Five Sto employees took part in the KuBe Plus internal development programme on inspiring and retaining customers, designed for prospective SalesCentre managers.

### Health management

We believe that ensuring the well-being of our employees includes establishing an environment that promotes health and enhances performance, and we support this through a health management programme that is structured around our target groups. Its main focus is preventative measures such as healthy eating, immunisation, sports programmes or courses on giving up smoking. There are also programmes provided for people with specific medical con-

ditions. In 2016, we expanded our programme for sales representatives and carried out training in ergonomics and safety.

### 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 future, here at Sto we offer a comprehensive package of measures focusing on qualifications and further training. During the year under review, one of our strategies was to develop new content on the subject of "Securing managerial skills". In 2016, the managerial staff development programme, which has been in place for some years now, encompassed five German groups and one international group of new managers. As well as this, special training sessions were held with a focus on quality assurance in production. The programme is set to be expanded in 2017, thanks to the positive results that have been achieved thus far.

Those responsible for HR development have also been working on a pilot project relating to the restructuring of the annual employee performance reviews. To provide the subsidiaries with the right preparation for conducting the new appraisal format – particularly those at locations abroad – video training sessions have been formulated and used as part of management-level training.

### Training at Sto

At the start of the 2016/2017 training year, we once again offered young people in Germany the opportunity to learn one of currently 25 trade and commercial professions within our Group – and this time the number of new trainees rose from 70 to 79. This included the Dillenburg training location, where Ströher GmbH – which was incorporated into the Sto Group in 2016 – now offers an industrial ceramist apprenticeship with a focus on process engineering.



At the 2016 year end, we had a total of 196 trainees and students of cooperative state universities (previous year: 182). In relation to the total workforce in Germany, this resulted in a rate of 6.8 %. As a result, Sto far exceeds the 4.9 % training rate of all the businesses working in the chemical industry in Germany.

To provide prospective employees with the opportunity to gain an in-depth insight into the Sto Group as an employer, we once again took part in several education fairs and careers days within Germany during 2016.

In 2016, the Sto apprentices and students at the Weizen location once again presented the company's varied range of training and education opportunities at the Jobs for Future education fair in Schweningen.

## Research and development

Intensive and ongoing work in the field of R&D is one of our Group's central strategic elements. By launching innovative solutions on the market and consistently enhancing our skills, we are securing the position we are aiming for as a technology leader in our industrial sector, and tapping into new markets and groups of customers. Additionally, our R&D activities ensure

that our products meet certain quality standards and that reliability of supply is maintained.

Our Group-wide research and 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 or paints, or on market-based product adaptations and developments. In 2016, research and development costs accounted for EUR 14.3 million (previous year: EUR 13.8 million), corresponding to 1.2 % (previous year: 1.1 %) of consolidated turnover with an impact on profit and loss.

The most important innovations presented in 2016 included new and advanced versions of facade insulation systems with significantly improved properties, rainscreen cladding facade systems, surface variants made from natural stone or brick, a variety of acoustic solutions, and interior coatings designed for healthy living.

In the area of EWIS, the recyclable **StoSustain R** facade system – named “facade4zeroWaste” during its development stage – enjoyed a particularly warm reception. Sto has set new standards with this system, currently unrivalled on the market. It is installed using innovative hook and loop grip fixing and can easily be dismantled and most of its elements recycled at the end of its service life. StoSustain R has been developed in conjunction with the University of Graz and, in 2017, is set to undergo practical testing on construction sites in Germany and Austria. In January 2017, BAU – the world’s leading trade fair for architecture, materials, and systems – saw the system receive the “Special Award” as part of the Architecture + Construction Innovation Prize. This accolade is given to products that go to particular lengths to satisfy architects’ requirements.

The **StoReno Safe** retrofitting system has also had its launch: as well as enabling facades to be renovated, this system can help to create

safer conditions in the event of a fire. Not only that, but the crack-bridging and fire-resistant render system does not require any compromises in the facade design. The **StoTherm Wood** ecological system, featuring wood fibre insulation boards, has been optimised specifically with solid construction in mind. Its improved Life Cycle Assessment and refined processing qualities make it a truly winning choice. The new **StoTherm PIR** insulation board brings to life the idea of offering a particularly slim and energy-efficient EWIS. This high-performance insulant does not need to be anchor-fixed on load-bearing substrates and makes it possible to optimise floor space gains in new buildings. **StoAirtherm Control** is our new ventilation concept for insulation systems. Designed in cooperation with one of our partners, the system brings fresh air into thermally insulated buildings and protects the building fabric.

**StoSignature** focuses on render design in internal and external areas. It allows customised rendered facades to be created using a sophisticated, systematic approach to material combinations and technology – from fine to rough, with linear or graphic designs, and incorporating materials such as natural sand mixtures, shards of glass or silicon carbide. Sto provides architects and tradesmen with support through its comprehensive services at all levels, as well as a wide range of renders and colours.

At the start of 2017, the **StoSilent Modular 300** variable ceiling element from our acoustics range was the recipient of the German Design Award 2017. This versatile, sound-absorbing element is easy to install and can even be retrofitted on walls or ceilings in order to optimise room acoustics – but it was also its design that won over the jury. The very slim absorbing board, made from polyester fibres, features a thin, visible aluminium profile edge. This gives the panel system a great deal of flexibility in how it is arranged. The product plays a

pivotal role in the StoSilent acoustics portfolio, particularly where sound-absorbing modules are concerned. The StoSilent portfolio contains an extensive range of high-quality solutions to accommodate all kinds of requirements.

In 2016, we expanded our services to include the **StoPlaner**, a web-based application that provides our specialist customers with support in the process of planning facade insulation projects involving StoBrick. Working on the basis of architects' plans in the case of new buildings or photographs of refurbishment projects, the program calculates the required quantities of flat and corner brick slips as well as bonding and pointing mortar. Not only does it therefore simplify planning, it also helps to boost efficiency.



The StoSilent Modular 300 sound-absorbing ceiling element has received the German Design Award in recognition of its innovative design.

The highly successful and multi-award-winning **StoColor Dryonic** quick-drying paint, which protects facades against algae and fungal infestations without the use of biocides, received yet another accolade. This came in the form of the Gold Medal awarded at the 2016 Budma international construction and architecture trade fair.

R&D activities during the year under review focused on raw material supplies for existing products and ensuring that availability

remained steady. It was necessary to find ways of compensating for a range of unforeseeable accidents, such as a fire that affected the plant of a major supplier. We dealt with these issues by temporarily changing over to different materials, without compromising on quality or processing characteristics.

In addition to product innovations and further developments, an important element of our R&D activities is fundamental research, which aims to unlock new technologies. In 2016, one of the focal points was sustainability. This included concepts for minimising resource consumption as well as separating and recycling products or components.

To ensure that as much expertise as possible feeds into our research, our R&D team regularly works with external partners and universities as well. Our activities during the year under review included the Smart-Deck project, funded by the German Federal Ministry of Education and Research and being run jointly between us and the Institute of Building Materials Research and Chair of Building Materials (IBAC) at Aachen University. The goal is to introduce repair or maintenance measures in infrastructure as early as possible with the aim of preventing damage.

## Production and procurement

The high level of quality of Sto products is based on our extensive expertise in the fields of development and production, which we are continually expanding. The Sto Group primarily produces coating materials such as renders and paints, which are made in specialised production facilities. The most important input materials are lime, marble and quartz sands, cement, pigments, silicates, silicones, and water-based dispersion agents.

In addition, we produce some of the insulation materials we sell, such as EPS boards, ourselves. These are mainly used for supply

within the Group. These go a long way towards expanding our technological expertise in the field of innovative insulants and to reducing our dependency on suppliers. Production takes place under the overall responsibility of Innolation GmbH at the locations in Lauingen/Germany, and in Amilly/France. Moreover, our Swedish subsidiary produces special insulants based on EPS.

#### International production network

At the end of 2016, the Sto Group's production network comprised 30 facilities in total, of which 11 were located in Germany and 19 abroad. The factories operated on a demand-based schedule in two- or three-shift operation with mostly good utilisation as in the previous year. With the integration of the Hesselberg Bygg and Ströher groups, the production areas of floor coatings and cladding materials for EWIS and RSC were expanded in 2016. These acquisitions allowed the Sto Group to expand its expertise and, with the extrusion and firing technology for ceramic materials applied by Ströher, to integrate entirely new fields of competence.

The capacities of the Group are modernised and expanded in line with demand. In the year under review, we began to build a new pro-

duction facility at Verotec GmbH in Lauingen/Germany, with initial operation expected in the summer of 2017.

The rate of defective batches is a good measure of the efficiency of production facilities. We intend to keep this share of production volumes which cannot be shipped due to defects, to an absolute minimum, with a Group-wide target of no greater than 0.1 %. In the European Sto factories, this quality target has already been met more or less consistently. Our employees worldwide are being trained to recognise potential weaknesses as early as possible, escalate them, and eliminate them.

#### Tested quality management

All activities of the Sto Group on the topic of quality, 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 plants throughout the Group have received external certification according to external standards: by the end of 2016, 24 out of a total of 30 locations had been tested in accordance with the international quality management standard ISO 9001, with 15 also receiving ISO 14001 certification for their environmental management system.

In the area of EPS insulation boards, Sto has added to its existing quality management strategy by implementing advanced measures beyond the standard that has been in place to date. In particular, these are designed to ensure that a high level of product quality is maintained by all the suppliers involved in the production process. Having been audited to the quality and environmental management standards ISO 9001 and 14001 in 2016 and then certified, Innolation GmbH acts as a Group-wide centre of expertise for insulants.

Another focus point in the reporting period was the implementation of the Energy Efficiency Directive and the associated introduction

In April, Verotec GmbH, based in Lauingen, started with an extension project, which includes the new production and logistics buildings, an office building, and raw-materials silos.



of the ISO 50001 energy management system. At year end, Sto SE & Co. KGaA, with its headquarters in Stühlingen and all production facilities and sales centres, StoCretec GmbH, Innolation GmbH, Verotec GmbH, VeroStone GmbH, and Ströher Produktions GmbH & Co. KG were certified.

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). These programmes certify a high level in terms of health and safety. Verotec GmbH 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.

### 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. In the 2016 fiscal year, supply across the Group was ensured at all times. Only for titanium dioxide was worldwide procurement strained from mid-year onwards. Environmental conditions, strikes, and other external factors had an impact on delivery times of individual procured materials, though this was compensated for by a rolling forecast and the adaptation of scheduled delivery times. In addition, a broad, multi-supplier strategy combined with strategic provisioning of key primary products helped ensure that temporary limitations and price fluctuations did not have any significant impact on Sto SE & Co. KGaA.

The prices of crude oil and, consequently, basic raw materials such as styrene, ethylene, and propylene dropped once again in the first quarter of 2016, before gradually starting to increase again from the second quarter onwards.

On average, delivery costs remained slightly below the previous year's value. One exception was the price of titanium dioxide, which saw a dramatic increase and from the fourth quarter onwards was above the previous year's level. In total, the 2016 cost of sales percentage in the Sto Group was improved by 1.4 percentage points compared to 2015.

The lower price of diesel on average and a re-tendering of cargo rates had a positive effect on the areas of transport and incoming cargo. In the wider picture, small savings were hence also achieved in logistics.

### 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. In order to accommodate a growing product portfolio and the ongoing internationalisation of the Group, efforts were made in 2016 to strengthen strategic central purchasing and the management of product groups and contracts. The potential for savings at subsidiaries were also realised, and additional purchasing benefits were achieved.

At our key European Sto subsidiaries, we undertake a systematic supplier evaluation twice a year – according to 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; with a result of 88.5 (previous year: 87.8), Sto SE & Co. KGaA was slightly below its target of 90.0 (previous year: 90.0) in the year under review.

A cornerstone of our procurement strategy involves early identification of price fluctuations and any supply shortfalls in procurement markets. We systematically monitor crucial raw materials, continually check the financial stability of our main suppliers, conduct global supplier negotiations, and work with long-term

framework agreements wherever possible. In addition, we ensure that we have a high supply readiness to our customers by means of extensive classification of selling behaviour of individual items, through which we can accelerate and optimise the planning and scheduling process.

As part of our **stock management system**, target percentages for stock value (average stock in relation to annual turnover) are agreed together with the Sto companies. In the year under review, these ranged between 1.5 % and 26 %, depending on whether the company was a production or sales company. The process of defining and agreeing on the targets also took into account the relevant market conditions, such as product launches and changes that were necessary from a logistics perspective. Through consistent and active stock management and the ongoing strict monitoring of materials with greater ranges, the relevant targets were largely met in the year under review. Deviations were analysed and countermeasures introduced where necessary with the input of the company concerned.

The internal software system Sto-eProcure, which is used to process around 10,000 orders per year in German companies, was fundamentally overhauled and improved in 2016. The new version of the software has been available since mid-December. The extremely transparent ordering process, with a standardised approval procedure and a direct interface to the Group-wide SAP system, has proved extremely successful. Over 40 selected catalogues have since become available for quick and effective procurement.

## D. Events after the reporting period

In the Executive Board of STO Management SE, which, as the personally liable partner of Sto SE & Co. KGaA conducts its business, Jan Nissen,

who was already inducted into the committee on 22 April 2016, took over the Technology division from Gerd Stotmeister, who left the Executive Board voluntarily at the end of 2016. The new appointment took effect on 1 January 2017. Jan Nissen was previously Head of Materials Management within the Sto Group. He resigned from his position as representative of management employees on the Supervisory Board of Sto SE & Co. KGaA on 31 December 2016.

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

## E. Risks and opportunities report

### Risks and opportunities

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

### Risk management system

The active management of risks is pursued at Sto by means of a comprehensive **risk manage-**

**ment system (RMS)**, which forms an integral part of our business, planning, and control processes. This system allows us to identify and analyse risks in good time, to analyse the expected effects on the finance, earnings, and asset situation, and to 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. Here, 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 IT-supported 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. Back in 2011, Sto SE & Co. KGaA introduced an electronic workflow for centralised invoice processing and archiving, which our subsidiaries have been gradually introducing since 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.

The most important monitoring measure independent of the business processes concerned with regard to the consolidated accounting process is auditing of the consolidated annual financial statement of the Sto Group and the incorporated separate financial statements of the Group companies by 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, implementing, accounting, and approval functions and the performance of these functions by multiple persons (“dual control principle”) reduces the attendant risks.

The regular management meetings between the Group management and the managing directors of the subsidiaries are a further important element of the ICS. A meeting focusing on the annual financial statements takes place for each operationally active subsidiary between representatives of Group accounting or investment controlling, the local Management Board, and, in most cases, the Chief Financial Officer

of STO Management SE as a representative of the Group’s parent company. The local auditor is also present at this meeting. Additionally, a national control committee – such as the “Board of Directors” (BOD) – or the Group auditor may participate in these meetings 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 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 influences, something on which Sto can only have a very limited effect. 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.

**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, some sales of building products respond directly to the general level of economic activity as well as to general economic and tax-related conditions. A continued downswing in the main German construction sector may lead to high levels of surplus capacity and intense competition accompanied by strongly declining prices. We counter this economy-based risk mainly through internationalisation of our business activities, which ensures regional diversification and makes us more independent of 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.

**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. Hence, the entire industrial sector faces the risk of failing to fully exploit sales potential. As the market leader, Sto would feel an above-average impact of this, which in turn would be reflected in corresponding levels of loss in turnover and income.

Sto, as one of the members, and the Qualitätsgedämmt e.V. association, which has been established in conjunction with other German family-owned companies, hold 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.

On 1 October 2016, all insulants in Germany that contain more than 0.1 % of the flame retardant HBCD were classified as dangerous waste in order to ensure traceability during disposal. During the practical implementation of this regulation, serious obstacles were quickly encountered which led to acute bottlenecks in disposal and therefore to the shut-down of some construction sites. Sto was also indirectly affected by these disposal bottlenecks, even though the company has used exclusively HBCD-free insulants since mid-2014. Owing to these problems, the regulation was suspended for one year starting on 16 December 2016 in order to develop a regulation that is legally compliant and applicable across Germany on a practical basis. If regulations are imposed which unexpectedly lead to obstructions on construction sites, this can have a negative impact on our sales.

#### **Risks in the procurement of raw materials**

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

There is a price dependency of products which we produce ourselves and trading goods 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 (e.g. Sto pails). The trend regarding these basic raw materials usually correlated closely to 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 (e.g. titanium dioxide), for which there is a dwindling number of available suppliers around the world, is also set to increase over the long term – particularly in emerging and developing countries.

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 risks resulting from this through advance procurement as well as early contracts with our partners and suppliers. Additionally, the Sto areas of procurement, R&D, and production continually work to optimise the use of materials and make it more flexible in order to ensure a sustainable supply of the relevant raw materials. To this end, alternative materials and suppliers are also taken into consideration.

#### **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 transparency of risk.

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 of facade systems and coatings. The effects of potential damages or liability claims in the USA on the finance and earnings situation of the Sto Group cannot be assessed 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, where necessary, during decision-making procedures. 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 liability 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. 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 2016, this applied to countries such as Switzerland, Canada, and Poland. 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.

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, since 2013 we have been implementing comprehensive cyber security measures in order to ensure maximum continuity, integrity, and availability. We do not use Internet-based services (the cloud) for critical company information and processes, as we believe that they harbour both legal and technological risks. 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 Sto Group's operating business, such as SAP and Lotus Notes, are deployed in redundant and fully virtualised form. This ensures maximum continuity of the systems and the appurtenant services. In 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 Sto Group's information systems, as far as possible we use technological security systems available on the market. 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 unprotected areas, such as Internet cloud systems. This is regulated by a comprehensive IT Policy. What is more, Sto makes use of a Cyber Security Competence Center, provided by the federal association VOICE, in order to stay constantly abreast of the latest knowledge concerning prevailing threats.

### Availability:

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

the inability to update software using a gradual 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 partitioned 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 the increasingly strong competition for professionals and executives, we do not succeed in recruiting appropriate personnel, this may have a negative impact on our future corporate development. This risk may become even more serious in the medium to long term due to demographic trends, particularly in western industrialised countries. Not only could the pool of talented young professionals become smaller, but many people may also leave the company for reasons of age which would entail loss of knowledge.

Sto SE & Co. KGaA implements numerous measures to eliminate these risks and position itself as an attractive employer. For example, we provide extensive career development opportunities as well as excellent further and advanced training, and we take steps to make achieving a good work-life balance easier. This 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, this 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 legislation and regulations in various countries. Any changes to these tax rules may lead to higher tax expenses and payments. In addition, changes to the laws and regulations can also 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 2017**

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 2017 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 debate surrounding the ecological impacts, fire protection issues, and efficiency associated with facade systems, and surrounding building culture in general, which 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 countries affected by this, this could result in a decline in construction investments in the public sector.

If the world's economy recovers more effectively in 2017 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 turnover effects resulting from higher demand for construction services. Additionally, opportunities could arise if raw materials prices develop more favourably than assumed in our forecasts.

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 are a possibility during the winter months – a time when it is not usually possible to carry out any work on construction sites – and may have a positive effect on the turnover and earnings trend.

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, 2017 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 begin escalating 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
Overall economic and industry-specific risks	high
Sales risks	high
Risks in the procurement of raw materials	high
Warranty-related and legal risks	high
Financial risks	average
IT risks	average
Human resources risks	average
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 International Monetary Fund holds the view that the global economy is set to gain only slight traction in 2017. Development across the world is battling against exceptionally high levels of uncertainty, particularly as a result of the political situation in the USA. Additional risks continue to be presented in the form of non-economic factors such as the situation in Turkey, unresolved political conflicts, the global refugee problem, and international terrorism.

Against this backdrop, the IMF is forecasting a 3.4 % growth in the world's gross domestic product for 2017. It is likely that developing and newly industrialised nations, expected to see 4.5 % expansion in total, will once again represent the strongest sources of momentum. Both the Chinese economy and India are predicted to sustain their high growth rates, while another slight upward trend is also expected in Brazil and Russia.

Where industrialised countries are concerned, the IMF is anticipating a 1.9 % growth in the gross domestic product. This includes a 2.3 % and 1.6 % gain in the USA and the eurozone respectively. However, the German economy is only expected to grow by 1.5 %, according to IMF data. In addition to the moves

in favour of protectionism prevailing worldwide, which could still potentially grow and have a negative impact on the German open economy, there is also the possibility of German exports suffering as a result of the Brexit vote.

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

For the most part, the **domestic construction industry** is looking at the current year with a sense of optimism due to the high volume of orders it has been handling. The Central Federation of the German Construction Industry is estimating that turnover in the industry will rise by approximately 5 % in 2017. It is likely that the residential construction sector will once again be the strongest performer with growth in turnover of 7 %, resulting primarily from a continuation in low interest rates, immigration from abroad, and internal migration to major cities. Additionally, it is currently believed that new residential construction will be driven forward by the positive nature of general conditions in the economy as a whole. By contrast, the growth rate of renovation measures on existing buildings is once again expected to be much lower. A positive trend is also emerging in commercial and public-sector construction. This is likely to be less marked than in the new residential construction sector, however, with increases of 5 % and 3 % anticipated respectively.

In **Europe**, EUROCONSTRUCT is forecasting that 2017 will bring a virtually unchanged rise in volume of construction compared with the previous year, amounting to 2.1 %. This favourable development is mainly attributable to the economic revival that has been experienced in several European countries, the backlog of demands that has built up in many locations, improvements in public financial conditions, low interest rates, plus sustained immigration and internal migration. The issue of migration and immigration requires not only a larger stock of

residential buildings, but also modifications to existing infrastructure. However, it is likely that residential construction will continue to provide the strongest momentum through its predicted increase of 2.8 %, sustained by almost every EU member state. The non-residential construction sector, meanwhile, is expected to achieve growth of 1.4 %.

In spite of the significantly weaker traction gained in getting building projects off the ground in 2016, the **US construction industry** should continue to experience a boom. The industry outlook produced by Dodge Data & Analytics in autumn 2016 indicates that 2017 is expected to see a rise of approximately 5 % in the number of construction projects that are started. It is thought that continued improvements in the labour market situation, a healthy level of demand for commercial properties, and more financial freedom afforded to US states and municipalities will deliver an additional boost. Building construction is likely to remain the principal driver of the industry's development in 2017. Residential buildings and non-residential buildings are expected to contribute equally to the growth, at 8 % apiece. In the area of non-residential buildings, it is likely that the upward trend will increasingly be sustained by the institutional sector in the future (educational and healthcare buildings, for example). The positive developments that have been seen in the office construction sector and commercial projects may experience a slight decline. However, a noticeable upturn is being anticipated for investments in industrial buildings.

The construction sector in **China** appears to have now reached its lowest point. Figures from GTAI relating to building structures indicate that the number of new projects begun has risen for the first time in two years. It is likely that the country's continued urbanisation will, on the whole, remain the key growth driver for the construction industry. This trend is sparking

increased demand for not just living spaces, but also public buildings such as schools, hospitals, sports facilities, and museums. China demonstrates a very high level of demand for refurbishment activities. The country's State Council has drawn up a three-year plan that intends to have a total of 18 million residential units renovated between 2015 and 2017. However, the Chinese economy is generally exposed to some significant risks that also have an impact on construction activity. According to the IMF, the economy depends too heavily on stimulus measures from the government. Weak foreign trade, high levels of debt, and the threat of trade disputes with the USA also place a burden on the stability of what is the world's second-largest economy.

### 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 2017 fiscal year will bring improved business development as compared with the previous year – assuming normal weather conditions. On the whole, we are expecting the Group to see a 3 % **rise in turnover** to around EUR 1,268 million in 2017.

This forecast is based both on industry developments in individual regions as described above and on the expectation that price increases could be enforced on the market once again as a result of the sudden rise in raw material and procurement prices that has taken place since the start of 2017. We are also currently working on the basis that the euro will remain stable.

From a technical perspective, there is significant potential for sales in the area of EWIS based on the objective advantages offered by energy-related facade insulation. Our systems meet the very highest demands imposed by various aspects of quality – insulating performance, ecology, cost-effectiveness, durability,

fire protection, and design freedom – and this means that we are expecting 2017 to bring a slight increase in business volume within the area of facades. The political climate is also continuing to rely on 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 agreed at the United Nations Climate Change Conference in Paris. The high number of older buildings also represents a significant source of sales potential for EWIS – and not just in Europe. That said, we cannot rule out the possibility of the industrial sector experiencing additional negative effects from the ongoing debate on the use of external wall insulation systems in Germany, and from the failure of politicians so far to implement necessary measures.

On the other hand, the Sto Group holds a highly competitive position in other product areas besides its core market of EWIS. We see potential for Sto products to achieve growth in areas such as interiors, acoustic systems, and our facade coatings. The brick surfaces manufactured by Ströher GmbH also herald significant opportunities thanks to their variety of design possibilities.

The first quarter of 2017 marked a positive start to the current reporting period, taking into account the weather conditions. Consolidated turnover was above the previous year's level during the first three months of the year.

As things stand, consolidated earnings before interest and taxes (**EBIT**) are likely to fall between EUR 80 million and EUR 90 million in 2017. 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 6.2 % and 6.9 %. The **ROCE** (Return on Capital Employed) figure is set to reach between 15.8 % and 17.8 %.

In the area of **procurement**, we believe that the world markets may see an increase in demand – something that will in some cases have to contend with a lack of availability in chemical production capacity. The price of crude oil is likely to carry on increasing gradually in the period up to the 2017 year end. We expect to see sustained and, in some cases, significant increases in the price of goods such as titanium dioxide, selected speciality chemicals, and EPS-based insulants.

We have planned a budget of approximately EUR 35 million for **investments** in property, plant, and equipment. These will focus on projects including the completion of the capacity expansion at Verotec GmbH in Lauingen/Germany. A new test production facility is being installed at Innolation GmbH. Additionally, the Group as a whole will continue to pursue the long-term measures it has planned as part of the “Retrofit” programme.

Where **personnel** are concerned, the New Balance programme has identified a range of opportunities for reducing expenses and is set to implement these at Sto SE & Co. KGaA over the course of 2017. As part of plans to boost turnover, we are expecting slight growth in the overall workforce numbers across the Group during 2017, with targeted restructuring measures in regions battling difficult economic conditions contrasting with new appointments in countries with medium-term growth prospects.

Turning to the area of financing, we do not currently have any extraordinary measures planned for 2017.

#### **Projected performance of the Sto business segments**

Assuming that the general economic conditions develop as forecast, we expect the **Western Europe** segment to see an increase in turnover in the lower single-digit percentage range in 2017. However, the situation in parts of Europe is likely to remain a challenge. In France, par-

ticularly, we are not expecting the current year to bring any significant revival in the construction industry or the competitive situation. In Switzerland and Italy, general conditions also remain unfavourable. In these cases too, we hope to win a bigger share of the market by introducing new products and tapping into additional groups of customers. In Germany, the increased demand for living space as a result of factors such as the influx of refugees may create special circumstances that result in positive effects on the construction industry. However, this is being countered by the still-weak demand in the German EWIS market, where we are currently expecting to see a slightly stagnating market size in 2017.

In the **Northern/Eastern Europe** segment, the predominantly healthy general conditions within each of the regions are bringing us opportunities to increase our business volume; here, we believe that we will see a net increase in turnover in the middle single-digit percentage range. It is not currently possible to estimate with any certainty the extent to which the ongoing recession in Russia will have a negative impact on bordering regions.

As a result of the healthy economic conditions in the USA, where we are expecting a significant increase in volume within the construction industry, we are also predicting 2017 to bring growth in the lower single-digit percentage range to the **America/Asia** segment. In Asia, the further drop in growth that has been seen in China is likely to have a negative impact on the entire economic region, and we are predicting muted demand here as a result.

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

Over the coming years, Sto will primarily concentrate on achieving growth and boosting profitability across the Group. One aim of the measures within the New Balance programme, initiated with this course of action in mind, is to increase turnover in specific product groups

and – in spite of difficult general conditions – to invest in areas that in-depth analysis has led us to view as growth segments. Additionally, we intend to expend our sales activities systematically and improve the process management measures we have in place within the area of sales.

Another aim of the programme is to optimise costs and drive forward efficiency. As a result of the business development we experienced during 2016, which came in below expectations, we set out an additional package of measures during the fourth quarter and are expecting to see the first visible results of this in 2017.

Not only do we intend to stay abreast of changes in the market situation, we are also aiming to deliver appropriate action that will help us play an active role in shaping trends with a significant impact on our environment and the direction in which our Group is moving – such as digitisation. This will include introducing new software that is designed to manage and optimise sales and distribution processes throughout the Group.

Sto is a leading provider 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 technical 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 this reason, we are convinced that the Sto Group will be able to achieve growth in turnover to the EUR 2 billion level over the longer term, and improve profitability in the process. Due to the change in general conditions, we have set 2022 as a deadline for

reaching this goal. In pursuing this, we intend to achieve consistent organic growth and make selective acquisitions where the right opportunities arise.

Stühlingen, April 2017

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

### 2016 on the stock markets

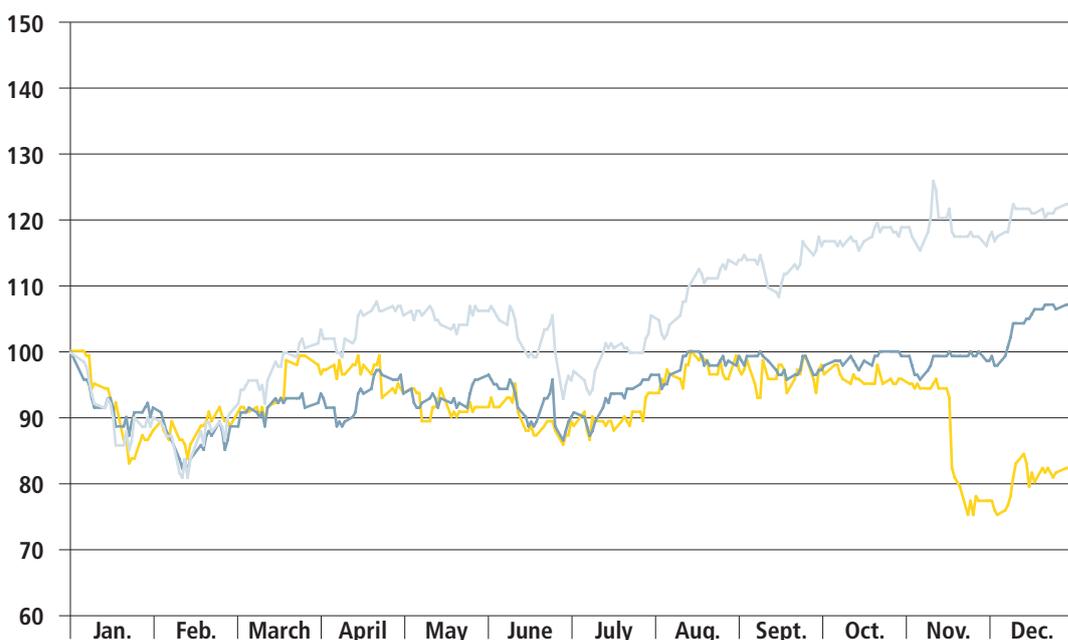
Share markets across the world are looking back on an eventful year that brought many surprises and changes in course. A subdued atmosphere prevailed during the first few months of 2016 as a result of concerns about the development of the Chinese economy, geopolitical tensions, and uncertainty about the USA's monetary policy. The drop in the price of oil also contributed to significant declines in share prices the world over. The second quarter of the year brought a general sense of revival, albeit one that was briefly and unexpectedly interrupted by the Brexit vote and the resulting uncertainty. Solid data from the labour market in the USA, more positive results from the Chinese economy, and a continued upswing in raw material prices provided stability during the second half of the year.

Following November's presidential election in the USA, the US stock markets in particular

### Share price trend for 2016

(indexed on 30 December 2015 = 100)

- Sto limited preference shares
- DAX
- DAXsector Construction



demonstrated an impressive sprint finish in the final stages of 2016, with the Dow Jones ending on an all-time high and growing in value by 13.6 % over the course of the year. By contrast, the share markets in Europe suffered as a result of the Italian banking crisis and concerns over the disintegration of the EU and currency union. On the whole, the EURO STOXX 50 index experienced slight growth of 0.5 %.

Following significant losses during the first few weeks of the year, Germany's share markets also saw a revival. Mirroring the record-breaking performance of the US index, the DAX achieved a successful increase at the year end and recorded year-on-year growth of 6.9 %. The Construction sector index on the Frankfurt Stock Exchange also experienced strong growth and closed trading with a plus of 23.0 % for the whole of the financial year.

### Sto share down

The Sto SE & Co. KGaA share started 2016 with a significant downturn, reflecting the market as a whole; its price then rallied and demonstrated a predominantly sideways trend – with a few spikes – as it progressed into the autumn. On 12 August, the value reached its highest point of the year at EUR 114.90, slightly above the level at the start of the year. Following this, however, the price fell considerably after the turnover and results forecast for 2016 as a whole was reversed, with the Sto share then recording its lowest value of EUR 86.20 on 23 November and closing trading at the year end on EUR 93.04. This equated to a loss of 19.0 % compared with the closing price in the previous year.

The market capitalisation of 2.538 million Sto limited preference shares fell from around EUR 291.4 million to EUR 236.1 million year-on-year on 31 December.

### Result lower than in previous year

In 2016, the consolidated turnover of Sto SE & Co. KGaA grew by 1.2 % to EUR 1,230.7

million, exclusively as a result of acquisitions that had been factored in for the first time. Consolidated earnings before interest and taxes (EBIT) fell in comparison to the previous year from EUR 81.5 million to EUR 70.3 million, and consolidated net income from EUR 55.7 million to EUR 45.7 million. Diluted and basic earnings were EUR 7.20 per limited preference share (previous year: EUR 8.77) and EUR 7.14 per limited ordinary share (previous year: EUR 8.71).

### Sto limited preference share key figures

Values per share in euros

	2016	2015
Earnings per preference share	7.20	8.77
Cash flow from current operating activities	14.85	12.28
Equity capital	66.17	62.98
Dividend payout per preference share		
Dividend	0.31	0.31
Bonus	3.00	4.56
Share price at year end*	93.04	114.80
Year high*	114.90	162.00
Year low*	86.20	106.05
PER (31 Dec)	12.92	13.09
PER (high)	15.96	18.47
PER (low)	11.97	12.09
Capitalisation of preference shares on 31 Dec (in EUR millions)	236.1	291.4

\*XETRA closing price

The parent company Sto SE & Co. KGaA reported a reduction in earnings before income taxes, determined in accordance with the German Commercial Code (HGB), from EUR 64.6 million in the previous year to EUR 56.5 million and the net profit for the year fell from EUR 48.2 million to EUR 45.4 million. The personally liable shareholder STO Management SE

will therefore propose a dividend distribution of EUR 21,036,780.00 in total at the Annual General Meeting on 14 June 2017. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and a one-off bonus of EUR 3.00 per share. Limited ordinary shareholders will be paid an ordinary dividend of EUR 0.25 as well as a one-off bonus of EUR 3.00 per share. In the previous year, a one-off bonus of EUR 4.56 per share was paid out.

Based on the 2016 closing price of EUR 93.04, this will result in a dividend yield per preference share of 3.6 %; on the basis of the 2016 opening price of EUR 114.80 a yield of 2.9 % applies.

#### **Trading volume in 2016**

During the 2016 fiscal year, the number of Sto SE & Co. KGaA limited preference shares that were traded in the XETRA electronic system of the Frankfurt Stock Exchange amounted to 698,345 in total, compared with 840,324 Sto shares in the previous year.

#### **Shareholder structure**

At the 2016 year end, of the 2.538 million Sto limited preference shares, it is estimated that more than 50 % 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

## A. Company-level activities

### Assuming responsibility

Sustainability has been a major priority for Sto ever since the company was founded, and is reflected in every one of its areas and departments – from energy-efficient and resource-efficient production, to environmental and quality management, right through to health management and social responsibility. The set of values we have established with this in mind is also expressed in our corporate mission, “Building with conscience.” Our products have made huge contributions to saving energy for more than 50 years, helping to protect the climate and maintain the value of construction works as a result, but we also aim to keep production-related consumption and emissions as low as possible.

To ensure that we are ready to face future challenges, we continuously follow the development of megatrends, changes in the market, as well as regulations and laws that are relevant to us. In 2016, 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

### National and international standards

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

Since 2009, we have been a member of the **UN Global Compact**, a worldwide strategic initiative for global justice under the auspices of the United Nations. Global Compact members are committed to aligning their business activities and strategies with ten universally acknowledged principles taken from the areas of human rights, labour standards, environmental protection, and the fight against corruption. They are also committed to supporting the objectives that go hand in hand with this. Compliance with legal and ethical standards as well as a sound financial policy are integral to our understanding of good corporate governance. All forms of bribery and corruption are unacceptable for us and will not be tolerated. Further details relating to corporate governance at Sto 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. As well as this, in 2016 Sto participated in the Peer Learning Group for climate management as part of the German network, with the aim of finding more effective ways of overcoming the various challenges associated with identifying and managing climate effects along the supply chain. It also gave its financial support to this initiative. This report also represents the annual Communication on Progress (COP) required by the Global Compact.



Since 2014, Sto has participated in the nationwide sustainability initiative **Chemie<sup>3</sup>**, 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 has developed important guidelines for sustainable development in Germany's chemical industry and provides various tools for implementing these in practice.



In 2016, Sto continued to play a major part in the activities carried out by the initiative, supported various Chemie<sup>3</sup> events with the aim of engaging in discussion on examples of best practice, and performed the "Chemie<sup>3</sup> Sustainability Check" at various locations. 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. An overall concept is in development based upon already established management processes as well as company and product-related measures, allowing all Sto's sustainability activities to be pooled, reviewed regularly, and realigned if needed. We are rolling out this action to the entire Group.

Demonstrating the responsibility it takes for sustainability on a regional level, Sto has for many years now been involved in the Sustainability Management Initiative (Wirtschaftsinitiative Nachhaltigkeit, WIN) of the State of



Baden-Württemberg, and signed the **WIN charter** in 2014. Through this, Sto has committed itself to twelve principles and objectives of sustainable management,

and has undertaken to submit a regular written report as well as carry out specific projects.

Furthermore, various subsidiaries are taking part in sustainability initiatives within their own countries and expressing their own sense of responsibility as a result. In Austria, for example, 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, we supplement these specifications from external sources with **internal corporate regulations**, which are designed to accommodate Sto's specific corporate environment. First and foremost are the "Principles of Cooperation and Management within the Sto Group", which we use to translate the general ideas outlined in our Guiding Principles into concrete actions.

#### Dialogue with stakeholders

Maintaining dialogue with our stakeholders is an exceptionally important part of our sustainability efforts. We do this in a variety of formats in order to accommodate the many different subjects that are raised, often in specialist and 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 2016 were healthy living and living spaces, sustainable construction and sustainable building products, dismantling and recycling of building materials, and cradle-to-cradle design.

Sto also fosters discussion with non-governmental organisations (NGOs), specialists, media representatives, and research facilities, creating a forum for exchanging views on the latest sustainability issues in the construction industry and the specific desires and demands being



expressed by our market partners. Events held as part of the Chemie<sup>3</sup> sustainability initiative, and by the action-based associations VCI, IG BCE, and BAVC, have provided additional key sources of momentum and opinion. As well as this, the working sessions of the German Global Compact Network and the Sustainability Management Initiative (Wirtschaftsinitiative Nachhaltigkeit) provide crucial opportunities each year to find inspiration and share knowledge.

We are also committed to participating 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 2016. Also at association level, Sto takes part in the “Sustainable Building” working group of Deutsche Bauchemie e.V. (German Association for Construction Chemical Manufacturers), the “Sustainability” working group of the Verband der deutschen Lack- und Druckfarbenindustrie e.V. (German Paint and Printing Ink Industry Association, VdL), the Fachverband Wärmedämm-Verbundsysteme e.V. (Professional Association for External Wall Insulation Systems, FV WDVS), plus the European umbrella associations in each area (such as FEICA, CEPE, and EAE). In Austria, Sto played an active role on the advisory board of Bau-EPD GmbH during 2016.

### Sustainability Compass

We use our Sustainability Compass in order to perform a concrete evaluation of our 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. We live in a dynamic and complex world in which the search for

sustainable solutions often fails to produce a win-win situation for everyone – for example, a product that is both eco-friendly and inexpensive – and so it is necessary to weigh up a range of criteria when coming to a decision. Our Sustainability Compass helps us create a four-dimensional mindset encompassing Nature, Economy, Society, and Well-being aspects, and arrive at the best possible solution as a result. 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. Going in this direction is also an expression of the corporate mission we have drawn up: “Building with conscience.”



### Climate and resource protection

The **Climate Action Plan 2050** launched by the German government in November sets out the general conditions that we will need to apply when planning our future activities in the areas of climate protection as well as energy and resource efficiency. It contains climate objectives for individual branches of industry, thus providing terms of reference that we can use to make decisions in the future. Energy efficiency is a key

focal point in the area of buildings, which are responsible for a good 13 % of total greenhouse gas emissions in Germany and therefore have the potential to make a significant contribution towards achieving these climate objectives. The German government's aim is to convert the country's stock of buildings to a virtually climate-neutral state by 2050. This will require the buildings to demonstrate very low energy demands and cover what energy they do need primarily using renewable sources. However, the Climate Action Plan does not go into specific detail regarding the kind of energy-related measures that would need to be implemented in residential and non-residential buildings with the objectives in mind, nor does it contain information on the level of heat insulation that building envelopes would be required to provide, what should be included in the mix of energy sources and technologies, or the costs associated with the measures. Despite this, Sto believes that the plan reinforces the direction in which the company is moving, and that its high-quality facade insulation systems will do their part to ensure that energy demand in buildings drops significantly and can then be covered by renewable sources. The new reception and office building at the Stühlingen-Weizen location in Germany, which opened in 2016, is impressive evidence of this. It is now necessary for the general conditions and tools to be established in the political sphere so that the potential for climate protection in buildings can be exploited effectively and in a socially responsible manner.

It is hoped that the newly launched **energy efficiency networks**, a joint initiative of the German government and business community, will also contribute towards achieving the objectives the country has set in its climate and energy policies – there are plans to establish approximately 500 networks of this kind in Germany by the end of 2020. With a time frame of two to three years, this forum for companies and branches to exchange ideas in a systematic,

non-bureaucratic way will aim to collectively boost energy efficiency and reduce energy costs. In 2016, Sto SE & Co. KGaA, StoCretec GmbH, Innolation GmbH, Verotec GmbH, and VeroStone GmbH registered the "Energieeffizienz bei Sto" ("Energy Efficiency at Sto") network via the German Chemical Industry Association (VCI), with the network then holding its first meeting in November. The next stage will involve the companies formulating savings targets for each specific company and a network goal for all the members, working on the basis of the potential they believe is available.

Sustainability criteria also played a major part in planning the **reception and office building** at the Stühlingen-Weizen location, and the building has been certified as meeting the highest standard of the German Sustainable Building Council (DGNB). Completed in August 2016 and constructed using zero-energy principles, the new building is in the shape of a Sto pail and satisfies even the strictest criteria in the areas of ecology, economy, technology, social aspects, and well-being. This building is our way of showcasing the standards that we are already able to put into practice – largely with the help of our own building products. It brings together energy efficiency, resource conservation, comfort, and aesthetic appeal in an outstanding fashion.

As a "Sto building for the 21st century", it revolves around a pioneering energy concept made up of several innovative elements. Its basis is a thermally optimised building envelope that prevents unwanted heat losses. The building uses every available resource at the location to generate its energy: water, sun, and waste heat from the data centre on the basement level. Meanwhile, the solar panels located on the roof produce 26,400 kWh of energy a year. A turbine powered by water from the nearby Ehrenbach river, plus the rainscreen cladding facade equipped with photovoltaic panels, are responsible for additional sources of energy. These play a key role in ensuring the building

remains self-sufficient, particularly in the winter months when the sun is low and the solar panels on the roof are generating little energy.

More than 80 % of the highly insulated carrier boards in the facade system – which are easy to dismantle and recycle – are made from recycled glass, and some have been individually curved in order to reflect the oval pail shape. Thanks to the interplay between transparent, triple-glazed surfaces and opaque, insulated surfaces on the outer building envelope, not only are energy losses kept consistently low, but employees are also able to enjoy large amounts of daylight without feeling as though they are sitting in a greenhouse. The building is cooled using spring water, while a heat recovery facility is also integrated into the ventilation system. Energy consumption in the lighting is optimised through the use of LEDs as well as a control system that works on the basis of presence and daylight.



In our new office building, modern workstations that are flooded with light create a pleasant working environment.

The results speak for themselves: thanks to the building envelope constructed in line with the passivhaus standard plus the perfectly tuned energy concept, the building considerably exceeds the regulations set out by the lat-

est German Energy Saving Ordinance (EnEV), issued in 2016. The primary energy requirements fall below the specifications by some 70 %. Additionally, the building is already in a position to meet the energy standard that will be coming into force with binding effect for new public buildings in 2019 and for new private buildings in 2021. Where the KfW standard for efficient buildings is concerned, our building falls approximately 60 % below the guide values, and it uses three times more renewable energy than is legally prescribed by the German Renewable Energy Heat Act (EEWärmeG 2011). This is impressive proof of how we are dedicating ourselves to our “Building with conscience.” mission even in our own projects.

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 and resource conservation activities taking place in the Sto Group. In doing so, we 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. At the year end, certification had been granted to the company headquarters in Stühlingen as well as five production locations, 84 sales centres, and five subsidiaries including external warehouses and branch factories. 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.

In the medium term, we intend to connect this Europe-wide energy management system

to a company-wide climate protection strategy that will take into account CO<sub>2</sub> emissions in particular, as an addition to energy and climate data. Austria is playing a leading role in achieving this, with all of Sto's locations here having been certified as "climate protection businesses" by the national Climate Alliance Austria since 2004. The measures that are set to be introduced include energy guidelines for minimising CO<sub>2</sub> emissions in all company buildings. In order to compensate for the unavoidable remaining emissions, Sto Ges.m.b.H. has supported a UN-certified climate protection project in Vietnam since 2016 by buying emission allowances. As a result, the company is now officially **climate-neutral** according to the EU emissions registry.

In Germany, the purchase of certified green electricity from 100 % hydropower has increased as part of the company's climate protection activities. This made it possible to save 14,860 tonnes of CO<sub>2</sub> in 2016 when compared with purchases from the German electricity mix. Additionally, consistent efforts to ensure certified disposal and subsequent recycling of paper, paperboard, cardboard, film, plastic, and tin avoided an additional 3,870 tonnes of CO<sub>2</sub> equivalent.

**Logistics and mobility** represent another key area of climate protection. We optimise transport routes, ensure an excellent degree of utilisation, promote economical and environmentally conscious driving, and deploy modern monitoring systems. This allows us to save kilometres, fuel, and CO<sub>2</sub>. The make-up of our vehicle fleet also helps us to reduce emissions: at the start of 2016, the average CO<sub>2</sub> emission value generated by our fleet was 117 g/km compared with 123 g/km in the previous year and 127 g/km in 2014. This equates to a decline of 7.9 % in two years. As well as this, using the DHL GoGreen service has allowed us to offset 37.8 tonnes of CO<sub>2</sub> through climate-related projects in our logistics activities.

### **Social responsibility**

The Bright Hill Pre-School in Windhoek/Namibia is one of the international projects that Sto has funded for many years. In 2016, two young Sto employees were given the opportunity to spend a six-week work placement in this pre-school. Children are cared for 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. This is the second time Sto has offered two young professionals at the Group the opportunity to gain valuable personal experience abroad. The feedback was extremely positive from all sides: both the children and the assistants at the Bright Hill Pre-School as well as both of the Sto colleagues were extremely satisfied with the work placement.

In 2016, Sto was represented by two teams in the Belgian campaign "1,000 kilometres in the fight against cancer". The two teams with five members each spent four days cycling through Flanders covering 2 x 125 kilometres each day. The Sto team raised enough donations to collect the starting fee of at least EUR 5,000 needed to participate in the race. The campaign raised altogether a record total of over EUR 3.5 million in proceeds last year which will be donated to biomedical cancer research.

Sport for a good cause was also the motivating factor of several golf tournaments organised by Sto and Sto employees in 2016. The golf players at the Sto sport club in Germany celebrated their 20th anniversary by organising a charity tournament with a raffle raising a total of EUR 5,000 which was donated to the Special Olympics Hochrhein e.V. association. This association supports people with mental and multiple disabilities.

In December 2016, the "Jung und Alt" ("Young and Old") neighbourhood help association in Wutachtal/Germany was delighted

to receive EUR 7,000 of financial support from Sto. This Christmas gift was an offering from employees and guests at the company's open day on 17 September 2016 where Sto invited everyone to a free lunchtime snack in return for a small donation to the association. The donated proceeds were rounded off by the Management Board. This "Jung und Alt" association and its team of 50 people invest a total of 8,000 hours a year. Plans are to use this donation to renovate a former restaurant into a meeting place with barrier-free access and to purchase a barrier-free, ideally electric community bus. The opening of the new zero-energy building at the location in Stühlingen/Germany will hence also indirectly contribute to sustainable mobility.

Numerous Sto employees again volunteered their services in 2016. The "Take responsibility!" volunteer days are held every year in June in Kärnten and Styria where company teams donate their time and services in aid of a good cause and support social organisations and institutes all over Austria. As every year, employees from Sto Ges.m.b.H. took part in this initiative in 2016 by painting an activity room for disabled senior citizens at the Diakonie de la Tour charitable organisation. The Sto team of five employees transformed a dreary cellar room in the "Elim" building into a vibrant recreation room by applying a StoDesign colour concept.

Professional tradesmen, creative young professionals as well as expert knowledge and material were the focus of the Sto school competition in 2016 where trainees from seven vocational schools located throughout Austria are invited to redesign one of their school's rooms. The prize money of EUR 1,000 and high-quality material are provided by Sto in Austria with the aim of helping young people prepare for their future career while gaining valuable on-the-job experience.



The training of young employees is becoming more important than ever, particularly due to the increasingly more complex future-oriented training requirements and in view of the lack of skilled workers, a worrying issue which is not just visible in the trade professions. Since its foundation in 2005, the non-profit **Sto Foundation** has concentrated on nurturing young professionals and investing in a sustainable construction industry which is influential in shaping the company's future.

There is one thing that all activities promoted by the Sto Foundation have in common and that is the exchange of ideas between generations, trades, and cultures. This is the only way to raise the awareness for responsibility and sustainability, and – in more concrete terms – for a type of construction which takes these demands seriously and acts on them.

Sto SE & Co. KGaA supported the Sto Foundation in 2016 by donating a total of EUR 600,000. The total funds available originate from subsidies provided by the company's limited ordinary shareholders, and from returns on the



Funded by the Sto Foundation, the "Green.Building.Solutions." summer school project is intended to promote talented young people and open up their career perspectives in the construction industry.

Foundation's capital. The entire funds will be exclusively invested in supporting trainee painters, plasterers, and architecture students. Hundreds of young tradesmen and young academic professionals took part in a variety of events, including workshops, seminars, and training programs held over several days. Activities ranged from tool kits filled with everything young painters and plasterers need in Germany and Austria, to study grants for students of painting technology, study placements abroad, and the three-week interdisciplinary summer school "Green.Building.Solutions." in Vienna/Austria. The Sto Foundation has opened up a wide range of career perspectives in the construction industry for many talented young men and women.

### Awards

Following 2014, Sto has, for the second time, been nominated as the gold winner of the Architects' Darling Awards in the EWIS category in 2016. The award, also given the title "Oscars of the German Construction Industry", is regarded as Germany's largest industry survey and offers around 1,600 architects and planners the opportunity to give their professional judgement on over 200 manufacturers and brands from the construction industry.

At the renowned INCA Award in 2016, our UK subsidiary, Sto Ltd, was ranked highly in all four categories in which we entered our products. Among other accolades, we won the prestigious title of "Project of the Year" for the "Monsoon Forest Building" at Chester Zoo. Awarded by the "Insulated Render and Cladding Association" (INCA), the prize is presented to projects with innovative and high-quality facade systems in the UK. The success of Sto underlines the company's strong foothold in this sector and the high quality of its products, some of which have to withstand extreme and exceptional requirements.

We were also represented with our innovative facade paint StoColor Dryonic at the 5th

"Week of the Environment 2016" to which the President of Germany is traditionally invited together with the DBU (Deutsche Bundestiftung Umwelt). A total of 170 institutions from business and science were selected from an array of applicants to present their award-winning environmental innovations to an expert audience at the official residence of the President of Germany on 7 and 8 June 2016. As a special recognition and award for innovative achievements, it was appropriate that Sto was invited to join this exclusive group of exhibitors to showcase the innovative properties of StoColor Dryonic, a successful product achieved using a biomimetic effect. StoColor Dryonic has also managed to attract attention on a worldwide scale. For example at Budma, the international construction and architecture trade fair held in Poznań where Sto Poland was represented for the 20th time and was awarded the Budma 2016 gold medal for StoColor Dryonic.



International success: Sto Poland received the Budma 2016 gold medal for StoColor Dryonic at the international construction and architecture trade fair Budma in Poznań.

Sto's achievements in the field of Human Resources (HR) were also rewarded. Sto SEA in Singapore was delighted that its Managing Director was nominated as a finalist at the 13th Annual HRM Award 2016 for "Best C Suite Leader". This prize honours a C level manager (e.g., CEO, CFO), whose heart beats for HR and has particularly excelled in this field with a proven track record in rolling out HR strategies and initiatives, management qualities, and the ability to create an environment in which

all employees can concentrate on the company's priorities and directives. The award was presented to Sto SEA as an acknowledgement of its successful further development and consolidation of our HR practises over the last few years to become the region's preferred employer.

Sto Ges.m.b.H was praised for its extremely positive work culture by the international, independent benchmarking institute "Great Place to Work" to be named as the "Best Employer in Carinthia 2016" and the "Best Employer in Austria 2016". The Austrian subsidiary received this prestigious award following an employee survey conducted by scientific methods which revealed that Sto Ges.m.b.H. was an excellent example of a great place to work in all the "main categories" of credibility, respect, fairness, and pride to belong to a great team.

Verotec GmbH was the first company within the Sto Group to be presented with the OHRIS certificate for protection and safety at the workplace in 2016. Designing safe and healthy working environments for our employees lies deep in the consciousness of the Sto Group. The increasing number of work absences throughout Germany as a result of chronic or psychological illnesses is evidence that this strategy is not only relevant in technical and production facilities. As a small to medium-sized employer with its own in-house production and management, Verotec GmbH has accepted its responsibility as an employer to regularly inform and train its employees, and to instil the necessary values in management situations on all levels. In December 2015, Verotec GmbH decided to audit its occupational safety and work safety processes in line with the OHRIS system. After a successful audit, the certificate was presented by the Head of the Trade Supervisory Board of the government of Swabia during a festive ceremony on 2 February 2016.

## B. Product-level activities

### Providing solutions

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

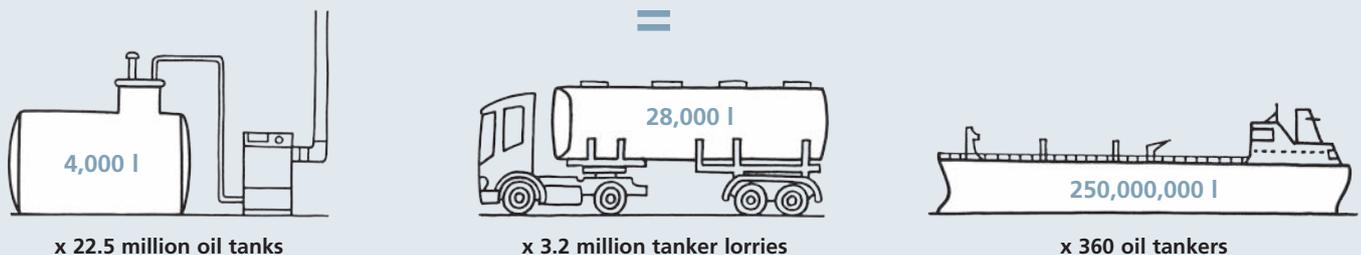
In general, pricing presents a challenge that has to be faced when developing sustainable products. Despite a continuously rising demand for eco-friendly, healthy, regional, resource-conserving, and climate-neutral products, there is usually little willingness to take on the additional costs that may arise from meeting these criteria. However, sustainability is a path that can only be followed with everyone moving in the same direction and with the right awareness-raising measures. This means that "Building with conscience." serves as the ideal mission statement in the area of sustainable products.

### Climate protection

Sto's product portfolio makes an active contribution towards protecting our climate. 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 heating energy. The Sto systems that have been installed worldwide since 1965 have resulted in savings of around 90 billion

## Thermal insulation helps to protect the environment

The energy savings from the use of Sto facade insulation systems correspond to around **90 billion litres of heating oil**



Between 1965 and 2016, facade insulation systems from Sto played a direct role in saving the barely conceivable volume of 90 billion litres of heating oil. This represents a notable contribution to global climate protection: the facade insulation systems from the Black Forest have cut CO<sub>2</sub> emissions by around 280 million tonnes. In 2016 alone, Sto products reduced emissions of this combustion gas by around 16 million tonnes.

litres of heating oil up to and including 2016, with the year under review accounting for around 5 billion litres of this figure alone. The resulting reduction in CO<sub>2</sub> emissions totalled 280 million tonnes, including around 16 million tonnes in 2016. In this way, Sto makes a significant contribution to climate and environment protection. This also improves the living comfort and quality of the relevant buildings.

Our direct contribution to climate protection in this way is accompanied by energy-saving measures and the use of regenerative energy during production.

Our **CO<sub>2</sub>-neutral products** also help us take things one step further. 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 outcomes with emission certificates that benefit a climate protection project. In Germany, we have developed climate-neutral products in 2016; the facade paints StoColor Dryonic and StoColor Solical as well as the render StoSilco® blue. The relevant certificates were used to realise a hydropower project in Madagascar which was able to compensate for a total volume of over 1,200 tonnes

of CO<sub>2</sub>. In Austria we have also continued to offset StoColor Sil In and StoColor Climasan for interiors as well as StoColor Lotusan, StoSilco® blue, and the facade system StoTherm Wood via certificates from the ecological region of Kaindorf and the associated humus production and hence make them climate-neutral.



The climate-neutral and quick-drying facade paint StoColor Dryonic can be quickly applied using machine technology.

### Resource protection and recycling management

The majority of Sto products are coatings which are used to protect buildings. In itself, this is

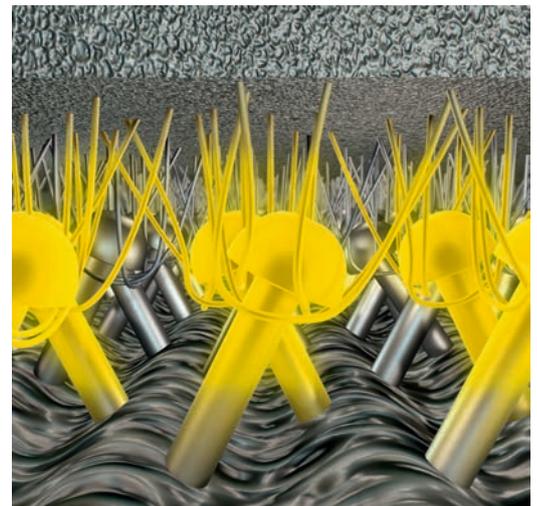
one of the most important contributions we make towards sustainability as far as durability, weather protection, building preservation, and, therefore, **resource protection** are concerned. Without a protection layer, many of our buildings would age, deteriorate, and need refurbishing much more quickly. This is particularly true in the case of coatings that protect concrete as a construction material or enable concrete buildings to be repaired. Additionally, coatings that are especially hard-wearing help protect the rain screen on buildings from external influences – an increasingly important factor to consider given the rising number of heavy rainfall and hailstorm occurrences. In both areas, we are expecting to see growing demand and are therefore offering products to accommodate this.

Dismantling a building raises the question of the extent to which its installed resources can be fed back into **cycles** that are as closed as possible. With many resources becoming more limited, it is important from both a financial and ecological perspective. That is why we are now focusing even more attention on this set of issues and looking at every aspect of a building product's value chain, with the aim of developing and offering solutions that have been technically, financially, and ecologically optimised – and are sustainable as a result.

The cycle begins with the selection of raw materials, proceeds to the manufacture of building products, then to the system build-up, all the way through to options for recycling and energy recovery. There are various approaches available for reusing building products or sending them to recycling facilities, depending on the raw materials in question and what has been used to combine them. One area to which we are devoting our attention is finding applications for treated or contaminated materials. There are also logistics-related challenges when it comes to

returning materials to facilities that can recycle them, technical issues in ensuring unmixed sorting, plus ecological questions about the energy expenditure that is required and financial questions about the economic efficiency of the processes concerned. As things stand, the material quantities that are incurred are so low and so widely distributed that launching a recycling system with coverage across our entire operation would not be efficient, and would not be an incentive for disposal and recycling facilities to invest in the necessary systems. Despite this, Sto is playing an active role in various research projects and is developing approaches to the ways in which the building materials it manufactures and sells could be used in the future.

In principle, recycling opportunities should rise as materials are able to be separated from one another with greater degrees of purity. Our innovative facade system StoSustain R cleverly pursues this approach, using hook and loop grip fixing to optimise the separation of the facade system's main elements so that they can be used or recycled after their use.



Grip fixing instead of adhesive – the innovative grip fixing technology of the newly developed facade system StoSustain R makes it possible.

The company is also pursuing other resource protection and recycling optimisation strategies by selecting raw materials and building elements that can be fed back into existing cycles as easily as possible. These include glass, various types of plastic (PP, PET), iron, and aluminium. Additionally, packaging materials and non-contaminated insulants are re-integrated into the manufacturing process or sent for subsequent treatment. At our Austrian location in Villach, old raw materials are returned to the cycle for recycling production and processed into our own highly recyclable products – with the same high standards of quality.

Sto also provides support for developments in the area of dismantling and recycling processes. The more sophisticated the technology available for returning and recycling building materials and facade systems is, the easier it is to recycle existing products and systems – including those which have been firmly bonded together. These technological methods, such as solvolysis (CreaSolv® process) are becoming increasingly feasible to implement and stand to create and simplify many more recycling options – with polystyrene insulants forming one key area of focus.

### **Environmental protection and health**

Health and well-being represent a significant megatrend in today's society. Where buildings are concerned, this particularly touches on areas such as thermal and acoustic comfort, indoor air hygiene, and health protection. Sto building products have the potential to make a directly 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 benefit from 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 also 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.

Where environmental protection is concerned, we also pay close scrutiny to the use of biocides in products designed to protect buildings. On our website and in brochures, we explain the subject of algae and fungal growth from different perspectives and provide information on aspects worth considering as well as the solutions and alternatives that Sto can offer. In this context, we look at biomimetics and what significance biodiversity as well as protection of nature and the environment has for our products. "Intelligent" renders and paints use active principles derived from nature to create surfaces that not only stay dry and clean in the long term, but also lack the nutrients that microorganisms need to survive.

We consider it vital to engage with these 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 on our products, with the environment and health as its main focal points, aims to provide assistance in this regard.

### **Information and transparency**

We provide numerous services that are designed to support customers and market partners in their quest for sustainable solutions. The expert advice provided directly through 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. There are three different types:

### Labels & certificates

Environmental labels and certificates such as The Blue Angel (Der Blaue Engel), TÜV, and natureplus® are primarily aimed at end consumers, private consumers, and public procurers. For building certification systems such as the one provided by the German Sustainable Building Council (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; in 2016, recertification was carried out where this certification had 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 of their composition, substance prohibitions, substance restrictions (emissions), raw material extraction, pre-product manufacturing, production, and processing.

In Switzerland, we 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 create 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 considerably stepped up the provision of Sustainability Data Sheets.

### Sustainability Data Sheets

The voluntary self-declaration in the form of a Sustainability Data Sheets, which we specifically developed ourselves, plug gaps that may be left by existing product information or eco-labels, and meet the increasing demand for concrete, product-specific data on ecological and health-related criteria. Spanning around four pages, they provide all the key information on the DGNB and LEED building certification systems, as well as substances, emissions, and other environmental aspects. Like our Technical Data Sheets and Safety Data Sheets, our Sustainability Data Sheets are available to download free of charge or can be posted to anyone who requests them. Sustainability Data Sheets in 18 different languages were available for over 300 Sto products by the end of 2016.

### Environmental Product Declarations (EPDs)

Environmental Product Declarations or EPDs, which align 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 about aspects such as the production process, service life, and provisions for recycling a product. 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.

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

As part of its consumer protection efforts, the European Union wishes to promote the provision of individual, product-specific ecological parameters and launch a standardised eco-label on the European market. The European Commission has initiated the Product Environmental Footprint (PEF) to this end. Sto was again part of numerous pilot projects in 2016 aiming to follow its developments from an early stage and provide expert information and feedback. By 2018, the EU is hoping 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.

Alongside eco-labels and declarations, other issues are under critical discussion concerning

the sustainability of our products. From autumn 2016, one aspect which dominated political decisions and discussions was the disposal of HBCD-based expanded polystyrene. The aim of our activities was to keep our customers and market partners regularly informed at all times and take an active role in finding a solution together with politicians, associations, and science partners.

Our websites represent the main source of information about our sustainability activities.



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

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

## Sto SE & Co. KGaA, Stühlingen

# Consolidated statement of profit and loss for 2016

	Notes	2016 EUR	2015 EUR K
1. Revenue	(1)	1,230,673,017.27	1,216,553
2. Changes in product inventories		-136,252.14	-1,398
3. Other internally generated assets capitalised	(2)	380,216.31	159
<b>Total revenues</b>		<b>1,230,916,981.44</b>	<b>1,215,314</b>
4. Other operating income	(3)	25,290,608.25	27,861
5. Cost of material	(4)	-534,604,900.34	-544,053
6. Personnel expenditure	(5)	-348,909,939.11	-324,057
7. Other operating expenses	(6)	-269,736,516.09	-262,489
<b>EBITDA (Earnings before interest, taxes, depreciation and amortisation)</b>		<b>102,956,234.15</b>	<b>112,576</b>
8. Depreciation and amortisation of intangible assets as well as property, plant and equipment	(7)	-32,693,440.41	-31,037
<b>EBIT (Earnings before interest and taxes)</b>		<b>70,262,793.74</b>	<b>81,539</b>
9. Income from investments accounted for using the equity method	(8)	-349,000.00	0
10. Interest and similar income	(9)	996,872.98	1,481
11. Interest and similar expenditure	(9)	-2,817,264.23	-2,713
12. Other financial income	(10)	0.00	936
<b>EBT (Earnings before taxes)</b>		<b>68,093,402.49</b>	<b>81,243</b>
13. Taxes on income and earnings	(11)	-22,442,716.37	-25,506
<b>EAT (earnings after taxes)</b>		<b>45,650,686.12</b>	<b>55,737</b>
of which:			
Share of minority interests		-358,335.66	-389
Share attributable to the shareholders of Sto SE & Co. KGaA		46,009,021.78	56,126
Earnings per share basic/diluted in EUR			
Limited ordinary share	(12)	7.14	8.71
Limited preference share	(12)	7.20	8.77

## Sto SE &amp; Co. KGaA, Stühlingen

**Consolidated statement of recognised income and expenses 2016**

	2016 EUR	2015 EUR K
<b>EAT (earnings after taxes)</b>	<b>45,650,686.12</b>	<b>55,737</b>
Currency translation:		
Currency translation differences	690,258.66	2,952
Deferred taxes	0.00	0
<b>Currency translation differences after taxes</b>	<b>690,258.66</b>	<b>2,952</b>
<b>Earnings to be reclassified in the statement of profit and loss in future periods</b>	<b>690,258.66</b>	<b>2,952</b>
Actuarial gains or losses:		
Actuarial gains or losses	-2,692,723.94	4,025
Deferred taxes	820,017.40	-1,187
<b>Earnings not to be reclassified in the statement of profit and loss in future periods</b>	<b>-1,872,706.54</b>	<b>2,838</b>
<b>Other earnings after taxes</b>	<b>-1,182,447.88</b>	<b>5,790</b>
<b>Total comprehensive income after taxes</b>	<b>44,468,238.24</b>	<b>61,527</b>
of which:		
Share of minority interests	-485,819.37	-382
Share attributable to the shareholders of Sto SE & Co. KGaA	44,954,057.61	61,909

For further explanations concerning equity, see Note (21).

# Sto SE & Co. KGaA, Stühlingen

## Consolidated statement of financial position as at 31 December 2016

Assets	Notes	31 Dec 2016 EUR	31 Dec 2015 EUR K
<b>A. Non-current assets</b>			
I. Intangible assets	(13)	49,822,607.60	39,470
II. Property, plant, and equipment	(14)	258,486,114.96	242,525
III. Financial assets accounted for using the equity method	(15)	0.00	0
<b>Fixed assets</b>		<b>308,308,722.56</b>	<b>281,995</b>
IV. Non-current trade receivables	(17)	1,208,861.30	1,053
V. Non-current income tax receivables		125,780.56	737
VI. Non-current financial assets	(18)	392,860.07	191
VII. Other non-current assets	(19)	1,067,821.27	1,132
VIII. Deferred tax assets	(11)	17,277,311.25	15,819
<b>Other non-current assets</b>		<b>20,072,634.45</b>	<b>18,932</b>
<b>Total non-current assets</b>		<b>328,381,357.01</b>	<b>300,927</b>
<b>B. Current assets</b>			
I. Inventories	(16)	92,541,728.15	71,223
II. Current trade receivables	(17)	122,465,255.01	123,025
III. Current income tax receivables		6,207,931.14	6,119
IV. Current financial assets	(18)	72,574,658.81	58,762
V. Other current assets	(19)	21,973,850.79	11,001
VI. Cash and cash equivalents	(20)	70,070,557.44	70,862
<b>Total current assets</b>		<b>385,833,981.34</b>	<b>340,992</b>
<b>Total assets</b>		<b>714,215,338.35</b>	<b>641,919</b>

Liabilities	Notes	31 Dec 2016 EUR	31 Dec 2015 EUR K
<b>A. Equity</b>			
I. Subscribed capital	(21)	17,556,480.00	17,556
II. Capital reserves	(21)	57,803,590.41	57,804
III. Revenue reserves and other reserves	(21)	342,488,314.72	328,596
<b>Share attributable to the shareholders of Sto SE &amp; Co. KGaA</b>		<b>417,848,385.13</b>	<b>403,956</b>
IV. Share of minority interests	(22)	7,371,916.59	744
<b>Total equity</b>		<b>425,220,301.72</b>	<b>404,700</b>
<b>B. Non-current provisions and liabilities</b>			
I. Provisions for post-employment benefits and similar liabilities	(23)	93,231,223.07	81,477
II. Deferred tax liabilities	(11)	2,070,323.14	538
III. Other non-current provisions	(24)	13,283,813.30	8,442
IV. Non-current borrowings	(25)	1,121,057.71	313
V. Non-current financial liabilities	(27)	740,572.69	662
VI. Other non-current liabilities	(28)	27,611.43	10
<b>Total non-current provisions and liabilities</b>		<b>110,474,601.34</b>	<b>91,442</b>
<b>C. Current provisions and liabilities</b>			
I. Other current provisions	(24)	44,386,232.02	25,796
II. Current borrowings	(25)	13,498,117.56	4,162
III. Trade payables	(26)	46,446,149.20	44,355
IV. Current income tax liabilities		3,004,254.26	4,144
V. Current financial liabilities	(27)	27,787,798.32	26,265
VI. Other current liabilities	(28)	43,397,883.93	41,055
<b>Total current provisions and liabilities</b>		<b>178,520,435.29</b>	<b>145,777</b>
<b>Total debt capital</b>		<b>288,995,036.63</b>	<b>237,219</b>
<b>Total assets</b>		<b>714,215,338.35</b>	<b>641,919</b>

## Sto SE & Co. KGaA, Stühlingen

### Statement of changes in equity as at 31 December 2016

in EUR K	Subscribed capital	Capital reserves	Equity attributable to the shares		
			Revenue reserves	Currency translation reserve	Reserve for pensions
<b>Status as at 01 January 2015</b>	<b>17,556</b>	<b>57,804</b>	<b>472,636</b>	<b>7,879</b>	<b>-27,465</b>
EAT (earnings after taxes)	0	0	56,126	0	0
Other earnings (after taxes)	0	0	0	2,952	2,831
<b>Income and expenses recognised</b>	<b>0</b>	<b>0</b>	<b>56,126</b>	<b>2,952</b>	<b>2,831</b>
Dividend payout	0	0	-163,308	0	0
<b>Status as at 31 December 2015</b>	<b>17,556</b>	<b>57,804</b>	<b>365,454</b>	<b>10,831</b>	<b>-24,634</b>
<b>Status 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>Income and expenses recognised</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
Minority shares from corporate acquisition	0	0	0	0	0
<b>Status 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>

For further details on equity, see appendix, Note (21) et seq.

of the parent company		Total	Share of minority interests	Total equity
Reserve for cash flow hedges	Treasury stock			
<b>0</b>	<b>-23,055</b>	<b>505,355</b>	<b>1,126</b>	<b>506,481</b>
0	0	56,126	-389	55,737
0	0	5,783	7	5,790
<b>0</b>	<b>0</b>	<b>61,909</b>	<b>-382</b>	<b>61,527</b>
0	0	-163,308	0	-163,308
<b>0</b>	<b>-23,055</b>	<b>403,956</b>	<b>744</b>	<b>404,700</b>
<b>0</b>	<b>-23,055</b>	<b>403,956</b>	<b>744</b>	<b>404,700</b>
0	0	46,009	-358	45,651
0	0	-1,056	-127	-1,183
<b>0</b>	<b>0</b>	<b>44,953</b>	<b>-485</b>	<b>44,468</b>
0	0	-31,061	0	-31,061
0	0	0	7,114	7,114
<b>0</b>	<b>-23,055</b>	<b>417,848</b>	<b>7,373</b>	<b>425,220</b>

## Sto SE & Co. KGaA, Stühlingen

# Consolidated cash flow statement for 2016

in EUR K	Notes	2016	2015
<b>1. Cash flow from operating activities</b>			
Earnings before income taxes		68,093	81,243
Depreciation of non-current assets	(7)	32,694	31,037
Net profit/loss from disposal of non-current assets		-43	-507
Net profit/loss from measurement at equity	(8)	349	0
Net interest income/expense and other net finance income/expense	(9/10)	1,820	298
Income taxes paid		-23,943	-28,969
Change in provisions		23,880	6,112
Change in net current assets		-7,459	-10,302
<b>Cash flow from operating activities</b>		<b>95,391</b>	<b>78,912</b>
<b>2. Cash flow from investment activities</b>			
Investment in property, plant and equipment, and intangible assets	(13/14)	-37,469	-35,821
Payments for the acquisition of consolidated companies and other business units (less acquired cash and cash equivalents)		-10,912	-48
Disbursements for capital increase in joint ventures		-349	0
Payments received from other disposal of intangible assets and plant, property and equipment		1,205	1,101
Interest payment received		643	1,751
Disbursements for financial investments		-42,215	-30,271
Deposits from financial investments		27,654	107,880
<b>Cash flow from investment activities</b>		<b>-61,443</b>	<b>44,592</b>
<b>3. Cash flow from financing activities</b>			
Taking out of non-current borrowings		500	0
Payments for non-current borrowings	(25)	-1,283	-576
Payments for current borrowings	(25)	-28,013	-33,553
Payments received for current borrowings	(25)	26,250	30,330
Dividend distribution	(12)	-31,061	-163,308
Interest payments		-998	-726
<b>Cash flow from financing activities</b>		<b>-34,605</b>	<b>-167,833</b>
Change in cash and cash equivalents from changes in exchange rates		-134	2,174
<b>Cash and cash equivalents at beginning of period</b>	<b>(20)</b>	<b>70,862</b>	<b>113,017</b>
<b>Change in cash and cash equivalents</b>		<b>-791</b>	<b>-42,155</b>
<b>Cash and cash equivalents at the end of period*</b>	<b>(20)</b>	<b>70,071</b>	<b>70,862</b>

The cash flow statement is explained in Note (30).

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

# Sto SE & Co. KGaA, Stühlingen

## Notes to the consolidated financial statements as at 31 December 2016

### General information

#### 1. Information on the company

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

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

Stotmeister Beteiligungs GmbH is the majority shareholder and ultimate parent company of Sto SE & Co. KGaA. The address of the registered offices of Sto SE & Co. KGaA is Ehrenbachstraße 1, 79780 Stühlingen, Germany. It has been entered in the trade register of the district court of Freiburg 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/Main as well as Börse Stuttgart AG, Stuttgart/Germany. The other Group member companies are engaged in the same business sector as Sto SE & Co. KGaA.

The consolidated annual financial statement and management report of Sto SE & Co. KGaA was drawn up on 11 April 2017 by the personally liable partner STO Management SE and will be forwarded to the Supervisory Board of Sto SE & Co. KGaA on 19 April 2017 for approval at the Supervisory Board meeting on 26 April 2017.

#### 2. Basis of preparation

Sto SE & Co. KGaA prepared its consolidated annual financial statement of the Sto Group for the year 2016 in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and the interpretations issued by the IFRS Interpretations Committee (IFRIC). The supplemental commercial regulations according to Section 315 a of the HGB were also applied.

All standards and interpretations subject to compulsory application in fiscal 2016 were observed.

#### *Improvements to IFRS 2010-2012*

The improvements to *IFRS 2010-2012* represent a collective standard which was published in December 2013 and deals with amendments of various IFRS which are principally applicable to the fiscal years beginning on or after 1 February 2015.

- *IFRS 2*: Clarification of the definition of 'vesting condition' and separate definitions for 'performance condition' and 'service condition'.
- *IFRS 3*: Clarification of the classification and measurement of a contingent consideration in a business combination. The classification of the obligation to pay a contingent consideration as a liability or as equity is solely based on the regulations in IAS 32.11. A contingent consideration must be measured at fair value with an impact on profit and loss.
- *IFRS 8*: Information on the aggregation of operating segments and reconciliation of the total of the segments' assets to the entity's assets.
- *IFRS 13*: Explanation on the amendments to IFRS 9 with regard to the measurement of

non-current receivables and liabilities following the issuing of IFRS 13.

- *IAS 16*: Amendments to the handling of accumulated depreciation when applying the revaluation method.
- *IAS 24*: Clarification that an entity providing key planning, management and supervisory personnel services (external management in key positions) to the reporting entity is a related party of the reporting entity as defined in IAS 24, and adoption of a simplification regulation regarding disclosures on these management services through the external entity and the compensation paid to its employees.
- *IAS 38*: Amendments to the handling of accumulated depreciation when applying the revaluation method.

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

#### *Improvements to IFRS 2012-2014*

These improvements are effective for fiscal years beginning on or after 1 January 2016. The improvements include in detail:

- *IFRS 5*: Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.
- *IFRS 7*: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guid-

ance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the company first applies the amendments.

- *IAS 19*: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no liquid market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.
- *IAS 34*: The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management report or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

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

#### *Amendments to IFRS 11: Accounting of acquisitions of interests in joint operations*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 princi-

ples for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. The amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are to be applied prospectively. These amendments do not have an effect on the Group as it had not purchased any shares in a joint operation during the reporting period.

*Amendment to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments are to be applied prospectively and have no effect on the Group as it does not use a revenue-based method for the depreciation of its non-current assets.

*Amendment to IAS 16 and IAS 41: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before

maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are to be applied with a retrospective effect and have no effect on the Group as it does not possess any bearer plants.

*Amendment to IAS 27: Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. This amendment does not affect the consolidated annual financial statement of the Group.

*Amendment to IAS 1: Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- Specific line items in the statement(s) of profit and loss and OCI and the statement of financial position may be disaggregated.
- Entities have flexibility as to the order in which they present the notes to financial statements.
- The share of earnings of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit and loss.

Furthermore, the amendments clarify the regulations that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit and loss and OCI. These amendments do not significantly affect the consolidated annual financial statement of the Group.

#### *IAS 19 Employee benefits*

This amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no liquid market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

#### *Amendments to IFRS 10, IFRS 12, and IAS 28 Investment entities – Applying the Consolidation Exception*

The amendments are to clarify questions that arose during the application of the exception for investment entities in accordance with IFRS 10 Consolidated Financial Statements. These amendments are to be applied with a retrospective effect and have no effect on the Group as it does not apply the consolidation exemption scheme.

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

The consolidated financial statements provide a true and fair view of the Group's net assets, financial and earnings situation. This entails a

true and fair description of the effects of the Group's business transactions as well as of other events and conditions in accordance with the definitions and criteria contained in the IFRS framework for recognising assets, liabilities, revenues and expenses.

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

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

The IASB published the standards and interpretations listed below, whose application was not yet mandatory for the fiscal year of 2016. The Sto Group does not apply these standards and interpretations ahead of schedule.

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

The standard comprises new rules and regulations on the classification and measurement of financial assets and financial liabilities, as well as on impairment and hedge accounting. According to the standard, debt instruments – depending on their respective characteristics and taking account the business model – are to be recognised either at amortised costs of acquisition or at fair value through profit and loss. Equity instrument must always be entered in the balance sheet 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. Exception: financial assets held for trading and which are required to be measured at fair value through profit and loss. For financial liabilities, the standard provides for existing classification and valuation rules to be retained subject to the following exceptions: impacts of modifying own credit risk in the case of financial liabilities classified at fair value through profit 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 amortised cost.

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. The standard is to be applied with retrospective effect except for the accounting of hedges; however, an indication of comparative information is not necessary. The regulations for the accounting of hedges is generally to be applied prospectively apart from a few exceptions.

The Group intends to apply the new standard on the mandatory date it comes into effect. A preliminary assessment based on currently available information was carried out in the fiscal year 2016. Overall, the Group does not expect significant effects on the assessment of financial assets and liabilities. This preliminary assessment may change due to further detailed analyses or additional appropriate and reliable information provided to the Group in the future.

*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 new standard regarding revenues 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 new standard on the mandatory date it comes into effect.

In the fiscal year 2016, the Group carried out a preliminary assessment of *IFRS 15*, which is subject to change in the course of another, more detailed analysis. Furthermore, the Group takes into consideration the clarifications issued by the IASB in April 2016 and will keep an eye on further developments. The focus of this assessment is to identify performance obligations within the Sto Group. The main part of the turnover consists of goods deliveries without separately identifiable services. These cannot be separated into different components. Usually the service is rendered in full when the goods are delivered and received. In addition, other performance obligations were identified which are always to be recognised separately and can hence lead to period closing for the turnover.

Implementation of *IFRS 15* is not expected to have substantial effects on the net assets, financial position 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 12 months or less). Upon lease commencement a lessee recognises a liability for leasing payments (i.e. the lease liability) as well as an asset for the granted right to use the leased asset during the running period of the lease (i.e. a 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 of the reassessment of the lease liability as adjustment of the right-of-use asset. IFRS 16 will not significantly affect the lessor's accounting as compared to the currently valid IAS 17. Lessors will continue to classify all leases in accordance with the classification principles of IAS 17 and differentiate between two types of leases: operating leases and finance leases.

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

IFRS 16 is to be applied for fiscal years beginning on or after 1 January 2019. It has not yet been implemented in European law. Early adoption is permitted, but only if the company also applies IFRS 15. For the first-time application

of the new standard lessees can either select an approach with full retrospective effect or an approach with a modified retrospective effect. 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. Based on the knowledge gained thus far, the Group expects an increase in total assets in the mid-double-digit million euro range and expects the equity ratio to decline. The leases relevant to IFRS 16 mainly affect buildings and cars.

The following new regulations have not yet been approved by the EU and are unlikely to have a significant effect on the Sto Group's net assets, financial position and earnings situation:

- *Amendments to IAS 7 – Statement of Cash Flows (Transparency Initiative)*
- *Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses*
- *Amendments to IFRS 2 – Classification and Measurement of Share Based Payment Transactions*
- *Amendments to IFRS 4 – Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts*
- *IFRIC 22 – Foreign Currency Transactions and Advance Consideration*
- *IAS 40 – Investment Property*

The Sto Group has not yet started with the implementation. According to the most recent status, these changes will have no substantial effects on the Sto Group's net assets, financial and earnings situation.

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

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

Co. KGaA is able to exercise a controlling influence as defined in IFRS 10. Control as defined in IFRS 10 exists when an investor has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investee's returns.

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

With companies where less than 50 % of capital shares are held and which are nevertheless fully consolidated, control is assured via further contractual agreements.

At the beginning of January 2016, 50.1 % of the equity shares and voting rights of Ströher GmbH, Dillenburg/Germany, were acquired and control therefore obtained. The Ströher Group, with the parent company Ströher GmbH and the 100 % subsidiaries Ströher Produktions GmbH & Co. KG, Ströher Fliesen GmbH (formerly Ströher Verwaltungs GmbH), and GEPADI Fliesen GmbH – all headquartered in Dillenburg – have therefore been part of the companies consolidated of the Sto Group's consolidated annual financial statement since January 2016.

The Ströher Group has made a name for itself with the production of hard-wearing and frost-proof outdoor ceramics by means of a state-of-the-art extrusion technique. With respect to the application of brick slips on rainscreen cladding facades and external wall insulation systems, Ströher commands a high degree of professional and manufacturing expertise as well as attractive product ranges. By acquiring these shares, the Sto Group is able to improve its position in the facade area and expand its range in a targeted manner. From these turnover

opportunities as well as the expected synergies from integrating the Ströher Group into the Sto Group, the difference between the consideration and the net worth identified at fair value is recorded as goodwill.

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

in EUR K	Fair value as at the time of acquisition
Intangible assets	5,545
Property, plant, and equipment	11,392
Inventories	12,744
Trade receivables	3,477
Other receivables and financial assets	1,758
Cash and cash equivalents	1,580
<b>Total assets</b>	<b>36,496</b>
Provisions	7,156
Trade payables	2,276
Borrowings	9,751
Other liabilities	1,425
Deferred tax liabilities	1,656
<b>Total liabilities</b>	<b>22,264</b>
<b>Total identifiable net assets at fair value</b>	<b>14,232</b>
Minority shares evaluated with the value of the identifiable net assets	7,102
<b>Acquired shares evaluated with the value of the identifiable net assets</b>	<b>7,130</b>
Goodwill from corporate acquisition	3,570
<b>Transferred consideration</b>	<b>10,700</b>

Sto has decided, as part of the first-time consolidation, to value the shares of the non-controlling shareholders of the Ströher Group with the proportionate value of the net identifiable assets.

In case the option to acquire the remaining shares is exercised, depending on the turnover situation of the Ströher Group in the years 2015-2020, an adjustment can be made to the consideration which will then be transferred. At this point in time, Sto assumes that there will be no such adjustment in case the option is exercised.

The total transaction-related costs to the amount of EUR 326 K (EUR 242 K of which in the fiscal year 2015) were directly included in other operating expenses.

On the reporting date the Ströher Group was employing 275 people (not including trainees). In the fiscal year 2016, the turnover of the subgroup Ströher amounted to EUR 32,192 K with a net profit for the year of EUR 39 K.

The net amount of the receivables corresponds to the fair value thereof. Adjustments of EUR 207 K were taken into account.

The deferred tax liabilities mainly include effects of accounting for intangible assets as well as of varying evaluation of property, plant, and equipment under the purchase method. Impaired acquired unused tax losses were offset against the deferred tax liabilities.

Cash outflow due to corporate acquisition is as follows:

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	-326
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	1,580
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	-10,700
<b>Actual cash outflow due to corporate acquisition</b>	<b>-9,446</b>

With effect from 1 July 2016, 100 % of the equity shares and voting rights of Hesselberg Bygg AS, based in Moss/Norway were acquired and control therefore obtained. The company also has subsidiaries in both Sweden and Lithuania. 5 % of the shares of the Lithuanian subsidiary are held by outside shareholders. The Hesselberg Group with Hesselberg Bygg AS as the parent company has therefore been part of the companies consolidated of this consolidated financial statement since July 2016.

Hesselberg Bygg AS is one of Norway's leading manufacturers of reaction resin floor coatings for industrial buildings, public and exterior areas, and for decorative purposes. Hesselberg Bygg has many years of manufacturing expertise and offers appealing ranges especially for the food industry, for outdoor use, and for decorative purposes, thus brilliantly complementing Sto's own floor coating range and knowledge. At the same time, Hesselberg Bygg and its customers will benefit from floor coatings for which Sto already holds the position as technology leader. Sto expects synergy effects to result from the bundling of experience in the areas of development, production, and

consultation, as well as an increase in attractiveness for investors, planners, and tradesmen.

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

in EUR K	Fair value as at the time of acquisition
Intangible assets	1,462
Property, plant, and equipment	41
Inventories	1,866
Trade receivables	2,369
Other receivables and financial assets	710
Deferred tax assets	144
Cash and cash equivalents	342
<b>Total assets</b>	<b>6,934</b>
Provisions	74
Trade payables	781
Borrowings	2,940
Other liabilities	628
Deferred tax liabilities	365
<b>Total liabilities</b>	<b>4,788</b>
<b>Total identifiable net assets at fair value</b>	<b>2,146</b>
Minority shares evaluated with the value of the identifiable net assets	12
<b>Acquired shares evaluated with the value of the identifiable net assets</b>	<b>2,134</b>
Goodwill from corporate acquisition	0
<b>Transferred consideration</b>	<b>2,134</b>

In the fiscal year 2016, transaction-related costs to the amount of EUR 124 K were included in other operating expenses.

On the reporting date, the Hesselberg Group was employing 30 people (not including trainees). In the fiscal year of 2016, the turnover of the subgroup Hesselberg amounted to EUR 10.9 million (consolidated), with a net profit for the year of EUR 0.1 million. In the second half of the year, turnover was at EUR 5.9 million (consolidated), with an annual net loss of around EUR 0.1 million.

The net amount of the receivables corresponds to the fair value thereof. Adjustments of EUR 117 K were taken into account.

The deferred tax assets mainly encompass the effects of the different accounting methods of inventory. The deferred tax liabilities mainly include effects of accounting for intangible assets.

Cash outflow due to corporate acquisition is as follows:

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	-124
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	342
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	-2,134
<b>Actual cash outflow due to corporate acquisition</b>	<b>-1,916</b>

The existing Sto Canada Ltd., Canada, was included in the consolidated annual financial statement of the Sto Group at the beginning of 2016 when it commenced business activities.

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 (39) List of subsidiaries and investments.

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

- StoCretec GmbH, Kriftel/Germany
- Innolation GmbH, Lauingen/Germany
- Sto BT GmbH, Stühlingen/Germany
- Verotec GmbH, Lauingen/Germany
- VeroStone GmbH, Kirchheim/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 applied by the Sto Group.

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

When subsidiaries are consolidated for the first time, their assets, liabilities and contingent liabilities are measured at their fair value as of the date of acquisition. If the price paid for the investment exceeds the identified assets less the liabilities and contingent liabilities, this difference is accounted for as goodwill. Such goodwill is submitted to testing at least once a year to determine any impairment in its value (impairment-only approach). If any impairment in the value of the goodwill is established, the corresponding impairment is recognised accordingly.

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

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

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

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

**Currency translation**

Monetary items in foreign currency (in particular, cash and cash equivalents, receivables and liabilities) are translated for the first time at the rate prevailing on the transaction date and then measured at fair value through profit 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 are translated at the closing rate and expenses and income at annual average rates. Equity capital is translated at historic rates. Any resultant currency translation differences are recognised separately under equity and with no effect on profit and loss until such time as the subsidiary in question is deconsolidated.

EUR 1 =		Closing rate on		Average annual rate	
		31 Dec 2016	31 Dec 2015	2016	2015
AED	United Arab Emirates	3.8815	4.0004	4.0549	4.0863
BRL	Brazil	3.4305	4.3117	3.8561	3.7004
CAD	Canada	1.4188	1.5116	1.4659	1.4186
CHF	Switzerland	1.0739	1.0835	1.0902	1.0679
CLP	Chile	704.9368	772.0222	742.3758	728.2761
CNY	People's Republic of China	7.3202	7.0608	7.3522	6.9733
COP	Columbia	3,172.3635	3,457.2616	3,350.4229	3,050.1397
CZK	Czech Republic	27.0200	27.0250	27.0340	27.2790
DKK	Denmark	7.4344	7.4626	7.4452	7.4587
GBP	Great Britain	0.8562	0.7340	0.8195	0.7258
HUF	Hungary	311.0200	313.1200	311.4400	310.0000
MXN	Mexico	21.7719	18.9145	20.6673	17.6157
MYR	Malaysia	4.7287	4.6959	4.5835	4.3373
NOK	Norway	9.0863	9.6030	9.2906	8.9496
PAB	Panama	1.0568	1.0892	1.1040	1.1125
PLN	Poland	4.4240	4.2615	4.3632	4.1841
RUB	Russia	63.8111	79.6972	74.1446	68.0720
SEK	Sweden	9.5525	9.1895	9.4689	9.3535
SGD	Singapore	1.5234	1.5417	1.5275	1.5255
TRY	Turkey	3.7072	3.1765	3.3433	3.0255
USD	USA	1.0541	1.0887	1.1069	1.1095

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

### **Business combinations**

Business combinations are accounted for using the acquisition method. The cost of acquisition of a company comprises the sum total of the consideration transferred, measured at fair value at the time of acquisition, and of the shares without a controlling influence (minority interests) on the company acquired. In the course of each corporate merger, the purchaser 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.

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.

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. The agreed contingent consideration is recognised at fair value at the time of acquisition. In accordance with IAS 39, any subsequent changes to the fair value of a contingent consideration 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.

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

### **Intangible assets**

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

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

Goodwill is not subject to systematic amortisation. Instead, it is submitted to annual impairment testing ("impairment-only approach"). In doing so, it is determined whether goodwill has been impaired. Basically, the recoverable amount was determined to be the higher of the two amounts of the value in use or the net realisable amount of the respective cash-generating unit (CGU) as of 31 December 2016. This recoverable amount is compared with the carrying amount of the respective CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. With the exception of Sto SE & Co. KGaA the cash-generating units identified for purposes of calculating goodwill are identical to the legal entities. The Sto CGU comprises Sto SE & Co. KGaA, Verotec GmbH, and StoCretec GmbH.

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

The starting point for the valuation of the CGUs is the 5-year planning of the respective legal entities as of 31 December 2016 for the fiscal years 2017 until 2021. This is based on forecasts derived from external estimates of the economic situation and market studies as well as internal maintenance investment plans.

The growth rates in sales implemented during the detailed planning period are based on expectations that the level of demand for thermal insulation in particular will continue to develop positively in future. In the light of gross profit margin trends in the years prior to the commencement of the budget period, we expect the gross profit margins of all CGUs to remain unchanged. The weighted average capital costs (WACC) before taxes are determined by taking account of a risk-free basic interest rate, the respective country-specific risk, entrepreneurial risk (market risk premium multiplied by a beta factor calculated on the basis of a peer group analysis), a growth discount in perpetual annuity, and borrowing costs. As a matter of principle, cash flows are discounted using a uniform Group discount factor – WACC after taxes – which is adjusted to allow for any differences in the base interest rates of the individual countries and in the respective country-specific risks. In the year under review, interest rates before taxes were between 5.4 % and 12.1 % (previous year: 7.7 % to 12.9 %). As in the previous year, the perpetual annuity for all CGUs is based on a growth rate of 1.0 %.

The following important parameters were made with regard to the CGUs Sto SE & Co. KGaA and Beissier S.A.S., La Chapelle la Reine/

France, which are key CGUs in the sense of goodwill:

- Pre-tax interest rates: For CGU Sto: 6.0 % (previous year: 7.7 %), CGU Beissier S.A.S. 7.7 % (previous year: 9.1 %).
- Perpetual annuity: As in the previous year, the perpetual annuity is based on a growth rate of 1.0 % for both CGUs.
- Turnover trend: Due to the growing sales potential in the markets of the two CGUs, turnover growth is assumed to be a single-digit percentage.
- Margin changes: Owing to a further surge in procurement prices, slightly declining margins are assumed to apply to the Beissier S.A.S. CGU and stable margins to apply to the Sto CGU.

VeroStone GmbH, Kirchheim/Germany, was determined to be a cash-generating unit: the smallest identifiable unit that generates cash inflows and outflows separate from those of other assets. Due to the determination of the value in use, the customer base was depreciated/amortised with an impact on profit and loss of EUR 179 K. Pre-tax interest rate was 6.0 %. Crucial factors for this adjustment were a poorer development of the result in 2016 and a worse forecast for the detail planning period for the next five years.

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

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

The sensitivity analysis for the CGUs Sto and Beissier S.A.S., La Chapelle la Reine/France,

revealed that if the EBIT had been 30 % below the target for a sustained period, goodwill would not have been impaired.

Research and development costs were 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 capable of operating 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.

#### **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.

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

#### **Leases**

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

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

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

#### **Impairment of assets**

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

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

pendently from other assets, for the cash-generating unit in total.

If the indication that an asset is impaired no longer exists or the impairment has decreased, the impairment loss is reversed and the proceeds taken to the 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 a joint venture. 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 impairments and other changes to their equity.

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

#### **Financial instruments**

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

*IAS 39 defines the following different categories for financial assets:*

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

**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 are initially recognised at their fair value.

Financial assets are classified as held for sale if they are acquired for the purpose of being resold in the near future. Derivatives are also classified as being held for sale except for those which are designated as hedges and are effective as such. Gains or losses from financial assets which are classified as held for sale are 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 that cannot be traded on account of inactive markets and the intention to sell them in the foreseeable future is abandoned, management may decide to reclassify such financial assets in certain circumstances. The reclassification to loans and receivables, to available-for-sale or to held-to-maturity assets depends on the nature of the asset. This evaluation 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**

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

**Loans and receivables**

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

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

Financial assets or parts thereof are derecognised when the Group loses control over the contractual rights arising from the assets. Exceptions from this are passed-on changes in ownerships; these are cancelled only once they are settled by the acceptor.

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

All purchases and sales of financial assets in accordance with normal market conditions are recorded on the day on which the Sto Group assumes the obligation to buy or sell the asset. These transactions are in accordance with 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 so far not made use of the option to initially recognise financial liabilities at fair value through profit and loss.

#### **Financial liabilities measured at amortised cost**

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

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

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

If an existing financial liability is exchanged by some other financial liability of the same lender subject to substantially different contractual terms and conditions, or if the terms and conditions of an existing liability are 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.

#### **Inventories**

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

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

- Raw materials, 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 are based on the normal capacity of the production equipment net of borrowing costs.

**Trade receivables and other originated financial assets**

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

All receivables and financial assets are tested for impairment.

**Derivative financial instruments**

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

Gains or losses from changes in the fair value of derivative financial instruments which do not satisfy the conditions for recognition as hedges are immediately recognised through profit and loss.

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

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

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

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

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

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

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

If the forecast transaction or firm commitment are no longer expected to occur, the amounts previously recognised under equity are reclassified into profit and loss. If the hedging instrument expires or is sold, terminated or exercised (and there is no replacement or rollover of a hedging instrument into another hedging instrument), the amounts recognised in equity until that point remain separately recognised in equity until the forecast transaction or firm commitment of the underlying transaction occurs.

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

In the fiscal years of 2015 and 2016 there have been no hedges satisfying the strict hedge accounting criteria.

#### **Cash and cash equivalents**

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

#### **Available-for-sale assets**

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

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

#### **Treasury stock**

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

#### **Post-employment benefit provisions**

Actuarial measurement of the post-employment benefit provisions is based on the projected-unit-credit method for defined benefit plans for pension schemes as defined in IAS 19. This method takes account of the benefit obligations and entitlement accruing on the balance sheet date as well as 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 defined benefit asset or liability comprises the present value of the defined benefit

obligation less existing plan assets which are used to directly settle obligations. These plan assets 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 at each balance sheet date and adjusted in the light of the best current estimate.

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

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

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

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

#### **Deferred taxes**

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

Deferred taxes are recognised on unused tax losses provided that it is likely that they will be able to be used within a reasonable period of time. They are not recognised if the temporary difference arises from goodwill or the initial recognition of other assets and liabilities in a transaction (other than a business combination) which affects neither accounting earnings nor taxable earnings (tax loss). Deferred tax liabilities are formed for taxable temporary differences arising from shares in subsidiaries, associates, and joint ventures unless the parent company is able to control the reversal of the temporary difference and the temporary difference is unlikely to reverse in the foreseeable future.

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

Deferred tax assets which are not expected to be recognised in a reasonable period of time are adjusted. Deferred tax assets are re-assessed at each balance sheet date. Deferred tax assets and liabilities are netted if the Group has a legally enforceable right to set off the 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 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 good 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 recording the sales revenue, agreed discounts or volume discounts are taken into account according to the relevant period. For few projects revenue 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 is recognised in accordance with IAS 20 if it is certain that the conditions involved will be fulfilled and the government funding will subsequently be granted.

Earnings-related government funding is collected through profit and loss in the period in which the expenses to be defrayed are incurred. Government funding is generally tied to a number of conditions imposed. Fulfillment of these conditions is also verified when disbursing such government funding because expenses are generally refunded only once the expenses to be subsidised have actually been incurred. This prevents later repayments.

**Financial guarantees**

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

**Events after the balance sheet date**

Events occurring after the balance sheet date which provide additional 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, estimates and assumptions by Management**

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

The assumptions and assessments are based on decisions which in turn reflect the knowledge available at that point in time. In particular, estimates concerning the Group's expected future economic performance are based on the circumstances known as of the date on which the consolidated financial statements are

prepared as well as probable expectations as to future trends in business conditions both globally and in the Group's sector. Changes in these underlying conditions which deviate from these assumptions and are beyond management's control may cause actual amounts to vary from the original estimates. If actual trends deviate from those expected, the assumptions and estimates and, if necessary, carrying amounts of the assets and liabilities concerned are adjusted accordingly. The essential assumptions and estimates relate to:

- **Impairment of non-financial assets**

An impairment occurs if the carrying amount of the asset or of a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or of a cash-generating unit is the higher of the two amounts of fair value less cost of sale and value in use. The calculation of fair value less cost of sale is based on available data from binding sales transactions between independent business partners concerning similar assets or observable market prices less directly attributable costs of selling the asset in question. The discounted cash flow method is used to calculate the value in use. Cash flows are derived from the finance plan 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 2016, the deferred tax liabilities stood at EUR 2,070 K and the deferred tax assets at EUR 17,277 K. The income tax liabilities total EUR 3,004 K, the income tax receivables EUR 6,334 K.

- **Pension benefits**

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

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

The mortality rate is based on publicly accessible mortality tables for the country in question. Future increases in wages and salaries as well as pensions are based on expected future inflation rates for each country. The

expected age of retirement is determined on the basis of company-specific data of the past few years as well as future expectations.

On 31 December 2016, the provisions for pensions and similar liabilities before off-setting plan assets totalled EUR 128,221 K. EUR 34,990 K of which are offset against the plan assets. Post-employment benefit provisions amount to EUR 93,231 K.

- **Fair value of financial instruments**

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

A net liability of EUR 59 K resulted from the financial instruments valued at fair value on 31 December 2016.

- **Receivables**

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

On 31 December 2016, the carrying amount of the trade receivables totalled EUR 123,674 K.

- **Provisions**

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

The carrying amount of current warranty provisions on 31 December 2016 amounted to EUR 29,409 K. Non-current warranty provisions amount to EUR 7,893 K.

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

## Consolidated segment reporting as at 31 December 2016

Information on geographic segments by sales markets in EUR K	Western Europe		Other			
			Northern/Eastern Europe		America/Asia	
	2016	2015	2016	2015	2016	2015
External revenues	943,981	931,498	136,850	129,735	149,841	155,320
Inter-segment revenues	35,601	36,380	386	179	7	85
<b>Segment revenues</b>	<b>979,582</b>	<b>967,878</b>	<b>137,236</b>	<b>129,914</b>	<b>149,848</b>	<b>155,405</b>
EBITDA	83,563	99,009	8,413	2,496	10,465	11,969
Depreciation/amortisation	26,558	23,958	2,765	2,514	3,370	4,625
<b>EBIT (Earnings before interest and taxes)</b>	<b>57,005</b>	<b>75,051</b>	<b>5,648</b>	<b>-18</b>	<b>7,094</b>	<b>7,344</b>
Interest income	1,224	1,494	255	241	484	624
Interest expense	3,328	3,106	298	298	169	188
<b>EBT (Earnings before taxes)</b>	<b>54,901</b>	<b>74,392</b>	<b>5,605</b>	<b>17</b>	<b>7,409</b>	<b>7,768</b>
<b>Segment assets</b>	<b>521,779</b>	<b>472,395</b>	<b>84,192</b>	<b>66,863</b>	<b>84,634</b>	<b>79,986</b>
<b>Investments</b>	<b>31,109</b>	<b>29,190</b>	<b>1,930</b>	<b>2,985</b>	<b>4,428</b>	<b>3,841</b>
<b>Employees on balance sheet date</b>	<b>4,032</b>	<b>3,801</b>	<b>638</b>	<b>618</b>	<b>581</b>	<b>613</b>

Notes on product groups in EUR K	Facade systems		Facade coatings		Interiors	
	2016	2015	2016	2015	2016	2015
External revenues	566,110	585,533	303,976	308,814	169,833	160,318

Segment reporting is explained in Note (31).

Reconciliation/ consolidation booking entries		Group	
2016	2015	2016	2015
0	0	1,230,673	1,216,553
-35,994	-36,644	0	0
<b>-35,994</b>	<b>-36,644</b>	<b>1,230,673</b>	<b>1,216,553</b>
516	-898	102,956	112,576
0	-60	32,693	31,037
<b>516</b>	<b>-838</b>	<b>70,263</b>	<b>81,539</b>
-978	-878	985	1,481
-978	-878	2,817	2,714
<b>178</b>	<b>-933</b>	<b>68,093</b>	<b>81,243</b>
<b>23,611</b>	<b>22,674</b>	<b>714,216</b>	<b>641,918</b>
0	-195	37,468	35,821
0	0	5,251	5,032

Other product groups		Group	
2016	2015	2016	2015
190,754	161,887	1,230,673	1,216,553

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

### (3) Other operating income

in EUR K	2016	2015
Income from the reversal of provisions and accrued liabilities	7,798	10,761
Income from the reversal of value adjustments for receivables and other assets	6,664	3,824
Currency translation gains	3,843	5,982
Proceeds received towards derecognised receivables	438	418
Income from the disposal of assets	356	803
Income from recharged expenses to third parties	287	125
Government funding	98	141
Other operating income	5,807	5,807
<b>Other operating income in total</b>	<b>25,291</b>	<b>27,861</b>

Public funding consists essentially of grants for research and for the creation and safeguarding of new jobs. To some extent, this funding is subject to certain conditions. We assume that we can meet the conditions imposed.

The other operating income contains appreciations for a building of Sto Brasil Revestimentos e Fachadas Ltda. (formerly Argamont Revestimentos e Argamassas Ltda.) to the amount of EUR 401 K due to the positive development of the market prices.

**(4) Cost of material**

in EUR K	2016	2015
Raw materials, processing aids, and operating materials	252,575	246,974
Goods purchased	276,326	287,701
<b>Expenses for raw materials, processing aids, operating materials, and goods purchased in total</b>	<b>528,901</b>	534,675
Temporary staff	3,643	7,698
Commission production	2,061	1,680
<b>Expenses for services purchased in total</b>	<b>5,704</b>	9,378
<b>Expenses for materials in total</b>	<b>534,605</b>	544,053

**(5) Personnel expenditure**

in EUR K	2016	2015
Wages and salaries	286,690	265,016
Social security contributions, and expenditure on post-employment, and for support	62,220	59,041
<b>Total personnel expenditures</b>	<b>348,910</b>	324,057

Expenditure on post-employment benefits primarily comprises additions to the post-employment benefit provisions as stated in Note (23).

In 2016, personnel expenditure included tariff-related increases as well as exceptional one-off expenditure of EUR 10.0 million for the planned personnel measures for risk provision-

ing within the framework of the New Balance programme.

In the year under review, research and development costs accounted for approx. EUR 14.3 million with an impact on profit and loss (previous year: approx. EUR 13.8 million).

**Annual average headcount**

Amount	2016	2015
Employees	5,134	4,893
Trainees	200	193
<b>Total no. of employees</b>	<b>5,334</b>	5,086

**(6) Other operating expenses**

in EUR K	2016	2015
Sales	125,357	123,904
Administration costs	49,645	44,578
Rental and lease payments	29,300	29,226
Operating costs	28,614	27,542
Adjustments to receivables and other assets	11,572	8,519
Other staff costs	6,549	7,011
Currency translation expense	4,571	7,204
Losses from the disposal of non-current assets	313	296
Other expenses	13,816	14,209
<b>Other operating expenses</b>	<b>269,737</b>	262,489

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

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

**(7) Depreciation/amortisation**

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

In the year under review, the impairment test revealed an adjustment of technical plants (EUR 755 K), properties and buildings (EUR 523 K), and the customer base (EUR 179 K) of VeroStone GmbH.

VeroStone GmbH belongs to the segment of Western Europe.

Due to the conducted impairment test, impairments were made to the customer base (EUR 659 K), the product brand (EUR 394 K) and the building (EUR 418 K) of Sto Brasil Revestimentos e Fachadas Ltda. (formerly Argamont Revestimentos e Argamassas Ltda.) in the previous year.

Sto Brasil Revestimentos e Fachadas Ltda. (formerly Argamont Revestimentos E Argamassas Ltda.) belongs to the segment of America/Asia.

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

Income from investments accounted for using the equity method affects impairment losses and was attributable solely to Inotec GmbH in the fiscal year of 2016.

**(9) Net interest income**

in EUR K	2016	2015
Other interest and similar income	997	1,481
Interest and similar expenditure	-775	-788
Interest expense for post-employment benefit obligations	-1,830	-1,792
Compounding interest of other non-current provisions and liabilities	-191	-81
Interest expense for finance leasing	-21	-52
<b>Net interest income in total</b>	<b>-1,820</b>	<b>-1,232</b>

**(10) Other net financial income/expense**

in EUR K	2016	2015
Income from the sale of business units	0	936
<b>Other net financial income/expense in total</b>	<b>0</b>	<b>936</b>

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

in EUR K	2016	2015
Actual domestic tax expense	11,833	17,083
Actual non-domestic tax expense	11,648	10,084
<b>Actual tax expense</b>	<b>23,481</b>	<b>27,167</b>
of which off-period tax expense	195	1,593
Expense/income from reversal of tax provisions (off-period)	-70	20
<b>Actual taxes on income and earnings</b>	<b>23,411</b>	<b>27,187</b>
Deferred tax income/liabilities, domestic	-1,091	-660
Deferred tax income/liabilities, non-domestic	123	-1,021
<b>Deferred tax income/liabilities</b>	<b>-968</b>	<b>-1,681</b>
<b>Income tax expense reported</b>	<b>22,443</b>	<b>25,506</b>

In the 2016 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 37.6 % (previous year: 0 % to 37.6 %). Deferred taxes were measured using the tax rates valid or enacted as of the balance sheet date.

In 2016, 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 29 K (previous year: EUR 16 K).

Unused tax losses were valued at EUR 19,683 K (previous year: EUR 13,485 K). Unused tax losses of EUR 12,520 K (previous year: EUR 7,762 K) are available for an indefinite period, while EUR 4,378 K (previous year: EUR 4,490 K) may only be utilised within five years and EUR 2,785 K (previous year: EUR 1,233 K) only within ten years.

Of the unused tax losses, a sum of EUR 13,679 K (previous year: EUR 9,665 K) is assumed to not be available for the time being. Of these, EUR 7,756 K (previous year: EUR 3,942 K) are available for an indefinite period, while EUR 3,599 K (previous year: EUR 4,490 K) may only be utilised within five years and EUR 2,324 K (previous year: EUR 1,233 K) only within ten years.

Of the unused tax losses rated available, EUR 2,569 K (previous year: EUR 1,321 K) were attributable to companies whose year result for 2016 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 827 K of deferred tax income accounted for temporary differences (previous year: EUR 720 K).

Changes in tax rates resulted in deferred tax expenditure of EUR 92 K (previous year: deferred tax income EUR 249 K).

Deferred tax assets with no impact on profit and loss amounted to EUR 7,825 K at the balance sheet date (previous year: EUR 8,884 K).

Recording 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 820 K in the current fiscal year (previous year: decrease in equity to the amount of EUR 1,187 K due to the reversal of deferred tax assets) due to the addition of deferred tax assets.

No deferred taxes were recognised for temporary differences on the profits retained by subsidiaries of EUR 5,258 K (previous year: EUR 3,781 K) as historically these profits have always been used to extend business activities at the individual locations and will continue to be used for this purpose in the future.

In 2006, as a result of statutory amendments in Germany, a corporate tax reimbursement claim was recognised for the first time 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 770 K at the balance sheet date (previous year: EUR 1,506 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 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Intangible assets	269	322	1,885	141
Property, plant, and equipment	619	597	6,899	6,058
Non-current financial assets	718	616	0	0
Inventories	1,917	1,738	190	179
Current trade receivables	1,485	1,513	294	301
Current financial assets	2	0	247	289
Other current assets	9	230	247	248
Cash and cash equivalents	144	0	1	162
Special tax items	0	0	0	32
Post-employment benefit provisions	15,191	12,883	350	164
Other non-current provisions	496	441	24	30
Non-current borrowings	20	56	0	0
Non-current liabilities	72	17	0	0
Current provisions	1,445	2,277	590	529
Current borrowings	108	103	0	0
Trade payables	53	2	0	51
Other current liabilities	1,518	1,358	0	8
Unused tax losses	1,591	1,198	0	0
Tax reimbursements not yet utilised	277	122	0	0
<b>Gross amount</b>	<b>25,934</b>	<b>23,473</b>	<b>10,727</b>	<b>8,192</b>
Balancing	8,657	7,654	8,657	7,654
<b>Amount recognised in the balance sheet</b>	<b>17,277</b>	<b>15,819</b>	<b>2,070</b>	<b>538</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>Status of 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
Unused tax losses	-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>Status of deferred taxes as at 31 December 2016</b>	<b>7,382</b>	<b>9,841</b>	<b>-2,016</b>	<b>15,207</b>

**Reconciliation of expected and reported income tax expense**

in EUR K	2016	2015
Accounting profit	68,093	81,243
<b>Expected income tax expense (tax rate: 28.6 %; previous year: 28.6 %)</b>	<b>19,475</b>	23,235
<i>Reconciliation:</i>		
Tax-free income and permanent differences	3,336	1,258
Change in tax rate	92	249
Deviations of local tax rates from Group tax rate	-840	-528
Deferred tax income on unused tax losses recognised for the first time	-78	-494
Tax reduction for unused tax losses not yet recognised	-29	-16
Effects of non-recognition of unused tax losses	352	325
Off-period taxes	125	1,613
Other effects	10	-136
<b>Income tax expense reported</b>	<b>22,443</b>	25,506
Effective tax rate (%)	33.0	31.4

The increase in the effective tax rate is essentially based on the changes in the earnings situation within the Group and the associated differences in the income tax between the individual companies. Furthermore, the increase in non-tax-deductible expenses had an effect.

**(12) Earnings per share**

Basic earnings per share are calculated by dividing the proportion of earnings attributable to Sto SE & Co. KGaA's shareholders by the weighted average number of limited ordinary and limited preference shares outstanding in the year under review.

Basic earnings in accordance with IAS 33 amounted to EUR 18,264 K for limited prefer-

ence shares (previous year: EUR 22,260 K) and to EUR 27,745 K for limited ordinary shares (previous year: EUR 33,866 K).

In addition to the issued shares, diluted earnings per share also include potential shares (e.g. from options). Both at 31 December 2016 and 31 December 2015, there were no potential shares. Accordingly, basic and diluted earnings per share are identical in both years.

Amount	Ordinary shares		Preference shares	
	2016	2015	2016	2015
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	2016	2015	in EUR	2016	2015
Share attributable to the shareholders of Sto SE & Co. KGaA	46,009,022	56,125,900	Earnings per share – basic/diluted		
basic/diluted earnings of which:			Limited ordinary share	7.14	8.71
Limited ordinary shares	27,745,256	33,866,392	Limited preference share	7.20	8.77
Limited preference shares	18,263,766	22,259,508			

In fiscal 2016, a dividend from the earnings of 2015 of EUR 4.81 per ordinary share (total of EUR 18,701 K), consisting of EUR 0.25 plus a bonus of EUR 4.56 and EUR 4.87 per preference share (total: EUR 12,360 K), consisting of EUR 0.31 plus a bonus of EUR 4.56 was distributed. In total, the dividend payout amounted to EUR 31,061 K.

In fiscal 2015, a dividend from the earnings of 2014 of EUR 25.39 per ordinary share (total of EUR 97,744 K), consisting of EUR 0.25 plus a bonus of EUR 25.14, and EUR 25.45 per preference share (total: EUR 64,592 K), consisting of EUR 0.31 plus a bonus of EUR 25.14 was distributed. In total, the dividend payout amounted to EUR 163,308 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 in the statement of financial position according to IAS 17
- Financial instruments that are subject to hedge accounting and
- Financial instruments not coming within the scope of IFRS 7 (equity investments)

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

in EUR K	2016	2015
<b>Assets</b>		
Designated assets to be measured at fair value through profit and loss (fair value option)	-2	-116
Assets held for trading	-700	-1,290
Sum total of financial assets measured at fair value through profit and loss	-702	-1,406
Held-to-maturity assets	-164	-278
Loans and receivables	-4,847	-3,545
<b>Liabilities</b>		
Financial liabilities measured at amortised cost	685	-1,065

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	2016	2015
Interest income	854	1,253
Interest expense	807	762
<b>Net interest income</b>	<b>47</b>	491

**Impairment losses on financial assets by class**

in EUR K	2016	2015
Measured at amortised costs of acquisition	11,572	8,519

The measurement of the portfolio of financial instruments at fair value as at 31 December 2016 resulted in a net income of EUR 9 K (previous year: income of EUR 124 K).

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

## Notes on the consolidated balance sheet

### (13) Intangible assets

#### Changes in intangible assets from 1 January until 31 December 2015

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 2015</b>	<b>31,917</b>	<b>41,793</b>	<b>277</b>	<b>73,987</b>
Additions	1,127	0	277	1,404
Change to companies consolidated	0	0	0	0
Disposals	1,700	1,398	0	3,098
Transfers	17	0	0	17
Exchange rate differences	-423	-374	0	-797
<b>31 December 2015</b>	<b>30,938</b>	<b>40,021</b>	<b>554</b>	<b>71,513</b>
<b>Cumulative depreciation and impairment losses</b>				
<b>01 January 2015</b>	<b>24,876</b>	<b>6,986</b>	<b>0</b>	<b>31,862</b>
Depreciation for the year	2,810	0	0	2,810
Impairment losses	1,053	0	0	1,053
Disposals	1,694	1,398	0	3,092
Transfers	0	0	0	0
Exchange rate differences	-251	-339	0	-590
<b>31 December 2015</b>	<b>26,794</b>	<b>5,249</b>	<b>0</b>	<b>32,043</b>
<b>Net carrying amount as at 31 December 2014</b>	<b>7,041</b>	<b>34,807</b>	<b>277</b>	<b>42,125</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>

## 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
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>

**Goodwill**

Goodwill reported, amounting to EUR 38,375 K (previous year: EUR 34,772 K) breaks down as follows:

Cash Generating Units in EUR K	31 Dec 2016	31 Dec 2015
Sto SE & Co. KGaA	15,760	15,760
Beissier S.A.S., La Chapelle La Reine/France	3,635	3,635
STRÖHER GmbH	3,570	0
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany	2,780	2,780
Beissier S.A.U., Errenteria/Spain	2,679	2,679
Sto Sp. z o.o., Warsaw/Poland	2,402	2,402
Sto Epitöanyag Kft., Dunaharaszti/Hungary	1,764	1,764
Sto Isoned B.V., Tiel/Netherlands	1,189	1,189
Sto Norge AS, Oslo/Norway	1,054	1,021
Miscellaneous under EUR 1,000 K	3,542	3,542
<b>Goodwill in total</b>	<b>38,375</b>	34,772

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.



**(14) Property, plant, and equipment****Changes in property, plant, and equipment from 1 January to 31 December 2015**

in EUR K	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plant, operating and business equipment	Rendered advance payments and equipment under construction	<b>Total</b>
<b>Cost of acquisition/production</b>					
<b>01 January 2015</b>	<b>306,698</b>	<b>185,701</b>	<b>178,032</b>	<b>14,290</b>	<b>684,721</b>
Additions	5,502	4,921	9,697	14,295	34,415
Change to companies consolidated	123	0	-13	0	110
Disposals	1,521	2,107	6,195	164	9,987
Transfers	2,744	5,189	1,613	-9,563	-17
Exchange rate differences	2,613	2,606	1,838	-91	6,966
<b>31 December 2015</b>	<b>316,159</b>	<b>196,310</b>	<b>184,972</b>	<b>18,767</b>	<b>716,208</b>
<b>Cumulative depreciation and impairment losses</b>					
<b>01 January 2015</b>	<b>162,192</b>	<b>141,191</b>	<b>146,461</b>	<b>248</b>	<b>450,092</b>
Depreciation for the year	8,602	8,038	10,109	7	26,756
Impairment losses	418	0	0	0	418
Disposals	1,071	1,961	6,005	3	9,040
Change to companies consolidated	-11	0	-13	0	-24
Transfers	2	-49	46	0	-1
Appreciations	0	0	0	0	0
Exchange rate differences	1,854	2,048	1,574	6	5,482
<b>31 December 2015</b>	<b>171,986</b>	<b>149,267</b>	<b>152,172</b>	<b>258</b>	<b>473,683</b>
<b>Net carrying amount as at 31 December 2014</b>	<b>144,506</b>	<b>44,510</b>	<b>31,571</b>	<b>14,042</b>	<b>234,629</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>
of which leased assets classified as financial leases, carrying amount as at 31 December 2015	1,835	1	753	0	2,589

## 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 plant, operating and business equipment	Rendered advance payments and equipment under construction	Total
<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
Disposals	224	431	6,907	0	7,562
Change to companies consolidated	0	0	0	0	0
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

Property, plant, and equipment are encumbered with mortgages in the amount of EUR 33,902 K (previous year: EUR 31,438 K) which serve to secure liabilities to banks. The mortgages are valued on the balance sheet date at EUR 333 K (previous year: EUR 62 K).

Call options have mostly been agreed for plants and equipment leased under finance leases and these are expected to be exercised. Leases are based on a weighted interest rate of 2.2 %.

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 2015
Lease payments	447	219	0	666
Interest portions	7	3	0	10
<b>Carrying amount/ present value</b>	<b>440</b>	<b>216</b>	<b>0</b>	<b>656</b>

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>

### (15) Financial assets accounted for using the equity method

As at 31 December 2016, the carrying amount of shares accounted for using the equity method stands at EUR 0 K (previous year: in EUR 0 K).

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

The following amounts are attributable to the Group on account of the 47.5 % share in the joint venture Inotec GmbH:

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

in EUR K	31 Dec 2016	31 Dec 2015
Assets	862	707
Liabilities	907	1,101
Revenues	5,099	4,745
Net profit/loss for the period	16	-73

**(16) Inventories**

Inventories are measured at the lower of acquisition/production cost or the net realisable amount. Impairments in relation to the gross amount came to EUR 5,690 K (previous year: EUR 5,502 K). Of this, an amount of EUR 188 K reduced earnings (previous year: EUR 241 K reduced earnings).

Net carrying amounts are reported as follows:

in EUR K	31 Dec 2016	31 Dec 2015
Raw materials, processing aids, and operating materials	20,709	17,635
Work in progress	8,439	7,027
Finished products and goods	61,369	45,353
Payments made on account	2,025	1,208
<b>Total inventories</b>	<b>92,542</b>	<b>71,223</b>

Inventories with a carrying amount of EUR 2,641 K (previous year: EUR 0 K) serve to secure liabilities to banks and were valued at EUR 665 K (previous year: EUR 0 K) on the balance sheet date.

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

in EUR K			Carrying amount as at 31 Dec 2016			Carrying amount as at 31 Dec 2015
	current	non-current		current	non-current	
<b>from</b>						
third parties	122,457	1,209	123,666	123,019	1,053	124,072
Companies accounted for using the equity method	8	0	8	6	0	6
<b>Trade receivables in total</b>	<b>122,465</b>	<b>1,209</b>	<b>123,674</b>	<b>123,025</b>	<b>1,053</b>	<b>124,078</b>

The fair values of trade receivables equal their carrying amounts. Adjustments of EUR 20,791 K (previous year: EUR 21,073 K) were taken into account.

Trade receivables with a carrying amount of EUR 6,064 K (previous year: EUR 4,860 K) serve to secure liabilities to banks and were valued at EUR 3,472 K (previous year: EUR 2,754 K) on the balance sheet date.

**(18) Non-current and current financial assets**

in EUR K			Carrying amount as at 31 Dec 2016			Carrying amount as at 31 Dec 2015
	current	non-current		current	non-current	
Financial assets from third parties	71,762	393	72,155	57,556	191	57,747
Other receivables and financial assets from companies accounted for using the equity method	654	0	654	402	0	402
Positive fair value of derivative financial instruments	159	0	159	804	0	804
<b>Financial assets in total</b>	<b>72,575</b>	<b>393</b>	<b>72,968</b>	<b>58,762</b>	<b>191</b>	<b>58,953</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 3,379 K (previous year: EUR 3,852 K). Financial asset adjustments of EUR 0 K (previous year: EUR 401 K) were taken into account.

Derivative financial instruments have the following positive fair values:

in EUR K	31 Dec 2016	31 Dec 2015
<b>Hedges against</b>		
currency risks	159	804
interest risks	0	0
<b>Fair values of derivative financial instruments in total</b>	<b>159</b>	<b>804</b>

Derivative financial instruments as a whole are described in greater detail in Note (32).

**(19) Other non-current and current assets**

in EUR K			Carrying amount as at 31 Dec 2016			Carrying amount as at 31 Dec 2015
	current	non-current		current	non-current	
Other receivables from third parties	12,312	6	12,318	1,289	5	1,294
Other tax reimbursement claims	3,434	0	3,434	3,057	0	3,057
Prepaid expenses	5,715	1,062	6,777	5,958	1,127	7,085
Other payments made on account	513	0	513	697	0	697
<b>Other assets in total</b>	<b>21,974</b>	<b>1,068</b>	<b>23,042</b>	<b>11,001</b>	<b>1,132</b>	<b>12,133</b>

Other tax reimbursement claims include VAT reimbursement claims of EUR 3,215 K (previous year: EUR 2,447 K). Other assets allowances of EUR 0 K (previous year: EUR 63 K) were made.

**(20) Cash and cash equivalents**

in EUR K	31 Dec 2016	31 Dec 2015
Credit balances with banks	69,507	70,185
Cheques, cash in hand	564	677
<b>Cash and cash equivalents in total</b>	<b>70,071</b>	<b>70,862</b>

Credit balances are held at various banks in different currencies.

### **(21) Equity capital**

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

#### **Subscribed capital**

On 31 December 2016 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 limited preference shares each beforehand bore a higher dividend than the limited ordinary shares by EUR 0.06. A minimum dividend of EUR 0.13 per limited preference share was guaranteed. If distributable profit is not sufficient to pay the priority dividend of at least EUR 0.13 per limited preference share in one or more fiscal years, then the missing amounts (without interest) are subsequently paid from the distributable profit of the following fiscal years once the share in the profit for those fiscal years has been distributed to the limited preference shares and prior to a dividend being paid on limited ordinary shares.

Stotmeister Beteiligungs GmbH, Stühlingen/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 actual and assumed trends as well as changes in such assumptions.
- Treasury stock:  
As at 31 December 2016, 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 dividend-entitled.

#### **Proposed dividend**

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

The financial statements prepared by Sto SE & Co. KGaA according to German commercial law carry a net income of EUR 45,964 K. The personally liable partner of Sto SE & Co. KGaA, STO Management SE, Stühlingen, proposes via its Executive Board at the Annual General Meeting of Sto SE & Co. KGaA a dividend distribution of EUR 0.25 plus a bonus of EUR 3.00 = total of EUR 3.25 per limited ordinary share, and EUR 0.31 plus a bonus of EUR 3.00 = total of EUR 3.31 per limited preference share, i.e. a total amount of EUR 21,037 K, an amount of EUR 24,000 K to be transferred to revenue reserves, and the balance of EUR 927 K to be carried forward to new account.

#### Notes on capital management

The purpose of capital management is to ensure that the Group effectively achieves its goals and pursues its strategies in the interests of the shareholders, employees, and other stakeholders and that it successfully implements the defined strategies. In particular, management focuses on achieving the minimum return on invested assets sought by the capital market as well as on maintaining a solid return on equity. In selecting financial instruments, the Group attaches importance to matching-maturities finance.

In the fiscal year of 2016, the equity capital attributable to the shareholders of Sto SE & Co. KGaA rose by 3.4 % as compared to the previous year. This was mainly 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 arranged with a bank consortium in December 2012, with the latest extension in 2016, the Group is constrained by external covenants. Any failure to comply with these financial covenants entitles the lenders to terminate the credit line for good cause. The conditions of these external covenants have been met.

in EUR K	31 Dec 2016	31 Dec 2015	Change in %
<b>Equity attributable to the shareholders of Sto SE &amp; Co. KGaA</b>	<b>417,848</b>	<b>403,956</b>	<b>3.4 %</b>
Current borrowings	13,498	4,162	224.3 %
Non-current borrowings	1,121	313	258.1 %
Less cash and cash equivalents	70,071	70,862	-1.1 %
<b>Net assets</b>	<b>55,452</b>	<b>66,387</b>	<b>-16.5 %</b>
% of equity capital	13.3 %	16.4 %	
Equity ratio	59.5 %	63.0 %	
Return on Capital Employed (ROCE)	13.9 %	17.6 %	

**(22) Share of minority interests**

The shares of equity on the part of minority interests in the current fiscal year are 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. In the previous year these were only attributable to shareholders of Sto Italia Srl, Empoli/Italy.

**(23) 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 accrue for the Company. Current contribution payments (net of contributions to statutory pension funds) are reported as post-employment benefit expenses for the year in question and in 2016 were valued in the Sto Group at a total of EUR 1,203 K (previous year: EUR 1,322 K).

Contributions to statutory pension funds came to EUR 17,584 K (previous year: EUR 17,505 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 the following two requirements are met upon occurrence of the event

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

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

In Switzerland the current benefits agreements for employees are effected by plans which are regulated by Federal Law on Occupational Old-age, Survivor's and Disability Insurance (BVG). Pension plans in Switzerland are administered by collective foundations which are financed by regular employee and employer contributions. The final pension benefits are contribution-based with specific minimum guarantees. Due to these minimum guarantees, pension plans in Switzerland are allocated as being defined benefit plans, although they possess many properties of defined contribution plans. The deficient cover can be remedied by various methods, such as increasing employee and employer contributions, lowering the interest rate for retirement assets, or reducing future benefit claims.

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

Post-employment benefit provisions are calculated in accordance with IAS 19 (Employee benefits) using the projected unit credit method, which is the standard international method. For this purpose, future obligations are measured on the basis of the prorated benefits accruing at the balance sheet date. In making this assessment, assumed trends in the relevant determinants influencing the size of the benefits are taken into account. Actuarial calculations are necessary for all pension systems.

Actuarial gains or losses arise from changes in the plan assets or deviations in actual trends (e.g. income and pension increases, changes in interest rates) or from changes in the assumptions underlying calculations. All actuarial gains and losses are recognised in equity in full in the period in which they arise. Actuarial gains and losses reported within equity are presented in the following provisions table.

#### Summary of the post-employment benefit provisions

in EUR K	2016	2015
Pension plan of the Euro companies	-80,873	-68,519
Pension plan of Sto AG Switzerland	-12,358	-12,958
<b>Total</b>	<b>-93,231</b>	-81,477

## 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>Status as at 1 January 2015</b>	<b>-78,771</b>	<b>7,943</b>	<b>-70,828</b>
<b>Expenditure for post-employment benefit obligations recognised through profit and loss</b>			
Current service cost	-2,671	0	-2,671
Interest expense/income	-1,840	171	-1,669
Past service costs	0	0	0
<b>Sub-total recognised in the financial statement for the period</b>	<b>-4,511</b>	<b>171</b>	<b>-4,340</b>
<b>Pension benefits paid</b>	<b>1,896</b>	<b>-90</b>	<b>1,806</b>
<b>Profit/loss from reassessment recognised in other earnings</b>			
Expenditure from plan assets (solely the amounts contained in the interest expense)	0	0	0
Actuarial gains and losses from changes in demographic assumptions	75	0	75
Actuarial gains and losses from changes in financial assumptions	6,965	-793	6,172
Experience-based adjustments	-1,404	0	-1,404
<b>Sub-total contained in other earnings</b>	<b>5,636</b>	<b>-793</b>	<b>4,843</b>
<b>Employer contributions</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>As at 31 December 2015</b>	<b>-75,750</b>	<b>7,231</b>	<b>-68,519</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>Status 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
Past service costs	0	0	0
<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>			
Expenditure from plan assets (solely the amounts contained in the interest expense)	0	0	0
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>

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 take the form of qualifying insurance contracts. This is almost risk-free direct insurance.

The calculation of pension provisions was based on the following assumptions, with the predominant share of the amount recognised in the balance sheet being accounted for by Germany.

	Germany		Non-Germany	
	2016	2015	2016	2015
Discount rate as at 31 December in %	1.95	2.35	2.35	2.35
Future pension increases in %	1.06	1.14	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.

#### 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>Status as at 1 January 2015</b>	<b>-34,835</b>	<b>23,921</b>	<b>-10,914</b>
<b>Currency differences</b>	<b>-3,822</b>	<b>2,624</b>	<b>-1,198</b>
<b>Expenditure for post-employment benefit obligations recognised through profit and loss</b>			
Current service cost	-955	0	-955
Interest expense/income	-388	265	-123
Past service costs	0	0	0
<b>Sub-total recognised in the financial statement for the period</b>	<b>-1,343</b>	<b>265</b>	<b>-1,078</b>
<b>Pension benefits paid</b>	<b>4,681</b>	<b>-4,681</b>	<b>0</b>
<b>Profit/loss from reassessment recognised in other earnings</b>			
Expenditure from plan assets (solely the amounts contained in the interest expense)	0	0	0
Actuarial gains and losses from changes in demographic assumptions	0	0	0
Actuarial gains and losses from changes in financial assumptions	-1,015	195	-820
Experience-based adjustments	0	0	0
<b>Sub-total contained in other earnings</b>	<b>-1,015</b>	<b>195</b>	<b>-820</b>
<b>Employer contributions</b>	<b>0</b>	<b>1,052</b>	<b>1,052</b>
<b>Employee contributions</b>	<b>-2,484</b>	<b>2,484</b>	<b>0</b>
<b>As at 31 December 2015</b>	<b>-38,818</b>	<b>25,860</b>	<b>-12,958</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>Status 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
Past service costs	0	0	0
<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>			
Expenditure from plan assets (solely the amounts contained in the interest expense)	0	0	0
Actuarial gains and losses from changes in demographic assumptions	0	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>

The plan assets of Sto AG, Switzerland, take the form of qualifying insurance contracts. All regulatory benefits such as disability, death and longevity are integrally covered in the insurance contract.

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

	Switzerland	
	2016	2015
Discount rate as at 31 December in %	0.60	0.70
Future pension increases in %	1.00	1.00
Age of retirement in years	65	65

The BVG 2010 Generation Life Table was used as the biometric base for calculation.

The following shows a quantitative sensitivity analysis of the most important assumptions as at 31 December 2016:

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 %	8,479	Decrease by 1 year	-3,563
Increase by 0.5 %	-8,260	Increase by 1 year	2,684
<b>Pensions</b>		<b>Retirement age</b>	
Decline by 1.0 %	-9,884	Decrease by 1 year	1,213
Increase by 1.0 %	10,936	Increase by 1 year	-2,440

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 %	3,659	Decrease by 1 year	-713
Increase by 0.5 %	-3,176	Increase by 1 year	687
<b>Salary adjustments</b>			
Decline by 0.5 %	-330		
Increase by 0.5 %	345		

To determine the above sensitivity analysis, the provisions were determined based on the internationally applicable projected unit credit method taking into consideration the changed parameters. These provisions were then compared to the provision recorded on the balance sheet as of 31 December 2016.

The following amounts are expected to be paid over the next few years as part of defined-benefit liabilities:

in EUR K	Disbursements
within the next 12 months	3,755
between 2 and 5 years	17,111
between 5 and 10 years	26,134
<b>Expected disbursements within the next 10 years</b>	<b>47,000</b>

The running period of the performance-oriented liability averages at 18.5 years at the end of the reporting period (previous year: 19.0 years).

#### (24) Non-current and current provisions

in EUR K	Staff division	Production division	Sales division	Other provisions	Total
<b>Status as at 01 January 2015</b>	<b>6,250</b>	<b>994</b>	<b>22,747</b>	<b>1,896</b>	<b>31,887</b>
Currency differences	19	0	1,032	10	1,061
Consumption	-1,964	-119	-4,442	-993	-7,518
Additions/formation	2,323	60	15,551	390	18,324
Actuarial gains	-3	0	0	0	-3
Change to companies consolidated	0	67	0	1	68
Compounding of interest	74	15	127	0	216
Reversal	-401	-6	-9,268	-122	-9,797
<b>Status as at 31 December 2015</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>Status 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>
<b>of which current</b>	<b>13,432</b>	<b>385</b>	<b>29,528</b>	<b>1,041</b>	<b>44,386</b>
<b>of which non-current</b>	<b>3,894</b>	<b>858</b>	<b>7,893</b>	<b>639</b>	<b>13,284</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 of commercial representatives as well as provisions for litigation risks. Provisions for warranty obligations are carried as liabilities for individual cases in the Sto Group. The assumptions on

which the calculation of warranty provisions are based are experience statistics for complaints and the latest information available. Furthermore, uncertainties arise with regard to pending compensatory damages court cases in terms of compensation payments and the duration of the processes. We generally expect the provision to be utilised only after damage recovery.

In addition to provisions for acceptance obligations and safe-keeping obligations, the remaining other provisions comprise additional factual circumstances subordinate in nature in specific cases in terms of their recognition.

## (25) Non-current and current borrowings

in EUR K			Carrying amount as at 31 Dec 2016			Carrying amount as at 31 Dec 2015
	current	non-current		current	non-current	
Liabilities to banks	12,024	792	12,816	2,757	62	2,819
Liabilities under finance leases	401	329	730	405	251	656
Other borrowings	1,073	0	1,073	1,000	0	1,000
<b>Borrowings in total</b>	<b>13,498</b>	<b>1,121</b>	<b>14,619</b>	<b>4,162</b>	<b>313</b>	<b>4,475</b>

The conditions applicable to the liabilities under finance leases are explained in Note (14).

## (26) Trade payables

in EUR K	31 Dec 2016	31 Dec 2015
<b>from</b>		
third parties	46,344	44,199
Companies accounted for using the equity method	102	156
<b>Trade payables in total</b>	<b>46,446</b>	<b>44,355</b>

The terms of the trade payables are completely short term.

The fair values of trade payables do not differ from the carrying amounts reported.

**(27) Non-current and current financial liabilities**

in EUR K			Carrying amount as at 31 Dec 2016			Carrying amount as at 31 Dec 2015
	current	non-current		current	non-current	
Negative fair values of derivative financial instruments	160	58	218	342	0	342
<b>Other liabilities</b>						
towards customers	16,700	0	16,700	15,295	0	15,295
towards employees	1,458	0	1,458	1,195	0	1,195
miscellaneous	9,469	683	10,152	9,433	662	10,095
<b>Financial liabilities in total</b>	<b>27,787</b>	<b>741</b>	<b>28,528</b>	<b>26,265</b>	<b>662</b>	<b>26,927</b>

Derivative financial instruments have the following negative fair values:

in EUR K	31 Dec 2016	31 Dec 2015
<b>Hedges against</b>		
currency risks	199	342
interest risks	19	0
<b>Fair values of derivative financial instruments in total</b>	<b>218</b>	<b>342</b>

Derivative financial instruments as a whole are described in detail in Note (32).

**(28) Non-current and current other liabilities**

in EUR K			Carrying amount as at 31 Dec 2016			Carrying amount as at 31 Dec 2015
	current	non-current		current	non-current	
Advance payment received on orders	1,812	0	1,812	1,230	0	1,230
<b>Other liabilities</b>						
from other taxes	7,735	0	7,735	7,926	0	7,926
social security liabilities	2,839	0	2,839	6,079	0	6,079
towards employees	24,544	27	24,571	20,548	9	20,557
miscellaneous	6,468	1	6,469	5,271	1	5,272
<b>Other liabilities in total</b>	<b>43,398</b>	<b>28</b>	<b>43,426</b>	<b>41,055</b>	<b>10</b>	<b>41,065</b>

**(29) Further notes on financial instruments in accordance with IFRS 7****Reconciliation of balance sheet items with financial instrument categories as at 31 December 2015**

in EUR K	Measurement category in accordance with IAS 39	Carrying amount 31 Dec 2015	Financial instruments				No financial instrument	
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet according to 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	124,078	124,078	124,078	0	0	0	0
Other receivables and financial assets								
- Available-for-sale financial assets	AfS	22	22	22	0	0	0	0
- Held-to-maturity investments	HtM	9,843	9,843	9,854	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	804	0	0	804	0	0	0
- Other assets	LaR/n.a.	60,416	48,284	48,284	0	0	1	12,131
Other receivables and financial assets in total		71,085	58,149	58,160	804	0	1	12,131
Cash and cash equivalents	LaR	70,862	70,862	70,862	0	0	0	0
<b>Liabilities</b>								
Borrowings	FLAC	3,767	3,767	3,767	0	0	0	0
Liabilities under finance leases	n.a.	708	0	0	0	708	0	0
Borrowings in total		4,475	3,767	3,767	0	708	0	0
Trade payables	FLAC	44,355	44,355	44,355	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	342	0	0	342	0	0	0
- Other liabilities	FLAC/n.a.	67,650	26,585	26,585	0	0	0	41,065
Other liabilities and financial liabilities in total		67,992	26,585	26,585	342	0	0	41,065

## 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 according to 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

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 2016	31 Dec 2015
Available-for-Sale (AFS)	15	22
Financial assets held for trading (FAhFT)	159	804
Held-to-Maturity Investments (HtM)	8,179	9,843
Loans and receivables (LaR)	258,361	243,225
Financial liabilities measured at amortised cost (FLAC)	88,646	74,707
Financial Liabilities Held for Trading (FLHFT)	218	342

#### Balance sheet items measured at fair value

in EUR K	31 Dec 2015	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
- Derivatives with no hedge relationship	804	0	804	0
Available-for-sale financial assets				
- Derivatives with a hedge relationship	0	0	0	0
<b>Financial assets measured at fair value</b>	<b>804</b>	<b>0</b>	<b>804</b>	<b>0</b>
Financial liabilities recognised at fair value through profit and loss				
- Derivatives with no hedge relationship	342	0	342	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 recognised at fair value</b>	<b>342</b>	<b>0</b>	<b>342</b>	<b>0</b>

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 recognised 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 recognised at fair value</b>	<b>218</b>	<b>0</b>	<b>218</b>	<b>0</b>

The following financial assets and liabilities accounted for at fair value are structured according to the following valuation categories:

#### Level 1

Financial instruments traded in active markets, the listed prices of which were adopted unchanged for measurement purposes.

#### Level 2

The measurement is made on the basis of valuation methods in which the influential factors are derived either directly or indirectly from observable market data. The derivatives are currency hedges only. They are measured based on the observable exchange rates, the interest structure curves of the respective currencies as well as the currency-related basic spreads between the respective currencies.

#### Level 3

The measurement is effected using valuation methods where the influential factors are not based exclusively on observable market data.

During the reporting period there were no transfers between measurements at fair value at Level 1 and Level 2 and no transfers to or from measurements at fair value at Level 3.

Trend relating to adjustments of financial instruments valued at amortised costs of acquisition (refers solely to trade receivables, other receivables and financial assets):

in EUR K	2016	2015
<b>Status as at 01 January</b>	<b>21,537</b>	22,248
Exchange rate differences	-3	-153
Additions	8,637	7,564
Consumption	3,040	4,298
Reversals	6,664	3,824
Change to companies consolidated	324	0
<b>As at 31 December</b>	<b>20,791</b>	21,537

The following table shows the carrying amounts and fair values of the financial instruments as at 31 December 2016, excluding financial in-

struments which typically barely differ between carrying amount and fair values.

in EUR K	Carrying amount 31 Dec 2016	Fair value 31 Dec 2016
<b>Financial assets</b>		
Non-current		
Investments	15	15
Loans	0	0
Forward exchange contracts	0	0
Financial investments	0	0
Other financial assets	378	378
<b>Non-current financial assets in total</b>	<b>393</b>	<b>393</b>
Current		
Financial investments	67,570	67,587
Loans	665	665
Forward exchange contracts	159	159
Other financial assets	4,181	4,181
<b>Current financial assets in total</b>	<b>72,575</b>	<b>72,592</b>
<b>Total financial assets</b>	<b>72,968</b>	<b>72,985</b>
<b>Financial liabilities</b>		
Non-current		
Borrowings	1,121	1,121
Other financial liabilities	329	329
Forward exchange contracts	58	58
<b>Non-current financial liabilities in total</b>	<b>1,508</b>	<b>1,508</b>
Current		
Borrowings	13,498	13,498
Forward exchange contracts	160	160
Other financial liabilities	27,628	27,628
<b>Current financial liabilities in total</b>	<b>41,286</b>	<b>41,286</b>
<b>Total financial liabilities</b>	<b>42,794</b>	<b>42,794</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.

## Other disclosures

### (30) 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 payment 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.

### (31) Segment reporting

For the purpose of corporate management by the responsible corporate entity – the personally liable partner STO Management SE – the Group is divided up into geographical business units. The geographical business units were consolidated to form the segments of Western Europe and Other with the segment Other being broken down into the regions of Northern/Eastern Europe and America/Asia. The business segment of Western Europe comprises the geographical business units of the Euro zone (without Finland and Slovakia), Switzerland, as well as the United Kingdom.

Internal reporting is carried out in accordance with IFRS.

The activities of all segments included the production and distribution of facade systems, facade coatings, interior products and Other product groups.

The netting prices between segments conform to arms-length conditions. Transfers between business segments are eliminated on consolidation.

The segment results in the Sto Group are reported in the earnings categories of EBITDA, EBIT and EBT. In the fiscal year 2016, a financial asset at equity was valued with an amount recognised in the balance sheet of EUR 0 K; the expense from at-equity valuation amounted to EUR 349 K (previous year: EUR 0 K) which was not assigned to any segment and was reported in the reconciliation column.

Depreciation/amortisation and investments relate to property, plant and equipment, and intangible assets. In the previous year, an impairment test of Sto Brasil Revestimentos e Fachadas Ltda. (formerly Argamont Revestimentos e Argamassas Ltda.) resulted in a needed

depreciation of EUR 1,471 K in the segment of America/Asia. This includes the full depreciation of the customer base (EUR 659 K) and the product brand (EUR 394 K). Furthermore, a non-scheduled depreciation of a building was performed in the amount of EUR 418 K.

In the reporting period of 2016, a needed appreciation of EUR 401 K for a building was identified for Sto Brasil Revestimentos e Fachadas Ltda. (formerly Argamont Revestimentos e Argamassas Ltda.) in the segment of America/Asia. Furthermore, an impairment test of Vero-Stone GmbH resulted in a needed depreciation of EUR 1,457 K in the segment of Western Europe. This contains non-scheduled depreciations of technical plants (EUR 755 K), properties and buildings (EUR 523 K), and the customer base (EUR 179 K).

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 were listed in the "Reconciliation/consolidation booking entries" column since they are not assigned to the individual segments. This column also includes the items which cannot be assigned to individual segments as well as the eliminations of results between the segments. No significant adjustments were made to earnings.

Owing to the broad customer structure of the Sto Group, there is no customer with whom 10 % or more of sales revenues are generated.

The breakdown of sales revenues is made according to the customer's head office.

in EUR K	2015			Total
	Germany	France	Others	
External revenues	535,347	120,742	560,463	<b>1,216,553</b>
Intangible assets, property, plant, and equipment	177,103	25,485	79,407	<b>281,995</b>

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>

## (32) Financial risk management and financial instruments

### Hedging policy

The Sto Group's international activities expose it to interest and currency risks in particular. The purpose of risk management is to minimise these risks. To this end, the usual instruments such as currency forwards, forward exchange, and interest rate swaps are used.

### Hedging guidelines

Guidelines have been adopted to govern the scope for hedging and internal monitoring. As a matter of principle, the type and scope of hedging operations are determined by the underlying transaction. Hedges are only used to protect existing or planned transactions. For this purpose, according to internal guidelines only financial instruments with released counterparties may be transacted.

### Liquidity risk

A liquidity forecast covering a defined period as well as unused credit facilities available to the Sto Group in addition to cash and cash equivalents ensure adequate liquidity at all times. The main credit facilities were established in connection with the syndicate finance agreement entered into in 2012 and extended to 2021 by amendment contracts in 2016. The term of the usual credit lines runs until the year 2021 at the latest.

The following overview sets out the contractually agreed cash outflows from financial instruments including interest, not including cash outflows from finance leases shown in Note (14).

in EUR K	Cash outflows			31 Dec 2015
	up to 1 year	1 – 5 years	5 – 10 years	
Borrowings	3,827	10	0	3,837
Trade payables	44,355	0	0	44,355
Other borrowings	25,923	303	0	26,226
Derivatives	50,925	0	0	50,925
Guarantees	253	0	0	253
<b>Cash outflows in total</b>	<b>125,283</b>	<b>313</b>	<b>0</b>	<b>125,596</b>

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
Guarantees	343	0	0	343
<b>Cash outflows in total</b>	<b>135,475</b>	<b>2,033</b>	<b>275</b>	<b>137,782</b>

Under guarantees the occurrence of an obligation is not anticipated at present.

The amounts of the derivatives shown correspond to the un-discounted cash flows. These payments can be processed on a gross or net basis. When levelling on a gross basis, only cash outflows are shown.

In the following table, the cash outflows are compared to the corresponding cash inflows:

in EUR K	Cash inflows/outflows as at 31 December 2015			Total
	up to 1 year	1 – 5 years	5 – 10 years	
Inflow	50,463	0	0	50,463
Outflow	50,925	0	0	50,925
<b>Balance</b>	<b>-462</b>	<b>0</b>	<b>0</b>	<b>-462</b>

in EUR K	Cash inflows/outflows as at 31 December 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>

#### Credit and default risk arising from financial assets

The credit and default risk arising from financial assets entails the risk of a counterparty defaulting and is limited to the maximum net carrying amount of the receivable due from the defaulting counterparty.

In connection with the investment of cash and holdings of derivative financial assets, the Group is exposed to credit risks in the event of financial institutions failing to honour their ob-

ligations. The Sto Group seeks to mitigate such risks by means of diversification and the careful selection of counterparties. At the moment, no cash investments or derivative financial assets are overdue or impaired on account of defaults.

Allowance is made for risks from originated financial instruments by making adjustments to receivables. On account of its broad customer structure, there is no clustering of default risks within the Sto Group.

Presentation of net carrying amounts of financial instruments measured at amortised costs of acquisition:

in EUR K	not due, not value- adjusted	overdue, not value- adjusted	overdue, value-adjusted	Carrying amount  31 Dec 2015
Other financial assets	52,117	0	6,836	58,953
Trade receivables	78,611	22,472	22,996	124,079
Cash and cash equivalents	70,862	0	0	70,862
<b>Financial assets measured at amortised costs of acquisition in total</b>	<b>201,590</b>	<b>22,472</b>	<b>29,832</b>	<b>253,894</b>

in EUR K	not due, not value- adjusted	overdue, not value- adjusted	overdue, value-adjusted	Carrying amount  31 Dec 2016
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>

The Sto Group assesses the credit rating of individual customers to reduce the risks arising from trade receivables. Information is obtained and regularly updated to assess the credit quality of financial assets which are neither overdue nor adjusted. On the basis of this and other information, the financial assets are classified and credit limits defined.

Collateral amounting to EUR 1,464 K was held in the financial year for overdue and impaired trade receivables (previous year: EUR 1,259 K).

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

## Maturity analysis of overdue and not value-adjusted financial instruments:

in EUR K	overdue				31 Dec 2015
	up to 30 days	more than 30 days up to 60 days	more than 60 days up to 90 days	more than 90 days	
Other financial assets	0	0	0	0	0
Trade receivables	11,956	5,225	1,383	3,908	22,472
<b>Overdue and not value-adjusted financial instruments in total</b>	<b>11,956</b>	<b>5,225</b>	<b>1,383</b>	<b>3,908</b>	<b>22,472</b>

in EUR K	overdue				31 Dec 2016
	up to 30 days	more than 30 days up to 60 days	more than 60 days up to 90 days	more than 90 days	
Other financial assets	0	0	0	0	0
Trade receivables	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>

**Currency risk**

Foreign currency flows are determined in the budget phase for the following year. On the basis of the foreign currency payment flows, suitable hedging strategies are created, agreed upon with the relevant bodies, and implemented. The planned cash positions are hedged without exception through hedging instruments congruent to the time and economic state from the area of derivatives. The currency hedge affected CNY/EUR, CZK/EUR, HUF/EUR, RUB/EUR, SGD/EUR, TRY/EUR, USD/EUR as well as EUR/CHF, EUR/CZK, EUR/GBP, EUR/HUF, EUR/NOK, EUR/PLN, EUR/SEK und USD/CAD. The changes in fair value were recognised in the statement of profit and loss with an impact on profit and loss.

The main operative currency risks in the Sto Group are due to the manufacture of products

in Germany and their subsequent selling and delivery to foreign subsidiaries. Currency risks occurred due to business completed in euros with subsidiaries outside the Euro zone, mainly in Poland, Russia, Switzerland, Sweden, the Czech Republic, and Hungary.

All non-functional currencies in which the Group holds financial instruments are used as relevant risk variables in the sensitivity analysis stipulated by IFRS 7.

The main currency risk in the Sto Group results from the change of the currency pair CNY/EUR. If the Chinese renminbi had been 10 % lower/higher against the euro, pre-tax earnings would have been up by EUR 273 K (previous year: EUR 151 K higher), or down by EUR 223 K (previous year: EUR 124 K lower).

**Interest rate risk**

The interest rate risk for the Sto Group results from changes in market interest rates, particularly for current and non-current liabilities subject to floating interest rates.

Interest rate risks as defined in IFRS 7 essentially occur in the case of financial investments. Due to the short-term nature of the financial investments with a running period of up to one year, there is no interest rate risk for the Sto Group as at 31 December 2016.

The volume of non-current, variable-rate borrowings is so low that a change of the market interest level by 100 basis points on 31 December 2016 would have had no significant impact on earnings (previous year: also insignificant).

**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 2016		31 Dec 2015	
	Nominal volume	Market value total	Nominal volume	Market value total
Forward exchange transactions/options	50,745	-40	41,438	462
Interest rate swaps/caps	1,176	-19	0	0
<b>Derivative financial instruments in total</b>	<b>51,921</b>	<b>-59</b>	41,438	462

The nominal volume of a derivative hedge transaction is the notional reference amount for which the payments are derived. The hedged contract and the risk are not the same as the nominal volume but only reflect the exchange or interest rate change to which they refer. The market value is the amount which the Sto Group would have paid or received at the balance sheet date if the hedge had been settled.

The increase in the nominal volume with the foreign currency forwards is based on an increased hedging of most associates of incoming or outgoing payments other than the functional currency.

The residual maturity of the currency derivatives as a rule lies within a year.

**(33) Contingencies**

in EUR K	2016	2015
Guarantees from the Sto Group to third parties	343	252
Reserve liability to cooperatives	1	1
<b>Contingencies in total</b>	<b>344</b>	<b>253</b>

**(34) 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 other court litigation or arbitration proceedings.

**(35) Other financial obligations**

in EUR K	31 Dec 2015	within one year	Maturity between 1 – 5 years	after 5 years
Obligations under rental contracts and operating leases	65,277	21,196	37,281	6,800
Obligations under maintenance contracts	5,298	3,826	1,464	8
Acceptance obligations	9,655	9,442	213	0
Other obligations	665	423	241	1
<b>Other financial obligations in total</b>	<b>80,895</b>	<b>34,887</b>	<b>39,199</b>	<b>6,809</b>

in EUR K	31 Dec 2016	within one year	Maturity between 1 – 5 years	after 5 years
Obligations under rental contracts and 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>

The obligations under rental contracts comprise primarily building rental contracts, while the obligations under leases relate to the vehicle fleet, equipment and IT hardware.

There are no purchasing intentions at the end of the leasing contracts. Insofar as final payments are to be expected resulting from damages, provisions have been made.

Of acceptance obligations, an amount of EUR 7,311 K (previous year: EUR 6,393 K) relates to items of tangible fixed assets.

### (36) Auditors' fees

The following fees paid to the auditors of the consolidated annual financial statement of the Sto Group, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, for services provided are recorded as expenses in 2016:

in EUR K	2016	2015
Audits of financial statements	300	271
Tax consulting services	0	0
Other certification or valuation activities	7	22
Other services	61	11
<b>Auditors' fees in total</b>	<b>368</b>	<b>304</b>

### (37) Events after the balance sheet date

In the Executive Board of STO Management SE, which, as the personally liable partner of Sto SE & Co. KGaA conducts its business, Jan Nissen, who was already inducted into the committee on 22 April 2016, took over the Technology division from Gerd Stotmeister, who left the Executive Board voluntarily at the end of 2016. The new appointment took effect on 1 January 2017. Jan Nissen was previously Head of Materials Management within the Sto Group.

He resigned from his position as representative of management employees on the Supervisory Board of Sto SE & Co. KGaA on 31 December 2016.

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

**(38) Related party disclosures**

IAS 24 defines related parties as persons or entities liable to be influenced by the reporting entity or are capable of influencing the reporting entity in question.

All business relations with related parties were conducted on arms-length terms.

As at 31 December 2016, members of the Executive Board of STO Management SE and the Supervisory Board of Sto SE & Co. KGaA are members of the executive boards and supervisory boards of other companies with which Sto SE & Co. KGaA maintains relations as part of its ordinary business activities. All transactions with such companies are conducted on arms-length terms.

The volume of deliveries and services, including net interest income, between companies in the Sto Group and related parties and persons are set out in the following table:

in EUR K	Share	Rendered deliveries and services		Received deliveries and services		Receivables from		Liabilities to	
		2016	2015	2016	2015	2016	2015	2016	2015
Inotec GmbH, Waldshut-Tiengen/Germany	47.5 %	77	6	3,696	4,745	662	408	102	156
STO Management SE		772	837	4,093	4,874	104	100	2,084	2,942
Stotmeister Beteiligungs GmbH		0	0	41	24	0	0	0	0
Miscellaneous		0	0	20	8	0	0	20	0

Interest payments were made to Stotmeister Beteiligungsgesellschaft mbH in the year under review to the amount of EUR 41 K (previous year: EUR 24 K).

**(39) List of subsidiaries and investments as at 31 December 2016**

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, Kirchheim/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
Inotec GmbH, Waldshut-Tiengen/Germany	47.5

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

Non-Germany	Capital share in %
Name, registered office	
Sto Ges.m.b.H., Villach/Austria	100
Sto S.A.S., Bezons/France	100
Beissier S.A.S., La Chapelle La Reine/France	100
Innolation S.A.S., Amilly/France	100
Beissier S.A.U., Erreterria/Spain	100
Sto SDF Ibérica S.L.U., Mataró/Spain	100
Sto Isoned B.V., Tiel/Netherlands	100
Sto N.V., Asse/Belgium	100
Sto Italia Srl, Empoli/Italy	52
Sto Finexter OY, Vantaa/Finland	100
Sto Scandinavia AB, Linköping/Sweden	100
Sto Danmark A/S, Hvidovre/Denmark	100
Sto Norge AS, Oslo/Norway	100
Sto AG, Niederglatt/Switzerland	100
Sto Ltd., Paisley/Great Britain	100
Sto Sp. z o.o., Warsaw/Poland	100
Sto Epitöanyag Kft., Dunaharaszti/Hungary	100
Sto s.r.o., Dobřejovice/Czech Republic	100
STOMIX spol s.r.o., Skorosice/Czech Republic	100
STOMIX Slovensko s.r.o., Zvolen/Slovakia	100
OOO Sto, Moscow/Russia	100
OOO STOMIX Orel, Orel/Russia	100
Sto 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 Participações Ltda., Itaquaquecetuba/Brazil	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
Hesselberg Bygg AS, Moss/Norway	100
UAB TECH-COAT, Klaipėda/Lithuania	95
Hesselberg Sverige AB, Helsingborg/Sweden	100

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

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

**(40) German Corporate Governance Code**

In December 2016, 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.

**(41) Remuneration of the Board of Directors and the Supervisory Board**

The remuneration paid to the members of the Executive Board in the fiscal year of 2016 complies with the statutory provisions contained in the German Companies Act. In the fiscal year 2016, current due remunerations of the Executive Board totalled EUR 3,059 K (previous year: EUR 3,779 K). Expenses for future benefits after terminating the employment relationship (current service cost) amounted to EUR 213 K (previous year: EUR 233 K). Executive Board remunerations thus totalled EUR 3,272 K (previous year: EUR 4,012 K). As at 31 December 2016, the post-employment benefit provisions for the current members of the Executive Board amounted to EUR 175 K due to offsetting against plan assets and non-current financial liabilities (previous year: EUR 168 K). As at 31 December 2016, post-employment benefit provisions for former members of the Executive Board were valued at EUR 2,183 K (previous year: EUR 2,206 K) due to offsetting against plan assets. Remuneration paid to former members of the Executive Board and the Supervisory Board came to EUR 423 K (previous year: EUR 332 K).

The remunerations of the Supervisory Board of Sto SE & Co. KGaA and the compensation of expenditure in this regard as stipulated in Section 6 Paragraph 3 of the regulations of Sto

SE & Co. KGaA for the Supervisory Board of STO Management SE for the 2016 fiscal year amounted to EUR 608 K (previous year: EUR 555 K).

The members of the Supervisory Board will only receive currently due payments for their activities on the committee. Excluded from this are compensation and other payments to operations employee representatives pursuant to their employment contracts. No compensation has been granted for personally rendered services outside of committee activities by the members of the Supervisory Board.

The need for disclosure in accordance with Section 314 No. 6a sentence 5-9 of the German Commercial Code (HGB) has been dispensed with pursuant to Section 314 (2) sentence 2 HGB, read in conjunction with Section 286 (5) HGB.

**Members of the Executive Board of STO Management SE in the fiscal year of 2016  
(personally liable partner of Sto SE & Co. KGaA):**

**Rainer Hüttenberger**

Spokesman of the Executive Board responsible for Marketing and Sales Sto Brand International Stein a. Rhein/Switzerland, Dipl.-Betriebswirt (FH)  
Member of the BOD of Sto Corp., Atlanta/USA  
Chairman of the BOD of Shanghai Sto Ltd., Shanghai/China  
Chairman of the BOD of Sto Scandinavia AB, Linköping/Sweden  
Chairman of the BOD of Sto Danmark A/S, Hvidovre/Denmark  
Chairman of the BOD of Sto Yapı Sistemleri Sanayi ve Ticaret A.Ş., Istanbul/Turkey  
Member of the BOD of Sto Norge AS, Oslo/Norway  
Member of the BOD of Sto Finexter OY, Vantaa/Finland  
Member of the BOD of Sto SEA Pte Ltd., Singapore/Singapore

**Michael Keller**

Chief Sales Officer responsible for Sales Sto Brand Germany, Distribution and Central Services  
Bonndorf/Germany, Ing.päd. (TU)  
Member of the Administrative Board of Beissier S.A.U., Erreterria/Spain

**Jan Nissen**

Chief Technology Officer responsible for Process Engineering, Innovation and Supply Chain (since 1 January 2017)  
Trossingen/Germany, Bachelor of Science  
Member 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

**Gerd Stotmeister**

Chief Technology Officer responsible for Process Engineering, Innovation and Supply Chain (until 31 December 2016)  
Allensbach/Germany, Dipl.-Ing. (FH)  
Curator of the Fraunhofer Institute for Construction Physics (IBP), Stuttgart/Germany  
Member of the Advisory Board of Kliniken Schmieder, Allensbach/Germany  
Member of the General Assembly of IHK Hochrhein-Bodensee/Germany

**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

**Members of the Supervisory Board of Sto SE & Co. KGaA in the fiscal year of 2016:****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 Supervisory Board of Freicon AG,  
Freiburg i. Br./Germany  
Chairman of the Advisory Board of alfer alumin-  
ium Gesellschaft mbH, Wutöschingen/Germany  
Chairman of the Advisory Board of Walter  
Maisch Familien Holding GmbH & Co. KG,  
Gaggenau/Germany  
Member of the Supervisory Board of Testo  
SE & Co. KGaA, Lenzkirch/Germany  
Member of the Supervisory Board of Testo  
Management SE, Lenzkirch/Germany  
Member of the Advisory Board of EGT AG,  
Triberg/Germany

**Holger Michel**

Deputy Chairman of the Supervisory Board and  
employee representative, Dresden/Germany  
Trade union secretary IG BCE  
(until 29 February 2016)  
Pensioner (since 1 March 2016)

**Gertrud Eisele**

Rottweil/Germany  
Publisher  
Member of the Supervisory Board of STO  
Management SE, Stühlingen/Germany

**Prof. Dr.-Ing. Klaus Sedlbauer**

Rottach-Egern/Germany  
Chairholder at the Institute of Building Physics of  
the Technical University Munich/Germany

Head of the Fraunhofer Institute for Building  
Physics, Stuttgart, Holzkirchen, Kassel,  
Nuremberg, and Rosenheim/Germany  
Member of the Supervisory Board of STO  
Management SE, Stühlingen/Germany  
Deputy Chairman of the Supervisory Board of  
Calcon AG, Munich/Germany

**Charles Stettler**

Stäfa/Switzerland  
Banker/freelance Administrative Board  
Deputy Chairman of the Supervisory Board of  
STO Management SE, Stühlingen/Germany  
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 & 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**

Grafenhausen/Germany  
Managing Director of Stotmeister Beteiligungs  
GmbH, Stühlingen/Germany  
Chairman of the Supervisory Board of STO  
Management SE, Stühlingen/Germany

Member of the Supervisory Board of CellGenix GmbH, Freiburg i. Br.  
 Member of the Advisory Board of Karl Wörwag, Lack- und Farbenfabrik GmbH & Co. KG, Stuttgart/Germany  
 Member of the Advisory Board of Paul Bauder GmbH & Co. KG, Stuttgart/Germany

**Peter Zürn**

Osterburken/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 Executive Board of Würth Belux N.V., Turnhout/Belgium  
 Member of the Executive Board of Würth Hellas S.A., Athens/Greece  
 Member of the Executive Board of Würth België N.V., Turnhout/Belgium  
 Member of the Administrative Board of Würth Svenska AB, Örebro/Sweden  
 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  
 Chairman of the Administrative Board of Würth Phoenix S.r.l., Bolzano/Italy  
 Member of the Administrative Board of Auto-com Diagnostic Partner AB, Trollhättan/Sweden  
 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

Korea Co., Ltd., Chungung Dong/South Korea  
 Member of the Administrative Board of Würth New Zealand Ltd., Auckland/New Zealand  
 Member of the Administrative Board of Würth Promotional Concepts AG, Chur/Switzerland  
 Member of the Administrative Board of Würth Logistics, Rorschach/Switzerland  
 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 Advisory Board of Würth Técnica de Montagem Lda., Sintra/Portugal  
 Member of the Advisory Board of Würth Australia Pty. Ltd., Dandenong South/Australia

**Uwe Bruchmüller**

Employee representative, Thalheim/Germany  
 Head of Business Development for Water Technologies, Veolia Water Technologies Deutschland GmbH, Celle/Germany  
 Chairman of the Advisory Board of TDE Mitteldeutsche Bergbau Service GmbH, Espenhain/Germany

**Wolfgang Dell**

Employee representative, Hattersheim/Germany  
 Responsible for Maintenance Plant Technology, Sto SE & Co. KGaA

**Lothar Hinz**

Employee representative, Reutlingen/Germany  
 Chairman of the Group Works Council and Chairman of the Works Council for the Baden-Württemberg sales region of Sto SE & Co. KGaA

**Members of the Supervisory Board of  
STO Management SE in the fiscal year 2016  
(personally liable partner of Sto SE & Co. KGaA):**

**Barbara Meister**

Employee representative, Blumberg/Germany  
Deputy Chairperson of the Group Employee  
Representative Council and Chairperson of  
the Weizen Employee Representative Council,  
Sto SE & Co. KGaA

**Jan Nissen** (until 31 December 2016)

Employee representative, Trossingen/Germany  
Head of Materials Management within the  
Sto Group (until 31 December 2016)  
Chief Technology Officer of STO Management  
SE (since 1 January 2017)  
Member 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

**Jochen Stotmeister**

Chairman of the Supervisory Board  
Grafenhausen/Germany

**Charles Stettler**

Deputy Chairman of the Supervisory Board  
Stäfa/Switzerland

**Dr. Max-Burkhard Zwosta**

Wittnau/Germany

**Gertrud Eisele**

Rottweil/Germany

**Prof. Dr.-Ing. Klaus Sedlbauer**

Rottach-Egern/Germany

**Peter Zürn**

Osterburken/Germany

Stühlingen/Germany, 11 April 2017

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



Rainer Hüttenberger  
(Spokesman)



Michael Keller



Jan Nissen



Rolf Wöhrle

## Audit certificate

Based on the final results of our audit of the consolidated financial statements and the Group management report we have issued the following auditors' report.

"We have audited the consolidated annual financial statement prepared by Sto SE & Co. KGaA, Stühlingen/Germany, comprising the statement of profit and loss, the consolidated statement of other comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the notes to the financial statements, together with the Group management report for the fiscal year from 1 January until 31 December 2016. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as they are to be applied in the EU and additionally Section 315a (1) of the HGB (German Commercial Code) are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the consolidated management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements significantly affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with principles of proper accounting, and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and

the evidence supporting the disclosures in the books and records, the consolidated financial statement and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the general partner, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as they are to be applied in the EU and additionally Section 315a (1) of the HGB (German Commercial Code). The Group management report is consistent with the consolidated financial statements, complies with legal regulations, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Villingen-Schwenningen/Germany,  
13 April 2017

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Dr. Wetzel  
Chartered  
accountant

Traub  
Chartered  
accountant

## Responsibility statement by the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stühlingen/Germany, 11 April 2017

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



Rainer Hüttenberger  
(Spokesman)



Michael Keller



Jan Nissen



Rolf Wöhrle

# Financial calendar 2017

Electronic publication of the annual financial statements for 2016.....	28 April 2017
Interim report on the first half of 2017 .....	19 May 2017
Annual General Meeting 2017 .....	14 June 2017
Report on the first half of 2017 .....	31 August 2017
Interim report on the second half of 2017 .....	17 November 2017
Electronic publication of the annual financial statements for 2017.....	27 April 2018

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  
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This report contains forward-looking statements which are based on Management's current assumptions and estimates concerning future developments. Such statements are subject to risks and uncertainties which Sto cannot control or estimate precisely. If any uncertainty arises or the assumptions on which these statements are based prove to be incorrect, actual results may differ significantly from these statements. Sto is under no obligation to update forward-looking statements to incorporate any events which come to light after the publication of this report.

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## Holding companies – national

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