



Sto AG | 2010 Annual Report

Sto at a glance

Sto Group	2005	2006	2007	2008	2009	2010	Changes in % 10/09
Sales revenues	740.6	854.8	884.7	946.7	924.6	986.0	6.6%
Germany	355.4	410.9	407.4	431.1	450.6	489.2	8.6%
Non-Germany	385.2	443.9	477.3	515.6	474.0	496.8	4.8%
Capital spending (excl. financial assets)	49.2	16.3	19.7	21.1	20.3	18.2	-10.3%
Depreciation/amortisation (excl. financial assets)	25.3	24.7	24.4	24.4	24.5	25.2	2.9%
EBITDA	58.0	97.1	99.4	107.7	106.8	110.8	3.7%
EBIT	32.7	72.4	75.0	83.2	82.3	85.6	4.0%
EBT	25.7	65.9	69.9	76.4	78.9	83.9	6.3%
EAT	16.5	50.4	48.5	51.8	55.6	58.2	4.7%
per ordinary share (€)	2.38	7.33	7.27	8.03	8.60	8.98	
per preference share (€)	2.44	7.39	7.33	8.09	8.66	9.04	
Cash flow from operating activities	47.4	80.0	78.9	87.5	113.2	93.0	-17.8%
per share (€)	6.91	11.67	11.89	13.62	17.62	14.47	
Total assets	465.5	526.4	493.1	527.8	568.6	620.1	9.1%
Equity	172.4	220.1	238.5	279.6	320.9	370.9	15.6%
in % of total assets	37.0	41.8	48.4	53.0	56.4	59.8	
Employees (year end)	3,866	3,913	4,056	4,155	4,145	4,249	2.5%
of which Germany	2,231	2,221	2,286	2,317	2,313	2,358	1.9%
of which non-Germany	1,635	1,692	1,770	1,838	1,832	1,891	3.2%

Sto AG	2005	2006	2007	2008	2009	2010	Changes in % 10/09
Sales revenues	408.7	470.1	471.5	499.9	508.7	540.5	6.3%
Export ratio (%)	20.1	19.6	20.9	20.6	18.2	16.7	
Capital spending							
in property, plant and equipment	7.5	7.3	6.3	7.7	6.4	9.2	43.8%
in financial assets	3.4	0.5	1.2	1.1	1.0	1.4	40.0%
Depreciation/amortisation	16.2	15.0	14.5	13.1	12.7	12.7	0.0%
Earnings on ordinary activities	-19.7	41.8	48.1	63.4	80.8	72.1	-10.8%
Net profit for the year	-21.8	37.6	37.2	49.3	65.6	51.1	-22.1%
Cash flow from operating activities	22.9	43.9	48.6	61.2	86.9	84.8	-2.4%
Dividend/bonus							
per ordinary share (€)	0.25	0.25/0.84	0.25/0.84	0.25/2.06	0.25/2.06	0.25/3.06	
per preference share (€)	0.31	0.31/0.84	0.31/0.84	0.31/2.06	0.31/2.06	0.31/3.06	
Total assets	324.0	374.9	356.1	398.9	447.0	458.0	2.5%
Equity	113.9	149.6	179.2	221.4	272.0	285.5	5.0%
in % of total assets	35.2	39.9	50.3	55.5	60.9	62.3	
Employees (year end)	1,918	1,897	1,946	1,960	1,947	1,997	2.6%

(Figures in million EUR)

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

Sto AG | 2010 Annual Report

Foreword	2	Sto share	40
Report of the Supervisory Board	4	Sustainability and Corporate Social Responsibility	44
Corporate Governance Report	8	Consolidated annual financial statements of the Sto Group (IFRS)	51
Management Report for the Sto Group (IFRS)	12	Income statement	52
The 2010 financial year at a glance	12	Statement of recognised income and expenses	53
Business and general conditions	13	Balance sheet	54
Earnings, finance and asset situation of the Sto Group	18	Statement of changes in equity	56
Sto segment reporting	23	Cash flow statement	58
Sto – Employees	25	Notes	59
Sto – Research and development	28	Audit certificate	126
Sto – Production, procurement and the environment	29	Responsibility statement by the legal representatives	127
Events after the end of the financial year	31	Calendar of events	128
Risk report	31		
Forecast and opportunities report	36		



Picture caption for title page:

The title page of the 2010 Annual Report shows how black Stolit and silicon carbide crystals make the facade of the German Mining Museum in Bochum sparkle like freshly mined coal. The jury of ECOLA 2010/2011 also found this idea and its implementation quite compelling. The project carried out by Benthem Crouwel Architekten, Aachen, won first prize in the category of "New builds".

Foreword



Jochen Stotmeister,
Chairman of the Executive Board

Dear Shareholders,

Sto AG can look back on a successful financial year. Consolidated turnover was up by 6.6% in 2010, to reach EUR 986.0 million, coming close to the “magic” billion barrier. In gross terms, i.e. before discounts, we already exceeded this limit. Consolidated earnings before interest and taxes (EBIT) improved by 4.0%, to reach EUR 85.6 million, and net profit for the year increased by 4.7%, reaching EUR 58.2 million. On this solid basis, at the Annual General Meeting scheduled to be held on 21 June 2011 the Executive Board and the Supervisory Board will propose that a dividend of EUR 0.31 be paid per preference share and EUR 0.25 per ordinary share as well as a bonus of EUR 3.06 on each.

Our results for 2010 exceeded our forecasts made at the beginning of the year. The main reason for this was the extraordinarily robust demand for facade insulation systems in German-speaking countries as well as in France. The level of dynamism registered there couldn't have been predicted, especially since in most countries the construction sector as a whole failed to show anything like the positive devel-

opment experienced by this special segment. Being one of the leading companies in the market for facade insulation products, Sto benefited from this special economic cycle. Thanks to the gratifying growth recorded in our core business, we managed to more than offset the weather-related shortfalls at the beginning of the year and the turnover declines in countries still affected by the financial crisis. In addition, we more than compensated for the substantial cost increases for commodities and human resources thanks to the higher volume of business generated.

The course of fiscal 2010 also illustrates the immense forecast uncertainties and the somewhat adverse general conditions facing not only Sto but the business community as a whole. Against this backdrop, our Company's good performance should be valued all the more. One of the factors that contributed most to our success – alongside appropriate action taken in specific situations – was Sto's good strategic positioning. It is the result of corporate policy based on traditional, long-term orientation. We integrated social responsibility and sustainability into our mission statement, “Building with conscience”, back in the late 1980s. In 2009, we built on this framework of values to clearly convey the way Sto has positioned itself in the socio-economic environment. This provided the rejuvenated management team of the Sto Group with a frame of reference for the development of the Company from pacesetter for the environmentally compatible and socially minded design of living space to technology leader in the sustainable design of living spaces tailored to human needs. We will continue to work toward our new goal in the years to come.

An important element in the process is the implementation of the “Future Plus” project we initiated. This comprises operational and strategic concepts with which we plan to prepare Sto AG for the challenges of the forthcoming years. Amongst other things,

these include measures for the successful organisation of the ongoing generation change. Part of this is the resumed appointment, prepared in 2010, to fill the Marketing and Sales function of the Executive Board, for which Mr Rainer Hüttenberger has been responsible since April 2011. At second-tier management level, key positions were assumed by qualified successors in a seamless transition.

We plan to follow up our long-term corporate strategy in parallel with "Future Plus". The core elements remain unchanged: continued internationalisation, reinforcing Group expertise, maintaining R&D activities at a high level and gradually extending two-stage sales operations. Furthermore, we plan to integrate the topic of sustainability even more strongly into our corporate processes. We also affirmed this commitment by joining the UN "Global Compact" initiative. We support, without reservation, the ten principles contained in the initiative addressing human and labour rights, environmental protection and measures against corruption; and we undertake to promote them within the scope of our responsibility. The progress report, which is to be compiled annually in accordance with the regulations of the "Global Compact", forms an integral part of this Annual Report (see pages 44 to 50).

The direction for the future has been set. We are convinced of our ability to maintain our course for sustainable and earnings-oriented growth over the coming years. Thanks to our extraordinarily sound financial position, we should be able to overcome short-term cyclical lows. For the current financial year of 2011, we expect the Sto Group to record moderate growth in sales of around 3%, to approximately EUR 1,015 million. As far as our operating result (EBIT) is concerned, we would not expect to match the level of 2010 since the negative impact on earnings from rising procurement and personnel costs is likely to outweigh the positive effects of the increased

business volume. Moreover, pressure on prices is set to become stronger still.

Irrespective of any changes in underlying conditions, the Sto workforce is a constant that our Company can continue to rely on. The exemplary commitment and comprehensive know-how of our employees contributes substantially to the success of Sto. On behalf of the Executive Board, I would like to thank all our employees and executive staff for their outstanding service and dedication during the last financial year.

Sincerely,



Jochen Stotmeister

Chairman of the Executive Board

Report of the Supervisory Board



Members of the Supervisory Board

Fritz Stotmeister, Öhningen | Honorary Chairman

Dr. Max-Burkhard Zwosta, Wittnau, Chartered Accountant and Tax Consultant | Chairman (pictured)

Helmut Göbeke-Teichert,* Marbach, Trade Union Secretary IG BCE | Deputy Chairman

Helmut Hilzinger, Willstätt, Managing Shareholder of Hilzinger GmbH

Mag. Dr. Heimo Scheuch, Vienna/Austria, Chairman of the Executive Board of Wienerberger AG

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

Prof. Dr.-Ing. Klaus Sedlbauer, Stuttgart, Director of Fraunhofer Institute

Charles Stettler, Stäfa/Switzerland, Member of the Directorate-General of Zürcher Kantonalbank

Holger Michel,* Burgdorf, Trade Union Secretary IG BCE

Melitta Menstell-Cooper,* Stühlingen, Chairperson of the Group Employee Representative Council and Chairperson of the Weizen Employee Representative Council at Sto AG, until 31 May 2010

Erhard Röhl,* Wiesbaden, Technical Coordinator at Sto AG, until 28 February 2011

Werner Trunz,* Donaueschingen, Head of Organisation and IT of the Sto Group, until 31 December 2010

Klaus Eigenstetter,* Bonndorf, Personnel Officer at Sto AG, until 28 February 2011

Barbara Meister,* Blumberg, Deputy Chairperson of the Group Employee Representative Council and Chairperson of the Weizen Employee Representative Council at Sto AG, from 1 June 2010

Jan Nissen,* Head of Materials Management within the Sto Group, from 1 January 2011

Lothar Hinz,* Reutlingen, Chairman of the Group Employee Representative Council and Chairman of the Employee Representative Council for the Baden-Württemberg sales region of Sto AG, from 1 March 2011

Wolfgang Dell,* Hattersheim, Plant and Equipment Maintenance, from 1 March 2011

* Employee representatives

Dear Shareholders,

Sto AG continued its growth in 2010 even though the performance in the construction sector overall was somewhat subdued. Major factors in this success story included our favourable strategic positioning for facade insulation systems and our industry-leading technological know-how. Whether any strategy will bear fruit depends not least on having a competent and dedicated workforce, and this is something Sto is also able to rely on fully and completely. The Supervisory Board wishes to express its gratitude to all employees and executive staff for the exemplary dedication that they have shown once again.

Work of the Supervisory Board

The Supervisory Board of Sto AG carried out the tasks assigned to it by statute law and the articles of association with immense dedication again in 2010. The work of the Supervisory Board benefited from the highly efficient structures we introduced a few years ago in line with the recommendations of the German Corporate Governance Code. In particular, the specialised committees that deal with complex factual issues outside the actual Supervisory Board meetings and process these on behalf of the full Board have emerged as a substantial improvement. When appointing committee members we are able to draw on the vast knowledge of the members of the Supervisory Board, who are all proven experts in their respective fields.

The Supervisory Board again dealt at length and intensively with the Sto Group's situation in 2010, continually assisted the Executive Board in an advisory capacity and monitored the Company's management. The Executive Board briefed the Supervisory Board on a regular, timely and comprehensive basis on corporate planning, on operational business trends, on the Group's situation including the risk position and risk management, and on compliance at Sto. Departures of business trends from defined plans and targets were

explained to us in detail, and the company's continued strategic development and orientation were coordinated with us. All major issues affecting the development of the company were discussed openly and extensively during Supervisory Board meetings.

The required information was provided to the Supervisory Board mainly in the form of comprehensive, written monthly reports. For business transactions requiring the approval of the Supervisory Board, the Executive Board made available the documentation specific to the issues at hand, which provided the basis for detailed discussion and the subsequent decision-making process. During all decision-making processes, the Supervisory Board and the Executive Board observed the principles of corporate governance at all times.

The Chairman of the Supervisory Board was also in regular contact with the members of the Executive Board outside the official meetings of the Supervisory Board. Amongst other things, he attended several strategy and other meetings of the Executive Board. Moreover, numerous personal talks took place and telephone calls were made, focussing, above all, on the strategy, business development and risk management of the Sto Group.

Key issues dealt with by the Supervisory Board

During fiscal 2010, the Supervisory Board held four regular meetings, on 21 April, 28 July, 7 October and 8 December. Amongst the topics discussed on a regular basis as part of these meetings were the current business situation, the effectiveness of the risk management and internal control systems, along with strategic issues. The Board was quorate at all times; no Supervisory Board member missed more than half of the meetings held.

At the first meeting of the year, held on 21 April 2010, the Supervisory Board dealt with the audit and confirmation of the annual

financial statements for fiscal 2009 of Sto AG, and the audit and approval of the consolidated annual financial statements of the Sto Group, in addition to the regular agenda items. Beyond that, we dealt at length with the risk report, which was briefly explained and declared to be complete by the auditor. Afterwards the Executive Board presented the budget plan for fiscal 2010, which was approved by the Supervisory Board without reservations. In addition, we discussed the re-organisation of the activities in Spain and the requirements arising from the new legislation governing the appropriateness of remuneration paid to the Executive Board. To evaluate the situation at Sto, we commissioned an external assessor, who concluded that the remuneration structure at Sto was appropriate.

On 28 July, we comprehensively discussed the development of the revenue, finance and asset situation of the Sto Group in the first half of 2010. The Executive Board then gave a presentation on the Group's current status and on the measures planned in connection with the "Future Plus" project, which sets the strategic framework for the continued development of the Group in coming years.

A key topic discussed at the meeting on 7 October was the plan to detach the production of innovative insulation materials, launched successfully in 2010, from StoVerotec GmbH in organisational terms and make it into its own company. This step is intended to boost development opportunities in the future and increase the level of transparency.

At the meeting on 8 December, a project designed to optimise the financial structure of the Sto Group was discussed. Amongst other things, the project provides for the bundling and centralised control of the financing activities for the entire Group of companies. Following a detailed and lengthy discussion, the Supervisory Board unanimously approved the initial set of measures for the implementation of the project. In addition, the Board also dealt with

the changed requirements of the German Corporate Governance Code and reaffirmed the importance of responsible corporate governance. The objectives of the Code are supported by the Board without any reservations. Deviations from the recommendations contained in the Code arising from the specific requirements of an SME have been defined in the Declaration of Conformity pursuant to Section 161 of the German Companies Act (AktG). This document is permanently available on the Sto Internet web site at www.sto.de.

Work of the committees

The Sto Supervisory Board set up the following committees: the Finance Committee uses monthly figures in a regular and detailed analysis of emerging trends in key financials, particularly sales revenue and earnings. Capital investment projects are also pre-audited. The Finance Committee met five times in 2010.

The Audit Committee meeting was held on 20 April 2010. During this meeting, the annual financial statements for Sto AG and the Sto Group for fiscal 2009 were discussed with representatives of the auditor and subjected to a preliminary review.

The Personnel Committee dealt with contractual matters relevant to the Executive Board. The Committee met three times in 2010.

It was not necessary to convene the Arbitration Committee pursuant to Section 27, par. 3 of Germany's Co-Determination Act (MitbestG).

Audit of the 2010 annual financial statements of the Sto Group and Sto AG

At the Annual General Meeting of 15 June 2010, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, were appointed auditors for fiscal 2010.

Ernst & Young GmbH assured the Supervisory Board in writing that there were no circumstances that could impair their independence as auditors of the annual financial statements. We

subsequently commissioned Ernst & Young GmbH to audit the annual financial statements of Sto AG and the Sto Group, the management reports and the dependent company report of the Executive Board pursuant to Section 312 of the German Companies Act (AktG).

Ernst & Young GmbH audited the annual financial statements and the management report of Sto AG, prepared by the Executive Board based on the accounting regulations of the HGB (German Commercial Code); the consolidated annual financial statements and the management report of the Sto Group, prepared on the basis of International Accounting Standards; and the dependent company report of the Executive Board in accordance with Section 312 of the German Companies Act (AktG); and issued each of these with an unqualified audit certificate. The management reports provide an accurate depiction of the business and financial situation of Sto AG and of the Sto Group. The opportunities and risks of future development are described accurately. The audit by Ernst & Young GmbH was performed pursuant to Section 317 of the German Commercial Code [HGB], in accordance with the generally accepted auditing principles defined by the German Institute of Chartered Accountants [IDW].

In the course of the audit, the auditor also examined the establishment of a functional early risk detection system and the accounting-related internal control system and judged both to be appropriate.

The annual financial statements of Sto AG and the Sto Group, the management reports, the dependent company report of the Executive Board and the audit reports prepared by Ernst & Young GmbH were distributed to all the members of the Supervisory Board in due course and discussed in detail in the presence of the auditors at the financial meeting of the Supervisory Board on 21 April 2011. On the basis of our own examination of the annual financial statements, the management reports and the dependent company report of Sto AG, we approve the audit report and raise no

objections to it. The auditors from Ernst & Young GmbH issued the dependent company report with the following audit certificate: "Following our audit, which we carried out in conformity with professional standards, and subsequent assessment, we confirm that the factual information in the report is correct." The Supervisory Board approved the annual financial statements prepared by the Executive Board. The financial statements of Sto AG have thus been confirmed.

We agreed to the proposal by the Executive Board to table a motion at the Annual General Meeting to pay out a higher dividend. Accordingly, subject to approval at the Annual General Meeting, the shareholders will be paid an unchanged dividend of EUR 0.31 per preference share and EUR 0.25 per ordinary share, plus a bonus per preference and ordinary share that will be raised from EUR 2.06 to EUR 3.06.

Personnel-related matters

At the end of August 2010, CFO Hans-Dieter Schumacher left the organisation. In light of their contrasting views in relation to the future orientation of Sto AG, the Supervisory Board and Mr. Schumacher agreed to part company. We would like to expressly thank him for his successful collaboration with the Company over the past years. The Supervisory Board appointed Mr. Rolf Wöhrle as his successor. Mr. Wöhrle commenced work in his new position effective 1 September 2010.

We wish Mr. Wöhrle every success in discharging his demanding tasks – and the same applies to all employees of Sto AG as we will face up to fresh challenges again in 2011.

Stühlingen, April 2011
The Supervisory Board

Dr. Max-Burkhard Zwosta
Chairman

Corporate Governance Report

Corporate Governance at Sto

The Executive Board and the Supervisory Board of Sto AG are committed to responsible and transparent corporate governance with a long-term orientation. Adherence to legal and ethical standards, a sound financial policy and a strategy for sustainability have all been integral to Sto's corporate philosophy ever since the company's inception. Moreover, meticulous compliance with statutory rules and regulations, the provisions contained in the Company's articles of association as well as adherence to the rules of procedure for the Executive Board and the Supervisory Board and to the German Corporate Governance Code (hereinafter referred to as "Code") are a matter of course for us. Below is our report on corporate governance at Sto in accordance with No. 3.10 of the Code. This report forms part of the statement on corporate governance that can be found on Sto's web site under www.sto.de in the section on "Investor Relations".

Sto implements most of the recommendations made in the Code. Departures from the Code occur only in relation to matters that conflict with the special nature of small to medium-sized, family-run companies. In these instances, we rely on suitably adapted provisions for guidance. Departures from the recommendations of the Code in the version of 26 May 2010 and the reasons for doing so are explained in the declaration of compliance in accordance with Section 161 of the German Companies Act. The current version is available for download from the Internet. The same applies to legacy statements.

Shareholders and the Annual General Meeting

At the end of 2010, Sto AG's share capital amounted to EUR 17.556 million. The share capital was divided up into 4.32 million registered common shares and 2.538 million preference bearer shares. Each ordinary share

carries the right to one vote at the Annual General Meeting. Preference shares do not have voting rights but take priority for the purpose of profit distribution and are entitled to a higher dividend. There are no shares with multiple or preferential voting rights.

Sto shareholders exercise their rights in accordance with the relevant statutory provisions before or during the Annual General Meeting. The ordinary general meeting is held once each year. The Executive Board of Sto AG ensures timely dispatch of all reports and records required by legislation for the Annual General Meeting, including the agenda. These documents are published simultaneously on our website.

At the Annual General Meeting, the Executive Board presents the annual financial statements of the previous financial year and comments on key events. Each shareholder is entitled to attend the Annual General Meeting, to rise to speak at the meeting in relation to items on the agenda, and to ask questions and to propose motions on specific issues.

Management and control structure

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

Sto has a **two-tiered governance and control structure**, which consists of a Board of three Directors – four as of April 2011 – and a 12-member Supervisory Board. Accordingly, the management of the Company and the process of monitoring it are strictly separated. Both

bodies observe the rules of proper corporate governance at all times. The Executive Board and the Supervisory Board cooperate closely for the benefit of the company.

The **Executive Board** of Sto AG, whose current members are listed on page 123, primarily takes care of managing the Company with the objective of creating sustained added value; it is responsible for the Company's strategic orientation. The Executive Board coordinates its strategy with the Supervisory Board. In addition, the Executive Board makes any arrangements necessary to ensure compliance with statutory rules and regulations and internal corporate guidelines within the Sto Group. The Board's functions also include the preparation of the annual financial statements for Sto AG and for the Sto Group, and the establishment and development of the risk management system. Detailed information about risk management is provided on pages 31 to 36 of this Annual Report.

The members of the Executive Board are committed to working for the benefit of the Company. For details of the remuneration of the members of the Executive Board, please refer to pages 15 and 122 of this Annual Report, and to the declaration of conformity in accordance with Section 161 of the German Companies Act.

Sto's **Supervisory Board** is composed of representatives of the shareholders and representatives of the workforce in equal numbers, in accordance with the German Co-Determination Act. The current members are listed on page 4 of the Supervisory Board report, as well as on pages 123 and 125.

The key tasks of the Supervisory Board are to monitor and advise the Executive Board. For any decisions that are of fundamental importance to Sto AG, the Supervisory Board becomes involved in the decision-making process from the outset. It also defines the obligations for the Executive Board to notify and report to

the Supervisory Board. At Sto, the Supervisory Board is briefed by the Executive Board on a regular, timely and comprehensive basis about all relevant issues relating to planning, business development, the risk situation and risk management. Any departures in performance of the business from defined plans are discussed. On the basis of the findings of the auditor, the Supervisory Board carries out an inspection of its own of the annual financial statements of the Sto Group and Sto AG. 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 coordinates his or her activities with the other members of the Supervisory Board.

In determining the composition of the Supervisory Board, we take care to ensure that the necessary expertise, skills and professional experience required to properly discharge the Board's responsibilities are represented. All members of the Sto Supervisory Board are proven experts in their respective fields. We also endorse the principle of diversity, as stipulated by the Code. The Supervisory Board and the Executive Board assess qualified applications for any new appointments in an impartial manner.

The body's various duties are coordinated by the Chairman of the Supervisory Board, who also maintains close contact with the Executive Board for the purpose of regularly deliberating on Sto's business strategy, business performance and risk management. For details of the remuneration of the members of the Supervisory Board, please refer to pages 15 and 122 of this Annual Report, and to the declaration of conformity in accordance with Section 161 of the German Companies Act.

The Supervisory Board regularly investigates ways of enhancing its own efficiency. One way to improve efficiency is through appropriately qualified committees – which is why Sto estab-

lished Finance, Personnel and Audit Committees. The need for a Nomination Committee has been dispensed with for the time being since the present members of the Supervisory Board were elected for a term of five years at the Annual General Meeting of 2007 and no immediate re-election is scheduled. The Supervisory Board will set up a Nomination Committee as soon as this proves necessary.

In the periods leading up to the Supervisory Board meetings, these committees generally deal with complex issues and prepare the findings in appropriate form for the full Supervisory Board meetings. The Chairperson of the relevant committee continually provides the Supervisory Board with reports on the committee's work.

Transparency

To ensure a high degree of transparency, Sto AG provides shareholders, financial analysts, the media and the general public regularly and promptly with information about the business situation and key events within the company. To this end, we use numerous instruments such as the annual and half-yearly financial reports as well as interim announcements within the first and second half-year. In addition, current topics are dealt with in press releases.

Annual and half-yearly reports as well as interim announcements are lodged with the Companies Register and the electronic German federal government gazette ("Bundesanzeiger") on the day of publication. These documents – as well as any current press releases – are simultaneously posted on the Internet at www.sto.de, in the "Investor Relations" section. The use of these various communication channels ensures that all target groups have access to this information at the same time. As soon as any insider information directly affecting Sto emerges, we immediately report such information in accordance with the relevant legal provisions of Section 15 of the

German Securities Trading Act, i.e. even outside our regular reporting cycle.

All key dates for publications and functions are listed in the calendar of financial events, which is announced well in advance. The current calendar of financial events, valid as of the end of March 2011, is reproduced in this Annual Report. The current version of the calendar can always be viewed on the Internet.

According to Section 15a of the Securities Trading Act (WpHG), members of management and supervisory boards of publicly listed companies have a duty of notification. This means that all executive and non-executive directors at Sto AG must disclose any private transactions involving Sto preference shares (directors' dealings) to the Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and to Sto AG within five working days. No notifications of Directors' Dealings occurred in fiscal 2010.

Accounting and auditing of financial statements

The Sto Group's consolidated financial statements are based on the International Financial Reporting Standards (IFRS). Detailed information on these Standards is set out in the notes to this Annual Report. The annual financial statements of the parent company Sto AG are prepared in accordance with the German Commercial Code (HGB). Both the consolidated financial statements and those of Sto AG 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 from the outset. The auditing company appointed by Sto has issued an appropriate statement in this regard. The auditor responsible takes part in the

deliberations of the Supervisory Board concerning the annual financial statements and the consolidated financial statements and reports on the key findings of the audit during these accounting meetings.

Management Report for the Sto Group (IFRS)



Sto AG's Executive Board (from the left): Jochen Stotmeister, Rolf Wöhrle, Rainer Hüttenberger and Gerd Stotmeister.

Members of the Executive Board

Jochen Stotmeister, Grafenhausen | Chairman of the Executive Board, responsible for Strategy and Corporate Development, Marketing and Distribution, Central Services and Personnel

Gerd Stotmeister, Allensbach | Deputy Chairman of the Executive Board, CTO, responsible for Process Engineering, Innovation, Materials Management and Logistics

Rolf Wöhrle, Villingen-Schwenningen | CFO, responsible for Finance, Controlling, Organisation and Information Technology (as of 1 September 2010)

Hans-Dieter Schumacher, Tuttlingen | CFO, responsible for Finance, Controlling, Organisation and Information Technology (until 31 August 2010)

Rainer Hüttenberger, Maienfeld/Switzerland | Director of Marketing and Distribution (as of 1 April 2011)

The 2010 financial year at a glance

- Consolidated sales up by 6.6% to EUR 986.0 million
- Domestic business strong, exports also up on previous year
- Consolidated operating result (EBIT) improves by 4.0%, to EUR 85.6 million
- Annual net profit of EUR 58.2 million up 4.7% on previous year
- Dividend remains unchanged, bonus rises from EUR 2.06 to EUR 3.06 per share
- Cash flow from current operations totals EUR 93.0 million
- Group workforce increased by 104 to 4,249
- Outlook for 2011: moderate increase in sales and decline in operating result (EBIT) expected

Business and general conditions

Business activity and Group structure

Sto – specialising in facades

With consolidated sales revenues of just under EUR 1 billion and a workforce of over 4.200 employees, the Sto Group is a highly innovative world leader in the manufacture of products and systems for building facades. Its core business focuses first and foremost on **external wall insulation systems** (EWIS), a segment in which the Group occupies a leading position. We also offer rainscreen cladding systems. These two product groups are pooled in the **Facade Systems** division, which accounted for 52.1% of consolidated revenues in the 2010 financial year. The **Facade Coatings** division, which includes render and coating systems for exterior applications, made up 21.8% of last year's business volume. The **Interiors** division comprises plaster and coating systems optimised for home and office interiors, decorative coatings and acoustic systems to control the sound characteristics of rooms. Additional items belonging to our company's product range include floor coatings and concrete repair products.

The Sto brand for professionals

Sto has positioned itself in the market as a **supplier of quality products, systems and complementary services** incorporating a high level of technological expertise. The range is therefore primarily targeted at professional users such as tradespeople, architects and planning offices. These target groups are served by means of a local **direct distribution system**, which in Germany – still the most important individual market – covers virtually the entire country. We are currently expanding our second distribution channel through the wholesale and retail sector for selected products which are clearly at a remove from our core area of business.



A further strategic focus is on the systematic expansion of the range of services and auxiliary products complementing Sto's core business – in the form of design services or innovative insulation and coating materials, for example. This **comprehensive expertise** makes the Sto Group a single-source supplier for all products relating to facades and offers building owners the ultimate in individual design scope. Our individual products are furthermore perfectly coordinated, ensuring maximum efficiency during the application process. Rigorous implementation of our business model has established



Town houses in Braunschweig with a ventilated rainscreen cladding system (StoVerotec Stone Massive with Sto-Sandstone Neubrunn)

Sto as one of the best-known product brands in the industry.

Additional success factors: internationalisation and innovative drive

Our timely and systematic **development of foreign markets** has been crucial to the continual growth of our company. Sto now operates in 27 countries, through a network of 31 wholly-owned subsidiaries and manufacturing plants. In addition, we are in supplier relationships with distribution partners in many other countries. Business is currently focused in particular on Europe and the USA. The present emphasis is on the further development of the Asian markets – in particular China.

Sto's **innovative drive** is another factor providing a competitive edge. The development and successful marketing of diverse groundbreaking innovations has earned our company an international reputation as a pacesetter in our industry – a standing which is confirmed by numerous awards. To consolidate our leading position while also developing new growth markets, research and development are considered core strategic activities at Sto. Further information is to be found in the section "Research and development".

Applications in both renovation and construction work

Sto products are employed both in the construction of new buildings and in building renovation work. The comparative weighting of these two market segments in individual regions depends on the characteristics specific to each country. In Eastern Europe and Asia, for example, the construction of new buildings is of much greater importance than renovation work, due to the prevailing pent-up demand. In the mature economies of the western world, the onus is rather on renovation business. According to the EUROCONSTRUCT research association, this segment accounts, on average,

for 55% of the total business volume in the construction industry, with the construction of new buildings making up the remaining 45%.

Generally speaking, there is a strong correlation between the construction of new buildings and economic cycles. Hence, sales fluctuate in line with prevailing economic conditions. In contrast, demand in the renovation and restoration segment has been relatively steady in recent decades, regardless of economic cycles. Renovation business generates the majority of business within the Sto Group as a whole.

Clearly defined corporate structure

The parent company of the Group is Sto AG, headquartered in Stühlingen. In addition to functioning as the Group's holding company, it is also responsible for German domestic business involving paints, renders and insulation systems. StoCretec GmbH, located in Kriftel, is responsible for floor coatings and concrete repair products, while StoVerotec GmbH, based in Lauingen, deals in decorative profiles, acoustic and rainscreen cladding systems. For reasons of transparency, the production of insulants was transferred from StoVerotec GmbH to the independent subsidiary Innolation GmbH, Lauingen, at the beginning of 2011. The company Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim, is the Group's specialist for lacquers and varnishes.

Foreign business is largely handled by national companies operating independently. A list of all subsidiaries of Sto AG is reproduced in the Notes to this annual report.

Business management and control system

In the 2010 financial year, Sto AG was managed by a three-man Executive Board. As of April 2011, the Board has four members. The Executive Board is responsible for evolving and implementing the corporate strategy. Sto AG, the subsidiaries and the other corporate units are controlled and managed by

reference to strategic and operational targets and key financial figures. These form part of a **standardised reporting system** which provides for the continuous recording, consolidation and analysis of standardised business figures throughout the Group. The key figures are also employed in the planning and controlling process. The key operating ratios employed by Sto are earnings before interest and taxes (EBIT), earnings before tax (EBT), cash flow from current operations and return on equity.

The reports compiled under this system are submitted directly to the Executive Board, which then forwards the relevant information to Sto's Supervisory Board. In addition to reporting, management consultations are conducted between the Executive Board and the executive staff of the subsidiaries on a regular basis. Our management and control system is designed to strengthen the decentralised entrepreneurial responsibility of the employees at local level while also boosting transparency within the Group.

In addition to internal ratios, we also monitor key external **early indicators** as a means of further improving planning, corporate management and risk management. At Sto, such indicators primarily comprise economic data and detailed industry information.

Fundamentals of the remuneration system

The remuneration for the Executive Board consists of a fixed and a variable component, with a marked bias on the variable component. The level of the variable salary component is linked to the earnings situation of the Sto Group, whereby a cap has been agreed in this context. No stock options are granted.

The members of the Supervisory Board are provided with fixed remuneration beyond compensation for costs incurred. The applicable rule is that the Chairman is entitled to four times and the Deputy Chairman 1.5 times the amount of the basic remuneration.

Strategy

The fundamental objective of Sto AG is to increase the value of the company along sustainable lines, according due regard to social and ecological criteria. To this end we intend to further improve our market position in the medium term and to continue our earnings-oriented growth strategy. Economic success also provides the essential basis which enables us to assume responsibility in social and environmental matters on a sustained basis. We also aim to remain a strong and reliable partner for our employees, suppliers and other stakeholders and for our shareholders.

In pursuit of our ambitious objectives, we follow a clear strategy which is continuously adapted to prevailing requirements.

The core elements remain:

- Continuation of internationalisation. We aim to further reduce our dependency on the German core market by systematically developing new regional markets and intensifying the cultivation of foreign markets in which we already operate.
- Further development of our second distribution channel. We aim to successively expand distribution through the wholesale and retail sector for products which are clearly at a remove from our core business. In this way we will be able to tap additional sales potential and further improve the utilisation levels of our production capacities.
- Strengthening the overall competence of the Sto Group. We aim to further broaden the spectrum of products and services offered by the Sto Group by way of a systematic approach. We thus intend to strengthen our position as the manufacturer offering the most comprehensive integrated product portfolio in the area of facades. The start-up of production operations for insulating materials represented an important step in this connection. In addition to increasing our independence, this move also enhanced

our consolidated know-how and opened up opportunities for innovative developments in an interesting growth market.

- Intensification of R&D activities. We also pursue ongoing efforts to improve our products in keeping with our aim to become the technology leader in the sustainable design of living space tailored to human needs. We enhance the benefits to users by optimising the properties of our products and the attendant application techniques. At the same time, we are also pushing ahead with the development of new products and innovations to strengthen our position. This reinforces our ties with existing customers and helps us to win new clientele.

Overview of business performance in 2010 and general statement by the Executive Board

Sto AG showed a successful course of development once again in the 2010 financial year. Consolidated revenues rose by 6.6% to EUR 986.0 million. Such growth exceeded our original expectations. The primary factor driving this growth was the good level of demand for facade insulation systems in particular in the German-speaking countries and France. This is where Sto, as a specialist in the area of facades, benefited from economic stimulus packages and measures by the governments to promote energy saving. The good course of business in these countries in particular enabled us to more than balance out the major setbacks resulting from the weather at the beginning of the year and the drops in sales in those countries which were still suffering from the after-effects of the financial crisis. Changes in exchange rates were an additional contributory factor to the increase in our business volume.

The marked rise in procurement and staff costs were more than offset by the larger business volume. As a result, the consolidated operating result (EBIT) rose by 4.0% to EUR

85.6 million, while the net profit for the year increased by 4.7% to EUR 58.2 million.

The financial situation of the Sto Group developed along positive lines once again in 2010. While cash flow from current operations was below the previous year's value, it nevertheless remained at a high level of EUR 93.0 million. Liquid funds at year end totalled EUR 85.0 million. After taking financial liabilities into account, net financial assets as at 31 December 2010 totalled EUR 40.8 million.

On the basis of the sound earnings, finance and asset situation, the Executive Board and the Supervisory Board will once again be proposing a dividend distribution of EUR 0.31 per preferential share and EUR 0.25 per ordinary share at the Annual General Meeting on 21 June 2011. This will be accompanied by an increase in the bonus per share from EUR 2.06 to EUR 3.06. This results in a dividend yield of 3.6%, based on the 2010 closing price, for the Sto preference share of EUR 94.66 and as much as 5.3% based on the opening price for 2010.

Economic conditions in 2010

Economic recovery takes effect

In the wake of the worst post-war economic crisis, the global economy revived more quickly than expected. Estimates by the International Monetary Fund (IMF) in January 2011 put global growth at 5%, compared to a minus of 0.6% in the previous year. Economic stimulus programmes, in some instances on a major scale, and the expansive monetary policy of the reserve banks contributed to the recovery.

Regionally seen, the worldwide improvement in 2010 was driven strongly by the economic dynamism of the developing and emerging countries, which achieved an unexpectedly fast economic recovery. China once again set the pace: according to official figures, its gross

domestic product grew by 10.3% in 2010. The recovery in the developed industrial nations was moderate by comparison. According to the IMF, gross domestic product in the USA rose by 2.8% last year, for example, while growth in the euro zone stood at 1.8%. Germany stood out in positive terms, the Federal Statistical Office reporting that the economy grew by 3.6%. This upturn was driven, above all, by domestic investments and exports.

Trends for the construction sector vary throughout the world

According to the "Germany Trade and Invest Gesellschaft für Außenwirtschaft und Standortmarketing mbH" (gtai), overcoming the economic and financial crisis is proving to be a very slow process for the construction industry in the **USA**. 2010 failed to witness a recovery for the US housebuilding sector, for example, because demand remained weak on account of the high level of indebtedness of private households and the continuing difficulties on the employment market. The downward trend also continued in the commercial construction sector: the construction volume for commercial and other buildings – excluding apartment buildings – is believed to have shrunk once again by around 16% last year.

Meanwhile, gtai reports that **China's** construction industry was still booming in 2010. The half-year figures published by the "National Bureau of Statistics" (NBS) last autumn indicate as much, reporting a 24.3% increase in the industry's gross output over this period. This growth was driven once again by the urbanisation process and the major pent-up demand for infrastructure construction. Market analysts assume that a very good trend is also to be expected for 2010 as a whole, although, in autumn, the government introduced measures to rein in the overheated property market.

In **Europe** the situation remained tense for the construction industry in many regions in 2010. According to information from the European research association EUROCONSTRUCT, the business volume in the construction sector shrank substantially once again, above all in Spain, Portugal, Denmark, Ireland and the Netherlands. Less severe drops were reported in France, Italy, Austria, Belgium, Norway and Hungary, for example. A number of regions showed positive trends last year, however. In particular, these included Germany, Poland, Sweden, Finland and Switzerland. Contrary to underlying fears, a slight increase in demand was also to be observed on the British market. On the basis of the EUROCONSTRUCT calculations, the European construction volume in 2010 was down 3.9% on the previous year, however. An analysis of the different segments shows that the construction of new buildings remained particularly weak, declining by 7.2%. In contrast, renovation business virtually returned to a stable footing, shrinking Europe-wide by just 1.0%.

The overall climate for the industry was more favourable in **Germany** compared to the restrained course of business in the rest of Europe, the business volume for the construction sector rising by 3.3%. This positive trend did not benefit all market participants by equal measure, however. High growth was enjoyed in 2010 first and foremost by the finishing trades and small building firms, which evidently profited most from the economic stimulus programmes. The industry's larger companies reported a rather more mixed course of business. At the beginning of 2011 the German Federal Building Association announced that the previous year proved particularly disappointing for public-sector construction, which closed the year with a drop of around 1.5% rather than the expected growth. Commercial building suffered losses to the tune of around 5%. The housebuilding sector fared better

than forecast, and is believed to have ended 2010 with growth of around 5%, following a number of very difficult years. According to the Federal Statistical Office, total sales for the main construction sector, which includes companies with a workforce of 20 and over, were down by 0.3% on the previous year, at EUR 83.1 billion. The number of orders received in the construction sector rose by 5.5%, however.

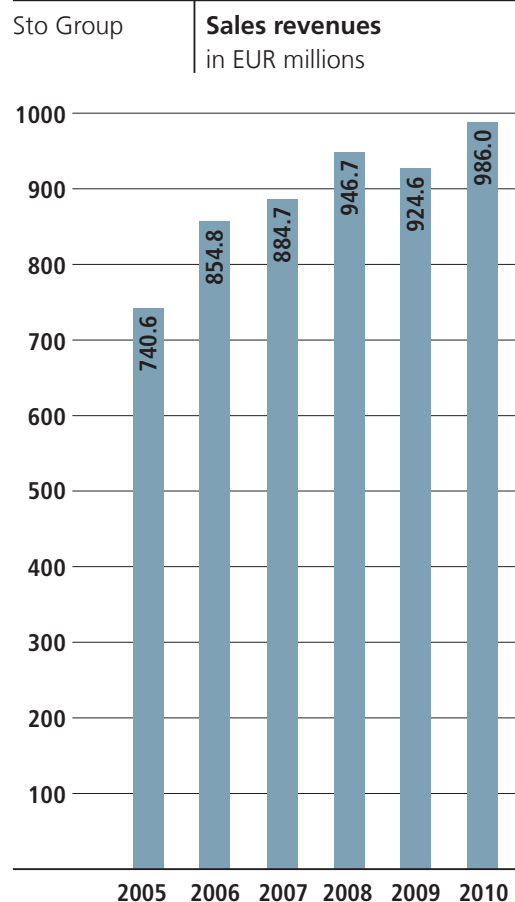
Earnings, finance and asset situation of the Sto Group

Sales and earnings situation

Sto AG's **consolidated revenues** rose by 6.6% in 2010, to EUR 986.0 million. This positive trend resulted primarily from the good demand for facade insulation systems in countries in which a high level of environmental awareness prevails and corresponding investments are subsidised for reasons of energy efficiency. Economic stimulus packages to check the effects of the financial and economic crisis were an additional contributory factor in numerous regions. Sto benefited from these underlying conditions in its capacity as a facades specialist. Strong sales were achieved above all in our core German market, with domestic sales up 8.6% to EUR 489.2 million.

Substantial growth was also realised in particular in our operations in France and Austria. Overall, this placed us in a position to more than balance out the setbacks suffered by other subsidiaries – first and foremost in eastern Europe and the USA. Overall, foreign sales rose by 4.8% to EUR 496.8 million. The share of international business in the total volume of consolidated sales decreased from 51.3% to 50.4%.

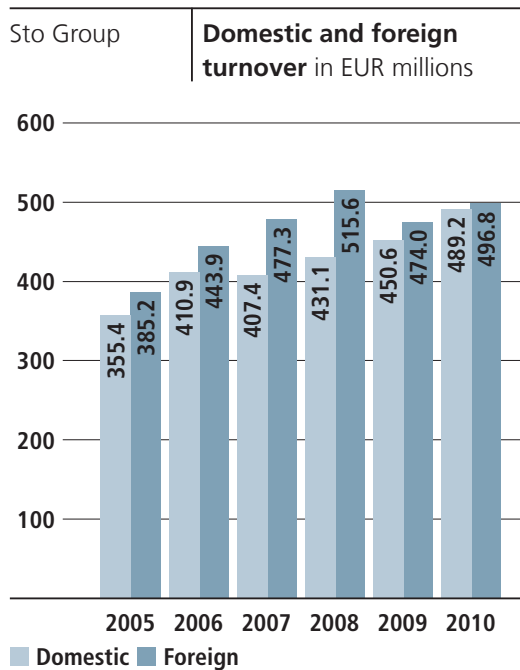
Changes in exchange rates contributed a total of EUR 17.9 million to the growth in sales in 2010. Positive currency translation effects occurred above all with the Swiss franc, the



Swedish crown and the US dollar. Excluding these effects, the consolidated business volume grew by 4.7%.

In July 2010 Sto AG acquired a 60% stake in a Chilean manufacturer and distributor of external wall insulation systems through its North American subsidiary. This company, which has since been renamed Industrial y Comercial Sto Chile Ltda., Santiago de Chile, provides us with a means of gradually opening up the South American market with local cost structures and exploiting existing contacts.

The **consolidated aggregate output**, which also includes changes to the inventory of finished goods and work in progress, increased by the same rate as sales, i.e. by 6.6%, to EUR 984.7 million.



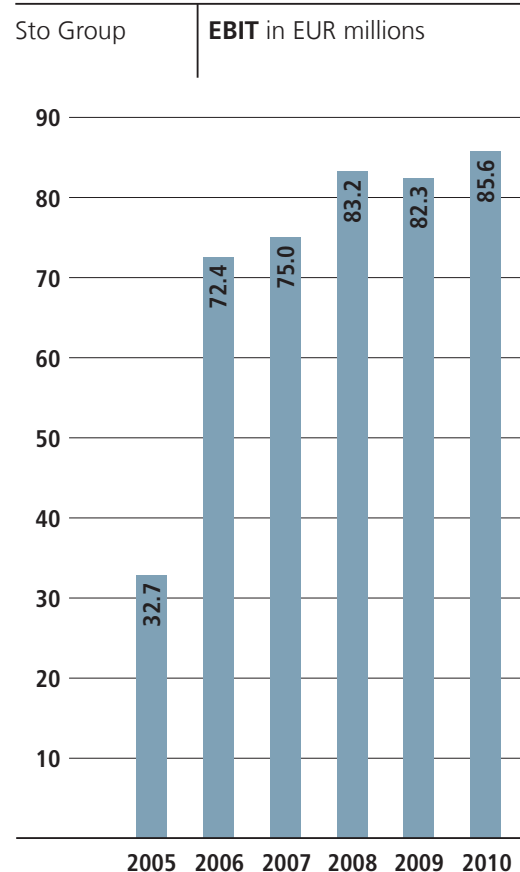
Price increases for raw materials and goods for resale, which took on drastic proportions in some instances, and which we were unable to offset through our active procurement management, led to a disproportionate increase in the **cost of materials** in relation to sales, rising by 7.0% to EUR 437.0 million. **Staff costs** also rose noticeably by 5.3%, to EUR 252.8 million. Contributory factors here were increases in costs in connection with collective pay agreements, higher expenditure resulting from company agreements and the larger workforce.

The balance of the items **other operating income** and **other operating expenses** stood at EUR -184.1 million as compared to -168.4 million the previous year. Influencing factors here included markedly higher freight costs and increased advertising expenses.

The growth in the business volume more than balanced out the substantial increase in operative costs. Consolidated earnings before interest, taxes and depreciation and amortisation **EBITDA** thus rose by 3.7% to EUR 110.8 million. As depreciation on property plant and

equipment and intangible fixed assets remained roughly stable at EUR 25.2 million (previous year: EUR 24.5 million), earnings before interest and taxes **EBIT** rose on a similar scale, by 4.0% to 85.6 million.

The **financial result** stood at EUR -1.7 million in 2010, compared to EUR -3.5 million in the previous year. The effects of reduced interest expenditure resulting from a lower level of financial debt combined with higher interest income were again apparent here. As a result of this improvement, consolidated earnings before tax **EBT** rose slightly more strongly than EBIT, by 6.3% to EUR 83.9 million. The tax rate rose in comparison to the previous year, from 29.5% to 30.7%. This increase essentially reflects the larger portion of profits attributable to countries in which comparatively high rates of income tax

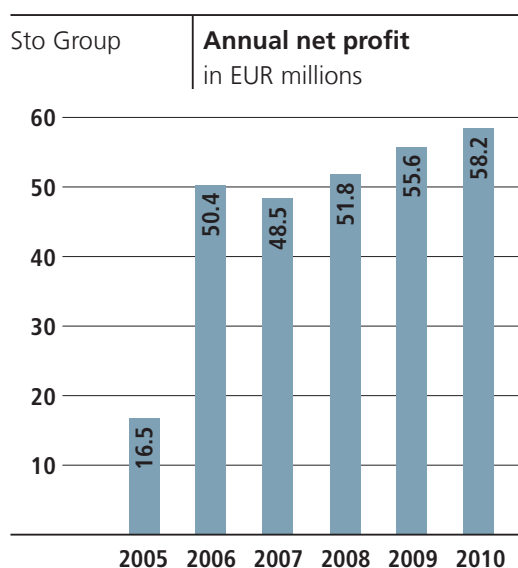


are payable. Overall, **consolidated net income rose** by 4.7% to EUR 58.2 million.

Net Group earnings correspond to earnings per preference share of EUR 9.04 (previous year: EUR 8.66), while earnings per ordinary share stood at EUR 8.98 (previous year: EUR 8.60). There was no difference between basic and diluted earnings per share.

Sto AG – Dividend

The parent company Sto AG reported **earnings from ordinary activities**, determined in accordance with the German Commercial Code, of EUR 72.1 million, as compared to



EUR 80.8 million in the previous year. This decline was attributable on the one hand to the strong increase in the cost of materials, which rose by 9.8% to EUR 286.1 million, thereby clearly outstripping the increase in sales, which rose by 6.3% to EUR 540.5 million. The increase in personnel expenditure was also substantial, rising by 6.0% to EUR 131.5 million. Income from equity interests stood at EUR 24.8 million, as opposed to EUR 31.3 million in the previous year. What is to be noted, however, is that the value for 2009 included

a one-off special dividend. The lower income from equity interests of EUR 3.9 million in the year under review was offset by an increase to EUR 6.2 million in income arising from profit transfer agreements.

Sto AG's net profit for the year fell by 22.1% to EUR 51.1 million. This more pronounced drop in comparison to the operating result arises first and foremost from balance sheet adjustment measures in accordance with the German Accounting Law Modernisation Act (BilMoG), which accounted for a sum total of EUR 6.3 million. Valuation adjustments in the area of post-employment benefit provisions made up the major portion of this sum, at EUR 5.8 million. As this adjustment process was not tax-effective, in addition to which the low-tax income from equity interests fell in relation to the overall result, the tax rate rose from 18.7% to 22.4%.

Despite the decline in Sto AG's overall result, the earnings situation in the Group as a whole remained very stable. The Executive Board and the Supervisory Board will thus be proposing an increase in the dividend distribution at the Annual General Meeting on 21 June 2011. This means that our shareholders will again receive a dividend of EUR 0.31 per preference share and EUR 0.25 per ordinary share. This will be accompanied by an increase in the bonus per share from EUR 2.06 to EUR 3.06.

Financial situation

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

In the area of financial management we also strive for a healthy balance between shareholders' equity and borrowed funds. This provides us with the long-term financial scope which we need in order to continue our sustainable and income-oriented growth strategy.

Current financial requirements are covered using a combination of operating cash flow, available liquidity and the use of credit lines. In addition to traditional bank financing we also employed leasing in 2010. At the cut-off date of 31 December 2010, lease payments from finance leases with falling due in future stood at a discounted total of EUR 4.8 million (previous year: EUR 5.5 million).

To minimise the effect of exchange rate fluctuations on consolidated earnings, foreign currency items are netted within the Group. For any amounts remaining after the netting, we enter into **currency hedging transactions**, if required.

For our liquidity management activities, we have implemented a **cash-pooling system** that covers almost all of our subsidiaries operating in the euro region. Within the scope of this system, cash surpluses and cash requirements are automatically netted within the Sto Group. This allows us to minimise the number of external banking transactions, and surpluses can be invested on the best available terms. In this way, the cash-pooling activities also contribute to the optimisation of our net interest income, in addition to ensuring liquidity.

Liquidity movements in 2010

The **cash flow from current operations** within the Sto Group stood at EUR 93.0 million in the 2010 financial year, following EUR 113.2 million in the previous year. This reduction was attributable in part to higher tax payments. In addition, the higher business volume and the strategic stockpiling in view of expected further price increases for raw materials led to a reduction in the funds available for release in connection

with our working capital management. The available funds totalled EUR 11.7 million, as compared to EUR 16.1 million in the previous year. In relation to consolidated revenues, we achieved a very sound cash flow margin of 9.4% in the period under review.

The **cash flow from investment activities** adjusted by inflows and outflows for financial investments stood at EUR -19.4 million (previous year: EUR -17.7 million). Outflows for investments in property, plant and equipment and intangible assets to the sum of EUR 22.0 million were offset primarily by interest payments received to a total of EUR 2.1 million.

In the course of our financial management efforts we undertook safe financial investments to a total of EUR 101.3 million on attractive terms last year. We also accrued EUR 34.3 million from transactions which matured in 2010.

Sto Group	Cash flow statement in TEUR	
	2010	2009
Cash flow		
from operating activities	93,026	113,236
from investment activities	-86,349	-43,025
from financing activities	-32,289	-33,642
Change in cash and cash equivalents from changes in exchange rates	3,912	317
Cash and cash equivalents at beginning of period	106,714	69,828
Change in cash and cash equivalents	-21,700	36,886
Cash and cash equivalents at end of year	85,014	106,714

These payments and the expenditure for investments in property, plant and equipment and intangible assets together result in a **cash flow from investment activities** of EUR -86.3 million (previous year: EUR -43.0 million).

The development of the **cash flow from financing activities** was characterised first

and foremost by outflows for the scheduled repayment of financial liabilities to the sum of EUR 14.3 million and the dividend distribution totalling EUR 14.7 million. In addition, interest payments totalled EUR 2.4 million. In total, financing activities led to an outflow of funds from the company to the tune of EUR -32.3 million in 2010 (previous year: EUR -33.6 million).

Taking into account the exchange rate-related changes to cash and cash equivalents of EUR 3.9 million (previous year: EUR 0.3 million), the sum total of all inflows and outflows as at the end of December led to a reduction of EUR 21.7 million in **cash and cash equivalents held**, to EUR 85.0 million. This sum once again clearly exceeded the borrowings of EUR 44.3 million on the balance sheet date (previous year: EUR 59.0 million).

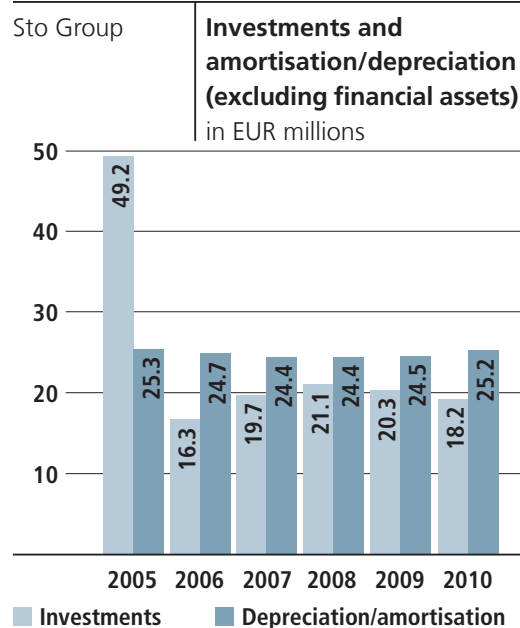
Investments

In 2010, Sto AG invested EUR 18.2 million (previous year: EUR 20.3 million) in property, plant and equipment and intangible assets. As in the previous year, we did not undertake any investments in financial assets.

Key focuses of investment last year included the "Retrofit" project, which focuses on bringing older production facilities of Sto AG into line with the latest technological standards by means of numerous individual measures. Substantial funds were also invested in the modernisation of handling and hoisting equipment and in the acquisition of additional licences for the SAP software system. Final payments were also due for the Lauingen plant in 2010 following commissioning of Sto's own insulants factory, in addition to which small-scale investments in plants and machinery were necessary.

Asset situation

Consolidated total assets as at the end of December were 9.1% up on the previous year, at EUR 620.1 million. On the assets side,



the balance sheet extension resulted primarily from an increase in the item "Current other receivables and financial assets" from EUR 50.6 million to EUR 120.7 million. This item includes financial investments to the sum of EUR 106.3 million. The increase in this item results from our systematic financial management, in the course of which we allocated the cash earned in 2010 to an increased extent in investments with terms of over three months.

As a result, cash and cash equivalents held on the balance sheet date were down on the previous year's total of EUR 106.7 million, but still represented a very sound basis at EUR 85.0 million.

Inventories were increased by 10.6% to EUR 63.7 million. On the basis of our strategic procurement policy we built up stockpiles in view of the continuing increases in the prices of raw materials. At the same time, we managed to reduce short-term trade receivables by 0.8% to EUR 99.6 million, despite the higher business volume. This is a direct consequence of our active working capital management.

Non-current assets fell by 1.0% to EUR 248.3 million. This drop was attributable first and foremost to the lower value of EUR 190.5 million for property, plant and equipment as compared to EUR 193.2 million in the previous year, as depreciation on property, plant and equipment exceeded the corresponding investments again in 2010.

The dominant feature on the **liabilities side** of the consolidated balance sheet was the increase in equity capital from EUR 320.9 million to EUR 370.9 million. As a result of the positive trend regarding the operating result, revenue reserves increased from EUR 248.6 million to EUR 297.9 million. The equity ratio improved once again, from 56.4% to 59.8%.

We continued to reduce our liabilities to banks in 2010, reducing the total by EUR 14.1 million. At year end 2010, long-term borrowings totalled EUR 20.3 million (previous year: EUR 32.7 million) and short-term borrowings stood at EUR 14.7 million (previous year: EUR 16.4 million).

Total borrowings at the end of December stood at EUR 44.3 million (previous year: EUR 59.0 million). EUR 27.9 million of this total was of a long-term nature and EUR 16.3

million related to short-term borrowings. After deducting total borrowings from the cash and cash equivalents totalling EUR 85.0 million, net financial assets stand at EUR 40.8 million.

Provisions for pensions were increased by EUR 3.1 million to EUR 39.4 million. Further information is to be found in the Notes under serial number 22 – “Pensions and similar liabilities”. Other short-term provisions increased by EUR 5.3 million to EUR 51.1 million.

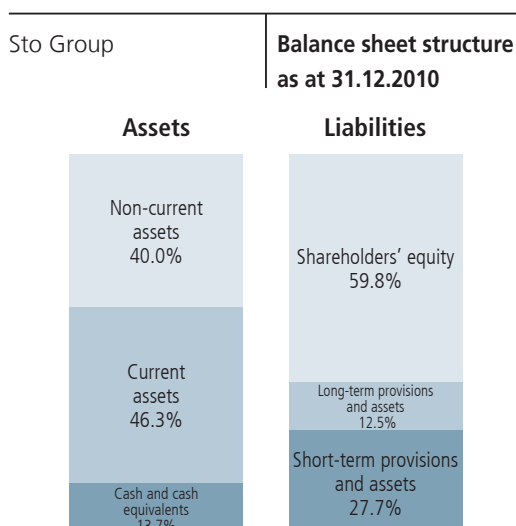
General statement on the earnings, finance and asset situation

The figures for the 2010 financial year underscore the fact that the earnings, finance and asset situation of the Sto Group is very sound. This provides a stable basis on which to continue the earnings-oriented growth strategy in the long term and a financial cushion for the effects of cyclical fluctuations in demand.

Sto segment reporting

Segment reporting by the Sto Group takes place primarily according to the geographic business units “Western Europe” and “Rest of the World”, whereby the “Rest of the World” segment is broken down in accordance with the internal reporting structure into the regions of Northern/Eastern Europe and Americas/Asia. The structure and content of the segment report correspond to the reports which are submitted on a regular basis to the internal decision-makers.

There is a further breakdown into Sto’s main product groups – Facade systems, Facade coatings, Interiors and other business units. The segment reporting observes the same valuation rules and principles as the consolidated financial statement.



Western Europe

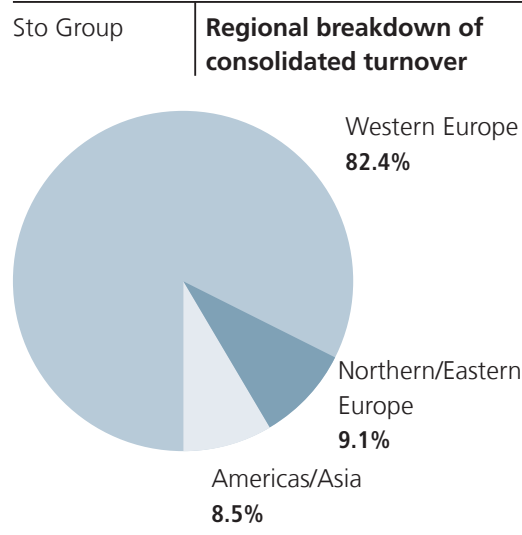
Sales in the Western Europe segment, which includes the core market of Germany, rose by 8.1% in 2010 to EUR 812.0 million. All foreign subsidiaries contributed to this growth with the exception of the United Kingdom and the Netherlands. The subsidiaries benefited above all from good facade system sales. The operating result for the segment (EBIT) improved from EUR 77.5 million to EUR 78.9 million. The workforce in Western Europe totalled 3,367 at the end of December – 61 employees, or 1.9%, less than on the corresponding date in the previous year.

Northern/Eastern Europe

Business was more difficult in 2010 in the countries of Northern and Eastern Europe, the majority of which were still suffering from the after-effects of the financial and economic crisis. While the drops in sales measured in local currency at our subsidiaries in Northern Europe were more than offset by upward revaluation in relation to the euro, the business volume of most of Sto's Eastern European subsidiaries declined. Overall, sales in the segment fell by 1.4% to EUR 90.0 million. As a consequence, EBIT also dropped from EUR 3.9 million to EUR 1.8 million. The size of the workforce remained virtually unchanged, at 451 as compared to 446 in the previous year.

Americas/Asia

The Americas/Asia segment saw a moderate increase in sales by 2.3% to EUR 84.0 million. This growth was driven by Sto's Asian companies, whose business volume increased by 17.4% overall to EUR 31.1 million. China accounted for EUR 24.6 million of this figure, as opposed to EUR 21.3 million in the previous year. On the downside, Sto Corp. suffered a further drop in sales from US\$ 77.6 million to US\$ 69.0 million in the face of the continuing poor state of the North American market. After currency translation, sales were down by 6.5%



on the previous year, at EUR 52.1 million. The operating result for the segment improved from EUR 0.9 million to EUR 5.1 million. The overall workforce was stepped up from 393 to 431. 18 of these additional employees resulted from the first-time consolidation of our Chilean company.

Performance of product groups

The breakdown of results according to product groups reveals the following picture: the high demand for facade systems is reflected in the 11.9% rise in sales in the corresponding segment to EUR 513.7 million. These systems thus accounted for 52.1% of the Group's total sales volume last year, as compared to 49.7% in 2009. Sales of facade coatings remained virtually unchanged at EUR 215.3 million (previous year: EUR 216.0 million), representing a share of 21.8% (previous year: 23.4%). Sales of interior products were up by 3.7%, at EUR 133.7 million. Sales in the other business units rose by 2.2% overall, to EUR 123.3 million.

Sto Group	Key figures acc. to segments in EUR millions and %									
	Western Europe		Other segments				Consolidation		Group	
			Northern/Eastern Europe		Americas/Asia					
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
External revenues	812.0	751.2	90.0	91.3	84.0	82.1	0.0	0.0	986.0	924.6
Total segment revenue	837.3	777.1	90.1	91.5	84.3	82.2	-25.7	-26.2	986.0	924.6
Operating result (EBIT)	78.9	77.5	1.8	3.9	5.1	0.9	-0.2	0.1	85.6	82.3
Operating result (EBIT)/Revenue	9.4%	10.0%	2.0%	4.3%	6.0%	1.1%			8.7%	8.9%
Investments excluding financial assets	14.9	18.6	1.1	0.6	2.2	1.1	0.0	0.0	18.2	20.3
Staff on balance sheet date	3,367	3,306	451	446	431	393			4,249	4,145

Sto – Employees

Long-term personnel policy

Qualified and committed employees are a mainstay of the Sto Group. With this in mind, our personnel policy is aimed at ensuring the long-term satisfaction and performance of the workforce and aligning these attributes with the company's long-term objectives. We offer our employees good opportunities to develop their careers and encourage individual initiative. We also promote our employees' personal strengths by means of further training programmes tailored to their needs. At the same time, this active personnel policy establishes Sto AG as an attractive employer and improves our position in the competition for qualified specialists and management personnel.

Size of workforce increased in 2010

A total workforce of 4,249 was employed by Sto AG throughout the Group at the end of the 2010 financial year. This represented an increase of 104 employees or 2.5% over the previous year. The average size of the Sto Group's workforce throughout 2010 increased to 4,252, compared to 4,197 in the previous year.

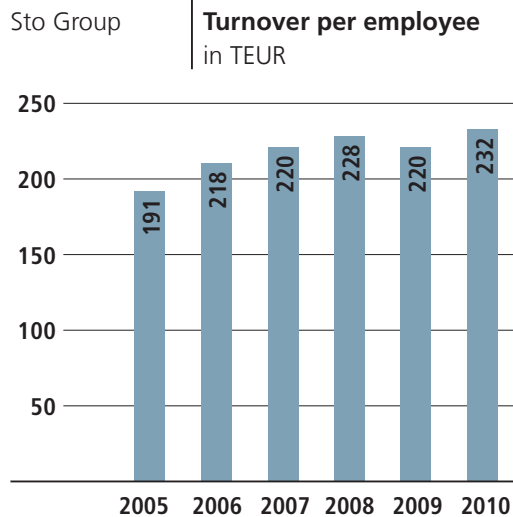


Of the total workforce, 2,358 persons were employed in Germany as at 31 December, which corresponds to an increase of 45 persons (+1.9%). Outside of Germany, the workforce increased from 1,832 to 1,891 (+3.2%). The share of the Group's workforce employed abroad thus stood at 44.5%, as compared to 44.2% in the previous year.

The breakdown of the workforce according to the individual segments is presented in the diagram opposite.

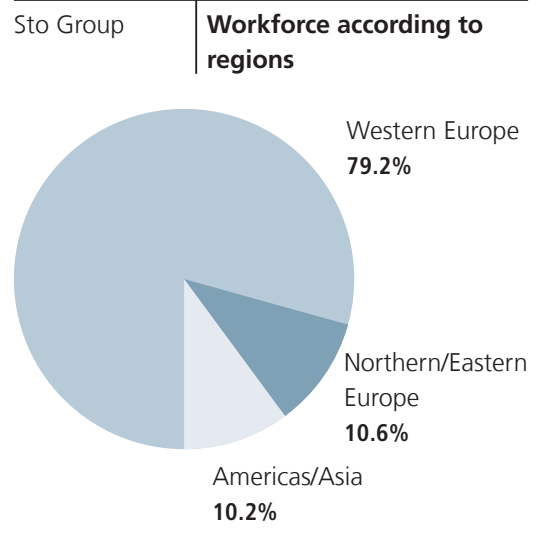
Flexibility increased

At the end of 2010 a new overall company agreement was concluded with the aim of introducing greater flexibility to working hours. A key objective of the arrangement is to enable us to respond even more flexibly and cost-effectively to fluctuations in capacity utilisation in future. At the same time, the new record of



hours worked gives our employees a high degree of control over their working times across the board.

As an auxiliary tool to help manage the deployment of manpower and capacities at our decentralised locations, in the period under review we tested an IT-based control



cockpit which will enable local management to organise the deployment of their personnel substantially more efficiently than to date as of the second quarter of 2011.

Fit@Sto health management concept launched

In order to maintain and improve the vitality, wellbeing and performance of our workforce, we launched a preventive health management concept for Sto AG last year. Developed in-house, the concept focuses on the three dimensions of movement, a healthy diet and regeneration. Long-term campaigns have been devised which are aimed at instilling an awareness of health matters in the workforce and management personnel and providing information on important topics. We aim to develop appropriate structures for these campaigns on a step-by-step basis.

In 2010, we established a health management team comprising the company doctor, members of the company management and the Group Employee Representative Council and staff from the areas of human resources and occupational safety. We also implemented initial concrete measures.



Fit@Sto health management concept: apples campaign in the autumn

Further measures in the personnel area

After adopting the updated definition of the company's mission statement of "Building with conscience." in 2009, Sto established concrete procedural guidelines on the basis of the objectives and success factors identified in the mission statement in 2010. These guidelines were set out in writing in the "Principles for cooperation within and management of the Sto Group". The defined principles offer the staff clear terms of reference while also establishing the key tasks for personnel management in the current decade. Further information on the principles is to be found in the Sustainability Report.

Training and apprenticeships bolstered

Sto's personnel strategy also includes an active training policy. Every year we offer committed young people the chance to learn one of a current total of 19 future-oriented occupations within our group of companies. In order to enhance the appeal of our training programmes, we intend to further broaden the scope of training apprenticeship occupations on offer and to create additional training opportunities for students from Cooperative State Universities. Our focus here is on the areas of forwarding, transportation and logistics. We carry out numerous measures to inform qualified young people about the training opportunities and prospects at Sto. Last year we participated in four training fairs and vocational orientation conventions, for example.

Our efforts have paid off: at the beginning of the 2010/2011 training cycle we were once again able to recruit 62 young people at our German plants. In all, 162 people were learning an occupation at Sto at the end of the year (previous year: 164). This corresponded to a training ratio in Germany of 6.9%. This is a good level in comparison to the chemical industry, to which



Sto apprentices at the "Jobs for Future" training fair, Schwenningen

we are assigned for the purposes of collective agreements and which has an average ratio of 5.2%. We aim to further expand our activities and plan to offer an additional 15 training places as of 2011.

Further training intensified

Measures in the area of further training in 2010 included a continuation of our "KuBe-Plus" programme in which we prepare young Sto specialists from all over Germany for the role of SalesCentre manager over a period of 18 months. Eight employees are currently participating in the programme.

We also adapted the development programme for management personnel to the requirements of the revised Guiding Principles. At the end of 2010 it was additionally resolved to further intensify development measures for management personnel. In future, the new programme will consist of five modules aimed at preparing young and new management personnel for management responsibilities by means of a systematic approach.

Sto – Research and development

Innovation as a success factor

Research and development (R&D) are core strategic tasks at Sto. The objective is to consolidate our leading technological position and to continue setting market trends. Beyond securing our present customer basis, we aim to create opportunities for future growth by opening up new market segments and/or attracting additional customers. Throughout the Group, 91 employees were assigned to this important task area as at the end of 2010 (previous year: 87).

Safeguarding our future

Development activities at Sto break down

into two main areas: firstly, we pursue **pure research**, with the aim of opening up new technologies at product and process level in the medium and long term. One of the current research focuses here is on innovative insulant technologies. We have established a good foundation in this area with the launch of our own insulant factory in Lauingen. Beyond this core research area, on a more general level, we aim to develop the application characteristics of our coating systems beyond the bounds of what is currently feasible from a technical point of view. Apart from technical standards, other considerations here include the integration of sustainability criteria for Environmental Product Declarations (EPD), which disclose relevant environmental data for a product.

In the area of pure research we also take part in projects sponsored by the public sector concerning fields of technology which are of interest to us from an operational point of view. By way of example, we are currently involved in research into new marker systems for in-depth waterproofing which could be used in protective measures for buildings. This project is receiving funding from the Federal Ministry of Education and Research.

Innovations in 2010

The second area of R&D activities concerns the **ongoing development of existing product lines**, always upholding Sto's high quality standards. The benefits for our customers provide the benchmark here. The functionality and application characteristics of individual Sto products should effectively complement each other in the context of an external wall insulating system, for example, enhancing the benefits of the system as a whole.

One achievement in 2010 was a breakthrough which enabled us to speed up the drying process for mineral systems. The products based on new formulations provide for more reliable application at low temperatures, which

is of crucial importance to our customers in the spring and autumn in particular.

Our StoLevell FT bonding and reinforcing mortar provides the market with a genuine problem-solver for construction sites.

We also achieved concrete breakthroughs for applicators in the area of top coats. We further improved the user-friendliness of our range of coordinated interior paints, for example. This was also achieved by means of improved formulations which served to optimise the interior paints, additionally developing new properties in some instances. We initially introduced the new products in the German-speaking countries in 2010. The response from our customers has been highly positive.

In the area of finishing renders, Stolit and StoSilco – two of the most important Sto products – underwent further development. We are setting new standards in terms of texture and application properties in particular, without compromising on important product properties such as stability and chalking behaviour in the process.

We also achieved improvements for the users of our products by means of a new and optimised concept to combat algae and fungal attack. A key advantage here is that the leaching of film preservatives into the environment can be further reduced while maintaining the same level of protection from attack.

Sto – Production, procurement and the environment

Complex production process

The production of high-quality coating materials is a process which requires specialised manufacturing facilities. The most important input materials are marble and quartz sands, cement, lime and silicates, silicones and aqueous dispersion agents. To ensure that the end product meets

Sto's high quality standards, these components must be processed using exact ratios and in the correct sequence.

Worldwide production

Sto's current production structure reflects our long-term growth and internationalisation strategy. In recent years, we have gradually increased our capacities in selected markets in line with requirements. At the end of December 2010, Sto AG was operating five factories under the umbrella of the Group's parent company, at Stühlingen, Donaueschingen, Tollwitz near Leipzig, Rüsselsheim and Kriftel. Locations in Germany further included two manufacturing plants of StoVerotec GmbH in Lauingen and a plant of Südwest Lacke + Farben GmbH & Co. KG in Böhl-Iggelheim. Outside Germany, we owned manufacturing plants in France (2), Austria (1), Spain (1), Sweden (1), Poland (1), China (3), Malaysia (1) and in the United States (4). The Sto Group thus owned a total of 23 manufacturing plants, of which 8 are located in Germany, and 15 in other countries.

Investment measures in 2010

Sto constantly invests in its production facilities in order to make manufacturing processes as efficient and environmentally compatible as possible and to exploit potential for growth. Measures in 2010 centred on the "Retrofit" project, in the course of which older production facilities at Sto AG are to be brought into line with the latest technological standards in the space of five years. We initially carried out the most important measures at the Stühlingen plant.

The new factories built in 2009 for the production of insulants in Lauingen, Germany and for the manufacture of mineral products in Wuhan, China, enjoyed a successful first full business year with production operations at both locations proceeding without any problems in 2010. At the beginning of 2011, we

incorporated the insulant factory in Lauingen into Innolation GmbH, which we established specifically for this purpose and which is also domiciled in Lauingen.

Sustainable production

In keeping with our long-standing commitment to environmental and ecological concerns as a major priority at our company, we implemented a comprehensive environmental management system. This system ensures a systematic and verifiable approach throughout the Group. At the same time, it also provides the basis for ongoing improvement in the area of the consumption of resources. To document the high standard of our environmental management system, we have had the system verified in accordance with the international DIN EN ISO 14001 standard at our key locations.

Procurement in 2010: difficult market situation for raw materials

The basic materials required in the production of facade systems and coatings, such as sand, cement and lime, are available worldwide without any restrictions and remained in adequate supply in 2010. In contrast, the market for basic chemicals was strained as a result of the surprisingly strong recovery of the global economy. According to information from the German Paint and Printing Ink Association (VdL), for example, the situation regarding raw materials for the production of lacquers and paints worsened dramatically in the course of the year. In particular, delivery times became substantially longer in some instances for binders which rely on styrenes and acrylates, as well as for epoxy resins and titanium dioxide, because the manufacturers were unable to step up their capacities quickly enough. The tight supply situation resulted in strong rises in market prices.

Pro-active purchasing management

Production at Sto remained unaffected by the

difficult situation on the procurement markets in 2010. This was attributable primarily to the long-term nature of our strategic procurement management. In view of the prevailing world-wide trends, the most important measures here included the timely implementation of global forecasting and monitoring for the most important input materials. This enabled us to build up stockpiles of these raw materials in good time. The fact that we have been systematically broadening our supplier basis for some years now and have managed to reduce our dependency on individual suppliers has also had positive effects. Our pro-active purchasing management is implemented by qualified teams comprising specialists from the areas of Procurement and Research & Development.

Rising procurement costs

Despite our preventive measures, we were unable to fully escape the substantial increases in prices for raw materials and goods for resale, which reached historical highs in some instances in the fourth quarter. According to the VdL, average price increases in 2010 ranged from around 10% for binders through 13% for acrylates to 32% for epoxy resins. Organic solvents became 17% more expensive. As per VdL figures, the suppliers of raw materials applied price increases averaging 27% for the key white pigment titanium dioxide.

Price increases were also to be observed in the logistics area. Fuel and freight costs rose particularly sharply.

Events after the end of the financial year

The 2011 financial year got off to a satisfactory start in most European countries in the light of the comparatively favourable weather conditions. Group revenues and earnings were

consequently higher in the first two months of the year than the corresponding figures for the previous year.

Sto AG's Supervisory Board has appointed Mr. Rainer Hüttenberger (47) to the company's Executive Board. Since 1 April 2011, he has been responsible for the area of Marketing and Sales, which was previously headed by the Chairman of the Executive Board, Jochen Stotmeister. In his new role, Rainer Hüttenberger is responsible for Sto's national and international subsidiaries in Europe and Asia. The North America region remains under the direction of Jochen Stotmeister, who continues to represent the areas of Strategy and Corporate Development and Central Services and Personnel on the Executive Board.

The insulant factory which went into operation in Lauingen in 2010, and which initially formed part of StoVerotec GmbH, was spun off into Innolation GmbH at the beginning of 2011. Innolation GmbH was established specifically for this purpose and is also domiciled in Lauingen. The establishment of this independent company enhances transparency within the Sto Group.

Risk report

Risks and opportunities

The Sto Group operates worldwide. As for any enterprise, its international business operations harbour diverse opportunities and risks. Managing these factors in a well-aimed manner is crucial to Sto's long-term success. We thus attach high priority to the management of opportunities and risks as an integral element of corporate governance.

The risk strategy developed by the Executive Board provides, among other things, for given opportunities to be exploited with rigour, while undertaking risks only where a commensurate contribution to corporate earnings can be ex-

pected. Generally speaking, we define risks and opportunities as departures from the planned result.

Risk management at Sto is explained below. Current opportunities are covered in the forecast.

Efficient risk management system

The active management of risks is pursued at Sto by means of a comprehensive risk management system which forms an integral part of our business, planning and control processes. This system allows us to identify and analyse risks in good time, to assess the expected effects on the earnings, finance and asset situation and to implement appropriate countermeasures. In 2010, we rigorously applied our strategy to avoid and hedge risks once again.

The most important constituent of our risk management system is a detailed **reporting system** that has been standardised for the Group and which records all operational activities both quantitatively and qualitatively in accordance with a specified scheme, from purchasing through production to distribution. Continuous monitoring of clearly defined key figures allows undesirable developments to be identified at an early stage and the swift initiation of countermeasures.

The second important element of the risk management system is a **risk manual** which is binding throughout the Group. This describes various risk categories, guidelines for assessing risks and procedural instructions for every subsidiary.

These two instruments are complemented by an annual **risk inventory**, which is used to document all current risks throughout the enterprise on a timely basis. The managers of the respective business units are required to notify the central investment controlling department immediately of any relevant new risks which are identified in the course of the year.

Internal control system

Risk management is complemented by an **internal control system (ICS)**. With regard to the accounting process within the Sto Group, this system covers all principles, procedures and measures which are intended to ensure the effectiveness, economic efficiency and reliability of the consolidated accounting and compliance with the relevant legal requirements.

The ICS at Sto also incorporates an internal monitoring system comprising in-process elements and elements independent of the process concerned. Important in-process measures are manual checks – such as the “dual control principle” – and automated IT process controls.

Another central element of the ICS is the SAP software system which is implemented at many Sto companies as a means of controlling the IT-based accounting process. Uniform and consistent application of the SAP system ensures the correct and reliable recording and processing of accounting data and details throughout the Group. Access to the various types of data is clearly regulated and corresponding access restrictions are in place.

A further component of the internal control system is a manual detailing the consolidated accounting guidelines, which we drew up some years ago together with our auditor. This manual is revised on a regular basis. The guidelines specified in the manual provide the basis for drawing up the annual financial statements in accordance with IFRS which require to be included in the consolidated financial statement. The aim of the guidelines is to ensure the uniform implementation of valuation and reporting rules throughout the Sto Group. All balance sheets, income and cash flow statements drawn up by the subsidiaries and other business units are audited by the Group accounting department and the central investment controlling department to verify that they are correct, complete and in compliance with the accounting guidelines.

The guidelines also stipulate that formal requirements within the Sto Group include the compulsory use of a standardised and complete set of forms and a uniform system of accounts throughout the Group. The manual also includes specifications on the presentation and handling of Group accounting and the corresponding balance reconciliation.

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

Other controlling activities, which are intended to ensure the regularity and reliability of the accounts, cover auditing with reference to specific ratio analyses and the processing and controlling of highly complex transactions by different persons. The separation of administrative, implementing, accounting and approval functions and the performance of these functions by different persons (dual control principle) reduces the attendant risks.

The regular controlling meetings between the Group management and the managers of the subsidiaries are a further important elements of the ICS. In this connection, a meeting focusing on the annual financial statement takes place for each company between Group accounting representatives and representatives from the respective subsidiaries. These meetings are also attended by the local auditor, and the Group auditor is additionally consulted on a

random basis or in connection with a specific matter.

The effectiveness of the risk management and internal control system is examined regularly 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. The Supervisory Board, and the Audit/Finance Committee in particular, is kept informed on a regular basis by the Executive Board and the auditor.

By way of qualification it should be pointed out that decisions based on personal judgments, flawed controls, criminal actions by individuals or other circumstances may impair the effectiveness and reliability of the deployed internal control system, in view of which even Group-wide application of the deployed systems cannot fully guarantee the correct, complete and timely recording and reporting of facts in the consolidated accounting.

Essentially, the risks for the Sto Group are as follows:

Overall economic and industry-specific risks

Sto AG 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 single market – plays a very important role. Sales of building products are very sensitive to the general level of economic activity as well as to overall economic and tax-related conditions. The potential risks present in such circumstances were evident in the crisis of Germany's main construction sector following the boom after German reunification, a crisis that lasted many years. The prolonged slump, which began in the mid 1990s and did not end until 2005, led to intense competition and strongly deteriorating prices as a result of high levels of surplus capacities.

Risks in the procurement of raw materials

The Sto Group uses raw materials such as marble and quartz sands, cement, silicates, silicones and aqueous dispersion agents in the manufacture of its facade and coating products. This entails cluster risks that may arise from the concentration tendencies on procurement markets.

Prices of materials based on crude oil, including silicates, silicones and polystyrene insulation board, depend to a certain extent on the current price of crude oil, which is subject to strong fluctuations. The situation is compounded by the fact that the demand for numerous special chemical products such as acrylate and titanium oxide is also set to grow continually in the emerging and developing countries, according to information from the German Paint and Printing Ink Association (VdL). Price rises are thus to be expected in this segment over the long term. Equally, temporary supply shortages cannot be ruled out in certain areas.

We counter this risk through a systematic and medium-term orientated purchase policy, which is implemented by procurement teams created specifically for this purpose. Firstly, we optimise our supply of strategically important raw materials by means of this policy. Secondly, we carry out numerous activities, for example the bundling of purchase volumes or the substitution of products, in order to achieve savings and to reduce dependencies.

Dependence on weather conditions

A major proportion of Sto's products is used outside. Installation and application of these products are consequently exposed to weather influences. Measures introduced a number of years ago to reduce this dependency have so far enjoyed only limited success. Consequently, a long and hard winter can still negatively impact on sales, the effects of which may be only partly recoupable in the following period due

to limited processing capacity. Such weather-induced declines in the volume of business generally lead to significant losses in earnings.

Environmental risks

The manufacturing processes for Sto products pose only minor environmental risks, as production takes place at state-of-the-art, automated plants which reduce the risk to the environment. We have also implemented an environmental management system geared to international standards. In addition, production is monitored by specially trained environmental control officers at all Sto locations. More information about our environmental protection measures can be found in the section entitled "Procurement, production and the environment" and in the Sustainability Report in this annual report.

Sales risks

No increased risks are perceived as regards future sales of Sto products, either. There is already plenty of potential for facade systems on the domestic market alone. The risk is also further reduced by the long-term upward trend in energy prices and the underlying political climate which is favourable to energy efficiency measures.

Payment default risks

In times of recession the building industry also faces an increased risk of default on receivables. To avoid or mitigate the financial consequences arising from this, Sto has implemented a credit management system and adapted it to the specific conditions prevailing in individual countries. The most important component of the system in place in Germany is a set of rules containing guidelines for granting and monitoring merchandise credits. Strict application of these rules has allowed us to maintain the default quota at a low level even during difficult economic times.

Risks arising from fluctuations in payment flows

As a result of the seasonal variability in the level of sales of Sto products, the demand for liquidity to finance current business also varies greatly in the course of a year. There is a particular need for cash in the first few months of the year. In the second half of the year, cash inflows exceed outflows. Risks arising from these fluctuations in payment flows are limited at Sto by the available liquid funds. In addition, we dispose of adequate and variable lines of credit backed up by a syndicated loan which will be available until 2012. These credit lines are tied to the performance of contractually stipulated financial targets (covenants).

To further reduce the exposure to liquidity risks, we are also in constant and 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 liabilities to banks at variable interest rates.

IT risks

Continuity:

The core systems necessary to the Sto Group's operating business, such as SAP and Lotus Notes, are deployed in redundant and fully virtualised form. This ensures maximum continuity of the systems and the appurtenant services. In order to further enhance security and to counter the consequences of possible collateral damage at the computer centre, we will be pushing ahead with measures to ensure adequate physical separation of the existing, redundant computer centres in the coming years. The data on the core systems are backed up daily and stored separately.

Integrity:

The logical security of the information on our systems is ensured by the use of state-of-the-

art security technologies to shield the systems from access by unauthorised persons and from infected software and data. We also have automated protective mechanisms to counter cyber attacks. An organised access system is in place for the database-supported ERP systems, thus largely ruling out manipulation of the data and unauthorised access.

Availability:

The redundant configuration of all core operational systems and network connections ensures maximum availability for all relevant business processes. An automated monitoring system serves to continuously monitor system availability.

Warranty-related and legal risks

Ongoing research and development activities are of strategic importance for the Sto Group. Innovations open up vast opportunities to develop additional markets and buyer groups, and to earn the loyalty of existing customers. At the same time, however, innovations can involve risks. Although newly developed products or versions of products are officially launched on the market only after extensive testing as a matter of principle, we will never be able to completely rule out the possibility of warranty claims against Sto, including such claims arising after some time has elapsed. On the one hand, this is due to the increasing complexity of our products and systems. Another reason is that European courts are increasingly following a trend towards more generous settlement of warranty claims in favour of end customers.

Warranty risks in the United States are considerably higher than in Europe because of the legal system in place in that country. Individual lawsuits pertaining to claims for similar damages can be grouped together into so-called class action suits, for example. On the basis of its experience in recent years, the US-based Sto Corp. has implemented measures to reduce

the company's susceptibility to these types of claims. Complete protection against claims of this type is not possible, however, due to the nature of the legal system. Individual lawsuits against Sto Corp. from an earlier class action are still pending. We have set up an adequate level of provisions for the anticipated financial charges these may entail. A further consequence of the class action which was brought some years ago was the decision by the US insurance industry to cease providing insurance cover for the product risks arising from insulation systems. The effects of potential damages or liability claims on the financial and earnings situation of the Sto Group cannot be assessed conclusively on account of the 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. Apart from the legal issues, which are constantly increasing in importance, this also applies to technical questions.

A further legal risk for Sto is that of liability associated with consultancy services. This arises as a result of Sto offering customers services to complement its product range. For example, employees of Sto AG provide their customers with support for tenders, quotations, technical issues and building design details. Sto's recently introduced in-house "Liability" guidelines instruct 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.

Currency risks

Sto embarked on a consistent strategy of developing foreign regions at an early stage in an effort to reduce dependence on the German domestic market. As a result of the gradual internationalisation of our operations, we are increasingly exposed to currency risks. We control these risks by means of currency hedges.

Our focus in doing so is on the currencies of countries where we do not have production facilities, i.e. where regular supply and payment flows are necessary to maintain business operations. In 2010, this situation applied almost exclusively to Switzerland. In specific cases and where necessary, we also conclude additional currency hedges for smaller volumes in the Polish and Swedish currencies as well as in the US dollar.

Overall risk exposure

The assessment of the overall risk 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 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 financial situation of the Sto Group.

Forecast and opportunities report

The global economy in 2011

Following the surprisingly swift and strong recovery in 2010, most economic analysts forecast continuing growth for the global economy in 2011, though at a less dynamic pace. The IMF expects global gross domestic product to increase by around 4.4%, for example, following 5.0% in the preceding year. The main reason for the declining rates of growth are the economic stimulus programmes which are coming to an end in many countries and regions.

At regional level, the developing and emerging countries are likely to experience the strongest growth once again in 2011. The IMF expects

the economic output of this group of countries to rise by around 6.5% overall. China will lead the field once again, with growth at around 9.6%. Growth rates in the developed industrialised nations will be markedly below these levels. The IMF is forecasting an increase of around 3.0% for the USA and around 1.5% for the euro zone, for example. For Germany, the federal government predicts a 2.3% increase in gross domestic product in its Annual Economic Report which was published in January 2011.

Trends for the international construction industry

The situation for the **US construction sector** looks set to remain difficult in 2011. This applies to the private housebuilding segment, for example, in which the gta forecasts further declining prices in many major conurbations. Equally, the non-residential sector also faces a further reduction in its construction volume of around 2%.

Despite increasing risks, market analysts are continuing to predict an overall positive trend for the **Chinese construction industry**. This stems primarily from the fact that the demand for homes will remain high as the process of urbanisation continues. According to information from gta, the areas of social housing, the renovation of older buildings and energy-efficient building will acquire increasing importance.

EUROCONSTRUCT predicts that the **European construction industry** will stabilise in 2011. While the research association does expect a slightly weaker course of business in the major markets such as Germany and the United Kingdom, it forecasts that the downward trend in those countries which were still suffering from particularly weak demand in 2010 – such as Spain, Portugal or Ireland – will slow down noticeably. A revival of business activity is furthermore to be expected in France, Italy, Austria, Finland, Sweden, Poland, Hun-

gary and the Netherlands. The overall business volume for the European construction sector looks set to rise by 0.6% in the current year.

The **German Federal Building Association** also expects demand in the domestic construction sector to be muted. Overall, it is predicted that the business volume will remain stagnant, with a slight upward or downward movement depending on the underlying economic trend and the corresponding course of business in the commercial building sector.

The **supply of raw materials** in the form of special chemical products will remain difficult in 2011, according to the German Paint and Printing Ink Association (VdL). Accordingly, the possibility that supply shortages may have at least temporary adverse effects on the production of coating materials cannot be ruled out. In addition, further marked price increases are to be expected in the light of the strained supply situation.

Projected performance of the Sto business segments

Assuming that the underlying economic conditions develop as forecast and with due regard to Sto's position in the respective markets, we expect moderate growth in sales in the lower single-digit percentage range for 2011 in the **America/Asia** segment. While our business in the USA should stabilise, we predict that growth in China will be less dynamic than in the previous year.

In the **Northern/Eastern Europe** segment we also expect a moderate increase in the business volume in the lower single-digit percentage range. In both regions, Sto should participate in the forecast recovery of the markets in those countries which were still clearly suffering from the after-effects of the financial crisis last year.

The course of business in the **Western Europe** segment is likely to benefit from sustained good business with facades in Germany

and France. Growth is likely to be less dynamic than in the previous year, however. Overall, we are projecting sales growth in the lower single-digit percentage range for this segment.

Projected performance of the Sto Group

On the basis of the expectations for the respective segments, we predict that sales in the Sto Group as a whole will rise by around 3% to approximately EUR 1,015 million in 2011. Our operating result (EBIT) is unlikely to attain the level reported in 2010. In particular, soaring prices for raw materials and a marked increase in personnel costs will more than balance out the positive effects on earnings of the moderately larger business volume. The continuing heavy pressure on sales prices may also have an unfavourable impact.

The increase in staff costs results on the one hand from rising collectively agreed wages and salaries; on the other hand we are increasing the size of the workforce in Germany and abroad in the current year, in order to establish the necessary conditions for further growth in the coming years.

Investments in property, plant and equipment will increase substantially in 2011, to around EUR 28 million. This sum includes major projects such as the expansion of the logistics centre in Stühlingen-Weizen and the construction of a new headquarters in Belgium. We are also continuing the "Retrofit" modernisation programme.

Both investments and current business will once again be financed for the most part from our own funds. Consequently, no notable financing measures are planned for 2011.

We expect the 2012 financial year to witness a continuation of the above-stated trends and developments. In view of the underlying socio-economic conditions, we assume that international demand for energy-efficient building and renovation will remain stable at

least. Against this background, we expect a further moderate rise in revenues for the Sto Group. At the same time, the pressure on the operating result is likely to persist on account of the volatile markets for raw materials.

Risks and opportunities for future development

Predictions on the future course of business are subject to major uncertainty, as the international construction industry is now exposed to extremely volatile underlying economic conditions. In addition to the projected economic and sales scenarios, a prerequisite for achieving the forecast business performance is a stable political climate. Our planning is furthermore based on our own assessment of the trends for the currencies relevant to the performance of Sto. Should these assumptions prove incorrect, then actual conditions may deviate from the expectations described for 2011 to a greater or lesser degree.

The current, very tense, political situation in North Africa and a number of Arab states poses a major risk to the current and the following business year. If the situation fails to calm down, this could have serious effects on the price of oil and, in turn, on the global economy and the international construction industry. The situation is also compounded by the uncertainties regarding the development of the Japanese economy in the wake of the natural disasters and the nuclear catastrophe. In the light of these considerations the positive economic trend forecast by the majority of market analysts is by no means guaranteed. The highly divergent trends in the emerging and industrialised countries respectively and the continuing weak economic state of some countries pose additional threats. This means that a relapse into recession ("double dip") cannot be ruled out. Equally, the exchange rates of the currencies which are of relevance

to Sto may develop along less favourable lines than assumed in our planning.

The dependency of the construction industry on the weather remains another element of uncertainty. As December 2010 showed, extreme weather conditions can bring work to an almost complete standstill. The likelihood of such extreme situations could rise as global warming increases.

The 2011 financial year may harbour opportunities if the economic trends in the various countries, for which we are only able to undertake very cautious planning, turn out to be better than forecast. The USA and the United Kingdom in particular fall into this category.

In the medium and long term, operational opportunities for Sto outweigh the risks. This is primarily due to the increasing attractiveness of facade insulation systems, resulting from the long-term upward trend in energy prices, which renders investments in such systems ever more financially worthwhile and thus broadens their appeal to larger target groups. This situation also applies to entire regions such as Asia and northern Europe, in which facade insulation has been uncustomary to date. The potential in eastern Europe is also substantial in view of the vast need for renovation. As yet, demand here is still often restrained by financing problems. Such constraints will become less significant as economic development takes hold, however.

Another key argument in favour of external wall insulation systems is that they represent a suitable means of combating climate change. This gives rise to a realistic chance of stronger measures to promote such systems as an instrument of environmental policy, which experience shows would have a marked positive effect on the willingness to invest in modernisation measures.

**General statement by the Executive Board
on the future course of development**

As one of the leading companies for facade insulation systems, Sto is in a good position to benefit from the growing sales potential offered by this technology. We possess comprehensive expertise in all matters relating to facades and are represented in the most important international markets. We also dispose of a very sound financial basis which will allow us to continue our sustainable and earnings-oriented growth strategy. Our motivated and qualified workforce will stand us in good stead here. Sto is aware of its responsibility towards its employees and will continue its long-term personnel policy. Constructive cooperation with employee representatives will remain an important element here. We will face up to our social responsibility with equal vigour and integrate sustainability aspects even more firmly into our corporate structures.

Stühlingen, April 2011

Sto AG
The Executive Board

Sto share

Data on Sto preference share

Ticker symbol	STO3
ISIN	DE0007274136
WKN	727413
Share category	Non-voting bearer preference share
Market segment	Regulated market
Level of transparency	General Standard
German Securities Exchange sector	DAX sector All Consumer
Number of preference shares	2,538,000
Number of ordinary shares not listed	4,320,000

2010 on the stock markets

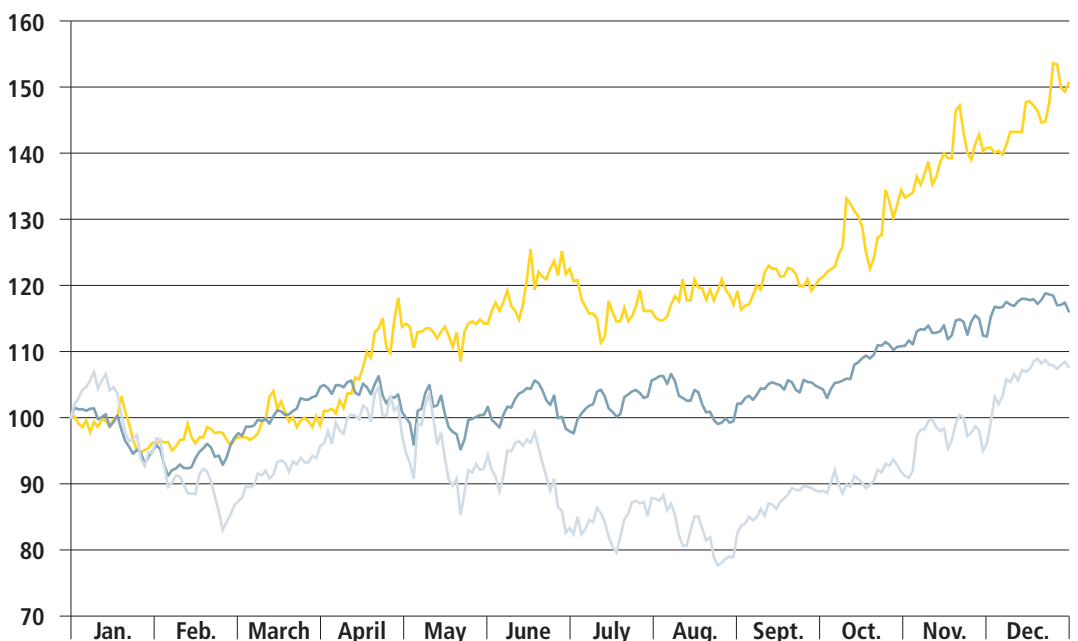
Trends on the international stock markets varied in 2010. While price losses predominated at the beginning of the year due to the uncertain underlying global economic conditions, the picture gradually brightened in the further course of the year. As key economic indicators rallied, the willingness to invest in shares also increased noticeably. As a consequence, some markets were able to make good some of the ground lost, while others put an end to side-stepping and achieved gratifying year-on-year gains once again. The German stock market in particular fell into the latter category: its key index, the DAX, rose strongly in comparison to its level at the end of 2009, up by 16.1% at 6,914 points.

Domestic stocks were bolstered above all by the unexpectedly strong recovery of the German economy, with gross domestic product rising by 3.6%. The prospects of increasing corporate profits shifted the focus away from the continuing uncertainties relating to the

Share price trend for 2010

(indexed on 30.12.2009 = 100)

■ Sto preference share
■ DAX
■ Construction



euro crisis. On the contrary – asset switching from shares originating from countries with major budget problems to German dividend-bearing securities supported the rise in share prices here. The upturn also extended to shares of small and medium-sized enterprises, as indicated by the SDAX small cap index, which gained 45.8% in value in 2010 in comparison to the previous year.

Sto preference share continues upward trend

Shares of companies which are sensitive to underlying economic conditions and export-oriented companies, such as those belonging to the automotive industry, benefited in particular from investors' willingness to buy in 2010. In contrast, shares of construction companies were less sought after, as turnover trends for the industry's larger companies in particular were very muted. The commercial building segment was in decline, while demand from the public sector also fell short of expectations. As a result, the Construction sector index at the Frankfurt stock exchange was actually down on the previous year for a large part of 2010, before the dynamic development of the market as a whole finally triggered investment activity in the final quarter. The Construction index closed the year with a gain of 7.7%, thus underperforming the DAX and SDAX as a whole.

Notwithstanding the weak conditions in the sector as a whole, the Sto preference share continued its upward trend in impressive fashion in 2010: starting at the lowest price of EUR 59.63, which applied at the beginning of the year in the context of a correct mood on the stock market, by mid-December the share had risen to its highest price of EUR 96.50. It closed the year down only slightly on this high, at EUR 94.66. This represented a year-on-year increase of EUR 62.88 or 50.5%. Based on the closing price for 2010, the market capitalisation of the 2.538 million Sto preferential shares

stood at EUR 240.2 million, as compared to EUR 159.6 million on 30.12.2009.

Improved results – higher dividend distribution

The positive trend for the share price was no doubt attributable above all to the good long-term prospects for Sto AG. The company is well positioned in the growth market of facade insulation and occupies a leading position in the international arena. The share's performance was additionally supported by the operating results, which exceeded the original planning. Consolidated sales increased by 6.6% to EUR 986.0 million in the last financial year. The higher business volume more than balanced out the substantial increases in costs in the areas of

Key figures

Values per share in euros

	2010	2009
Earnings per preference share	9.04	8.66
Cash flow from current operations	14.49	17.62
Shareholders' equity	57.73	49.94
Distribution per preference share	0.31	0.31
Bonus	3.06	2.06
Share price at year end*	94.66	62.88
Year high*	96.50	63.50
Year low*	59.63	30.06
PER (31.12)	10.47	7.26
PER (high)	10.67	7.33
PER (low)	6.60	3.47
Capitalisation of preference shares on 31.12 (in EUR millions)	240.2	159.6
Average daily trading volume (number of shares)**	2,940	4,550

* XETRA closing price

** All German stock exchanges

procurement and personnel. The consolidated operating result (EBIT) improved by 4.0% to EUR 85.6 million, while consolidated net income stood at EUR 58.2 million as compared to EUR 55.6 million in the previous year. Earnings per preference share stood at EUR 9.04 in 2010 (previous year: EUR 8.66), while earnings per ordinary share rose to EUR 8.98 (previous year: EUR 8.60).

On the basis of this very sound earnings situation, the Executive Board and the Supervisory Board will be proposing to the Annual General Meeting that the dividend distribution be raised. This means that shareholders will again receive a dividend of EUR 0.31 per preference share and EUR 0.25 per ordinary share. This will be accompanied by an increase in the bonus per preference and ordinary share from EUR 2.06 to EUR 3.06. This would result in a dividend yield for the Sto preference share of 3.6% based on the the 2010 closing price, and as much as 5.3% based on the opening price for 2010.

Trading volume in 2010

Sto preference shares are traded on the regulated market on the stock exchanges in Frankfurt and Stuttgart, in the electronic trading system XETRA, and on the unofficial regulated market of the Berlin, Düsseldorf and Munich stock exchanges. In all, around 752,000 Sto preference shares changed hands on all the German stock exchanges in 2010, compared to around 1,157,000 in the previous year. 79.9% (previous year: 86.1%) of these shares were traded on XETRA, 13.0% (previous year: 8.8%) in Frankfurt and 7.1% (previous year: 5.1%) at the other trading locations. On average, around 2,940 Sto preference shares were traded daily on the stock exchanges, in comparison to around 4,550 in 2009.

Shareholder structure

The shareholder structure remained essentially unchanged: of the 2.538 million preference shares, approx. 36% were in the hands of institutional investors at the end of December 2010. The remaining preference shares were free float. The number of non-listed ordinary Sto shares remained unchanged at 4.32 million. At the cut-off date, 90% of these were held by the Stotmeister family, and 10% by Sto AG.

Sustainability and Corporate Social Responsibility

Steering a sustainable course

The world is currently caught in a quandary between an exponential increase in the consumption of raw materials and the essential limitations applying to the availability of natural resources. Urgent questions regarding our obligations towards future generations and the unchecked process of climate change also remain as yet unanswered. Sustainable business practice and the assumption of social responsibility may play a key role in helping to resolve these issues. This calls for new approaches and innovative solutions, however. Great opportunities beckon for those who are able to successfully address these challenges.



Insulating a building's envelope represents an economical and sustainable investment which will help to save heating energy on a long-term basis while reducing the effects of rising energy costs on the building's owner.

Sto – a company that faces up to its responsibilities

Sto AG has long been concerned with these sustainability issues. Our initial measures in this area date back to the beginning of the 1980s, when we expanded our range of facade insulation systems and environment-friendly coating materials as well as introducing a process to continuously improve efficiency, for example. By the end of the 1980s, we had already enshrined issues of social responsibility and sustainability in our guiding principles encapsulated in the mission statement "Building with conscience."

This defined maintaining the value of buildings in strict compliance with the needs of mankind and nature as terms of reference for all our employees. As such, we were one of the first companies in our industry to incorporate social and ecological criteria into our management system.

Sto's guiding principles underwent a thorough revision in 2009. The newly defined values envisioning our aim to become the technology leader in the sustainable design of living space tailored to human needs provide a binding framework for the coming years and offer the rejuvenated management team guidelines



WE SUPPORT

for sustainable, responsible and economically successful business practice.

We also signed up to the United Nations' "Global Compact" in 2009, in order to demonstrate our commitment to sustainable development at international level, too. This report represents the annual Communication on Progress (COP) required by the "Global Compact".

2010: guidelines on responsible practice in the Sto Group

The corporate vision defined in the revised "Building with conscience." Guiding Principles provides the general terms of reference. On the basis of these principles, we evolved concrete procedural guidelines in 2010 and enshrined these in the "Principles for cooperation within and management of the Sto Group", which apply throughout the Group. In addition to rules on internal cooperation at Sto, these

principles also stipulate a binding commitment to respect human rights and to promote such rights within the company's sphere of influence. Sto management personnel are to ensure that these principles are observed in their respective areas of responsibility.

The principles additionally affirm the employees' unqualified right to membership of trade unions or other organisations representing employees. Forced labour, child labour and all forms of discrimination are proscribed. We also attach importance to the payment for our employees in all companies of the Sto Group being above the prevailing minimum wage in all instances.

Beyond these basic rights, we aim to create a work environment for all our employees which ensures freedom from physical and mental harm and is conducive to good health and realisation of the individual's capabilities. To this end, we introduced a health management system at Sto AG in 2010. We intend to implement this system successively throughout the entire Group in the course of this decade. We also offer part-time and tele-working as well as job sharing models at virtually all Group companies, in order to enable our employees to better reconcile work and private life. Further information on our personnel strategy is to be found in the section on employees in the Management Report.

Good corporate governance

Sto AG is committed to responsible, transparent corporate government pursuing a long-term perspective. Compliance with legal and ethical standards, a sound financial policy and a strategy geared to sustainability are integral to our understanding of good corporate governance. In this context, the newly formulated guidelines also explicitly stipulate that bribery and corruption are unacceptable forms of behaviour and will not be tolerated. Further details relating to corporate governance at Sto are to be found in the Corporate Governance report on pages 8 to 10.

On signing up to the "Global Compact" we implemented a Group-wide reporting system geared to the ten principles of the initiative in the areas of human rights, labour rights, the environment and anti-corruption. The management personnel of all companies belonging to the Sto Group are responsible for ensuring compliance with the corresponding requirements and for implementing appropriate measures. In this way we were able to ensure that virtually all of the Group's management staff and employees received information and training regarding the new Guiding Principles and the "Principles for cooperation within and management of the Sto Group" in 2010.

Other activities in 2010

Beyond the stated projects we undertook additional measures in 2010 in order to lend increased weight to the concept of sustainability and to assume social responsibility. The activities cited here by way of example are presented according to the three sustainability dimensions of economy, ecology and social issues.

Economy

Sustainable growth strategy

Sto AG pursues a long-term corporate strategy. We aim to maintain an earnings-oriented growth strategy with due regard to social and ecological criteria. This provides the essential basis on which to safeguard jobs over the long term and to create new jobs. Adequate profitability is crucial to Sto establishing itself as a reliable partner for employees, customers, suppliers, other stakeholders and our shareholders. As a family-run public limited company we also attach importance to continuity in the corporate management. The impending handover of management responsibilities to the next generation was prepared in good time, enabling a successful transition in key functions in 2010.

Thermal insulation helps to protect the environment

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

60 billion litres of heating oil



Between 1965 and 2010, facade insulation systems from Sto played a direct role in saving the barely conceivable volume of 60 billion litres of heating oil. This represents a notable contribution to global climate protection: the facade systems from the Black Forest have cut CO₂ emissions by around 184 million tonnes. In 2010 alone, Sto products reduced emissions of this combustion gas by around 14.1 million tonnes.

Another aspect of our sustainable growth strategy is the ongoing improvement of our production and logistics processes. We are also engaged in continuous efforts to reduce the Sto fleet's CO₂ emissions by switching to diesel vehicles with lower fuel consumption and emission levels.

Ecology

Applying environmental and climate protection in practice

At Sto, ecological and economic aspects are intertwined not only in the area of process improvements. Sto's core area of business centres on the manufacture of facade insulation systems, which substantially reduce the quantities of oil and gas employed for heating purposes and the attendant released pollutants. Apart from being a key driver of growth at our company, these systems thus also make a substantial contribution towards protecting the climate and the environment. The Sto systems which have been installed since 1965 resulted in savings in the order of 60 billion litres of heating oil up until and including 2010, with last year accounting for 5 billion litres of this figure alone. The resultant reduction in CO₂ emissions totalled 184 million tonnes, including 14.1 million tonnes in 2010.

Promoting environment-friendly technologies

By actively supporting the widespread use of facade insulation systems, we are promoting the socially desirable development and spread of environment-friendly technologies – fully in keeping with the "Global Compact". A key element of marketing operations is the active PR work which we pursue in professional EWIS associations at national and international level. We are a member of the European Association for External thermal insulation composite systems (EAE) and the German Sustainable Building Council (DGNB), for example.

Certification in accordance with ecological standards

Sto AG was one of the first suppliers of building materials to receive Environmental Product Declarations (EPD) for a selection of its mineral adhesives and renders in 2009. Relevant environmental data, such as eco-friendly properties, are determined, examined and published for such certified products. Environmental declarations are an important tool for architects and planners who are involved in ecological building and who, in turn, seek certification for buildings in accordance with the DGNB guidelines, for example. We established the essential basis for further environmental product declarations in 2010. The main focus of our efforts here was on organic finishing renders and base coat renders as well as paints and primers. We will be receiving certification in the first half of 2011.



Sto Environmental Product Declaration (EPD) for organic exterior renders

We also went one step further in 2010, preparing the ground for so-called Environmental System Declarations (ESD). The process involved here entails an evaluation of the complete facade insulation system with regard to ecological, economical and social aspects. We expect to receive our initial system certificates in the second half of 2011.

Sto regularly receives awards for its range of products and services geared to sustainability criteria. In 2010, we once again claimed the "Top Builder" award for our innovative Sto Lotusan products, for example, while in the USA we received the "Sharp Award for Safety". The Chinese subsidiary in Shanghai claimed two awards – the "Quality Assured Best Company of Shanghai Constructive Paint Industry" and the "Top 10 Best Paint Brand of 2009".

Recycling instead of oil consumption

Sto also places great emphasis on the recycling of raw materials. By way of example, we have our striking yellow pails processed into granular material together with other plastic waste in special processing plants. This then serves as a basic material for new products, such as sheeting and piping. Large quantities of this recoverable material are produced at Sto in Germany alone. At the plant in Stühlingen, for example, we use more than 7 million plastic pails per year. Transport and sales packaging are also collected together with various fractions of paper, film waste and plastic or metal containers in the recycling bins at the more than 90 sales centres, and are subsequently recycled. Through this recycling system we are able to conserve natural raw materials.

Social issues

Similarly to Sto's commitment to ecological concerns, a commitment to social issues also forms part of a long-standing tradition at the



Waste containers are collected and shredded into plastic granular material, which is subsequently used to produce bags and sheeting.

company. The non-profit-making **Sto Foundation** (Sto-Stiftung) has evolved into a key element of our efforts in this field. We established the Sto Foundation to mark our company's fiftieth birthday in 2005, providing it with funding to the tune of EUR 1 million. In this way we have since been able to invest around TEUR 190 annually in projects which would not otherwise have been possible.



On the occasion of the Foundation's five-year anniversary in 2010 we announced our intention to increase its funding substantially. TEUR 350 will be available annually up to 2015. These funds originate from returns on the Foundation's capital and from grants which are contributed on a regular basis by Sto AG and its ordinary shareholders.

The primary aim of the Sto Foundation is to support young people who are serving an apprenticeship in the painting, decorating and plastering trades or studying construction

engineering or architecture at university. The third area of support focuses on further training activities for these two groups. Fourthly, the Foundation undertakes project sponsorship. A six-member Foundation Council decides on the allocation of funding, ensuring that the manual and academic areas receive equal treatment.

A special aspect of the Sto Foundation is the consideration of social components in the area of funding for young craftsmen. Socially disadvantaged young people beginning apprenticeships under difficult conditions qualify for support in this context.

In keeping with its international orientation, in the year under review, the Sto Foundation staged a competition to establish the best cross-border "summer schools" in the field of sustainable building. The colleges in Braunschweig, Erfurt and Munich received awards for their innovative concepts.

The two-day educational congress for plasterers in Berlin was attended by more than 150 specialists. The Centre of Excellence for Interior Finishing and Facades in Baden-Württemberg and the Sto Foundation played a key role in organising the event.



A highlight in the area of manual trades in 2010 was the first nationwide educational congress for plasterers. The aim of this event was to examine the successful practice whereby apprenticeships are allocated mentors and to apply this model beyond the plasterer's trade in other manual trades. More than 150 scientists, teachers and trainers discussed this promising educational topic over two days.



One of the award winners in the summer school competition was the Institut für Gebäude- und Solartechnik directed by Prof. Norbert M. Fisch at the Technical University of Braunschweig. Together with two Chinese universities, the students developed sustainable "Settlement structures and building concepts for Shanghai and Lanzhou", which also went on show at the German pavilion at EXPO 2010.

The University of Tübingen's traditional series of lectures entitled "Architektur Heute" ("Architecture Today") also received funding. Under the motto "Museums for the 21st century", six renowned national and international speakers presented the tasks, roles and expectations for museums today.



The private museum of industrialist Herbert W. Liaunig in South Carinthia houses a significant collection of modern art. The museum was designed and built by the Vienna-based Querkraft firm in 2008. Architect Gerd Erhartt presented the spectacular building in the course of the "Architektur Heute" series of lectures in Tübingen. The series was sponsored by the Sto Foundation.



The Sto factory fire brigade received a new fire engine in 2010. "Chief of operations", Gerd Stotmeister, Technical Officer of Sto AG (centre), handed over the symbolic key to commander Günther Dunklau (left) and his deputy, Bruno Müller.

Beyond the Foundation's activities, Sto AG is also involved in social issues at local level, sponsoring associations, educational establishments and social facilities. In 2010, we handed over an older vehicle from Sto's factory fire brigade to Stühlingen's municipal fire brigade free of charge, for example.

The "Sto Weiher" (Sto Pond) project which was carried out last year by apprentices from Sto AG was an expression of both social and ecological involvement. In the course of this project an overgrown biotope close to the company's headquarters was rendered accessible once again with the support of an expert from the German "BUND", environmental and nature conservation organisation.

Those participating in the project learnt a great deal not only about biodiversity, flora and fauna, but also about how to work in a well-structured and well-aimed manner, how to organise oneself and how to clearly define tasks and areas of responsibility. A gratifying side-effect was the creation of a valuable recreation area for staff, customers and guests of Sto AG.

The members of the "Sto Weiher" (Sto Pond) project team received generous praise for their ecological commitment at the official opening of the reclaimed site.



Sto AG | **Consolidated annual financial statements of the Sto Group (IFRS)**

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

Sto AG, Stühlingen | Consolidated income statement for 2010

	Notes	2010 EUR	2009 EUR '000s
1. Revenues	(1)	986,044,519.47	924,626
2. Changes in product inventories		-1,395,237.90	-1,020
3. Other internally generated assets capitalised	(2)	11,307.09	32
Total revenues		984,660,588.66	923,638
4. Other operating income	(3)	15,645,451.45	12,598
5. Cost of materials	(4)	-436,978,442.72	-408,318
6. Personnel expenditure	(5)	-252,831,630.43	-240,146
7. Other operating expenses	(6)	-199,731,290.52	-180,961
EBITDA		110,764,676.44	106,811
8. Depreciation and amortisation of intangible fixed assets as well as property, plant and equipment	(7)	-25,150,967.53	-24,467
EBIT (Earnings before interest and taxes)		85,613,708.91	82,344
9. Share in profits of associates	(8)	0.00	-76
10. Interest and similar income	(9)	2,799,274.09	2,165
11. Interest and similar expenditure	(9)	-4,539,082.30	-5,087
12. Other financial income	(10)	42,520.36	5
13. Other borrowing costs	(10)	-2,000.00	-493
EBT (Earnings before taxes)		83,914,421.06	78,858
14. Taxes on income and earnings	(11)	-25,733,652.19	-23,263
EAT (Earnings after taxes)		58,180,768.87	55,595
of which:			
share of minority interests		316,623.89	206
share attributable to the shareholders of Sto AG		57,864,144.98	55,389
Earnings per share basic/diluted in EUR			
Ordinary shares	(12)	8.98	8.60
Preference shares	(12)	9.04	8.66

Sto AG, Stühlingen | Consolidated statement of recognised income and expenses 2010

	2010 EUR	2009 EUR '000s
EAT (Earnings after taxes)	58,180,768.87	55,595
Pensions:		
Actuarial gains or losses	-1,308,269.25	-234
Deferred taxes	378,006.00	76
Cash flow hedges:		
changes to fair value recognised in equity	-286,179.78	-842
transferred to the income statement	794,306.38	606
Deferred taxes	-145,324.00	67
Currency translation differences	7,081,885.06	636
Income and expenses recognised directly in equity	6,514,424.41	309
Overall result	64,695,193.28	55,904
of which:		
share of minority interests	288,844.28	210
share attributable to the shareholders of Sto AG	64,406,349.00	55,694

For further explanations concerning equity, see No. (20).

Sto AG, Stühlingen | Consolidated balance sheet for the year ended 31 December 2010

Assets	Notes	31.12.2010 EUR	31.12.2009 EUR '000s
A. Non-current assets			
I. Intangible assets	(13)	42,237,836.22	42,489
II. Property, plant and equipment	(14)	190,543,200.15	193,190
III. Investments in associates	(15)	0.00	19
Fixed assets		232,781,036.37	235,698
IV. Non-current trade receivables	(17)	722,662.69	921
V. Non-current income tax receivables		3,964,553.11	4,601
VI. Non-current other receivables and financial assets	(18)	2,431,888.36	1,509
VII. Deferred tax assets	(11)	8,445,401.54	8,131
Other non-current assets		15,564,505.70	15,162
Total non-current assets		248,345,542.07	250,860
B. Current assets			
I. Inventories	(16)	63,676,903.66	57,578
II. Current trade receivables	(17)	99,589,264.62	100,367
III. Current income tax receivables		2,850,418.77	2,424
IV. Current other receivables and financial assets	(18)	120,664,093.91	50,614
V. Cash and cash equivalents	(19)	85,014,352.60	106,715
Total current assets		371,795,033.56	317,698
Total assets		620,140,575.63	568,558

Liabilities	Notes	31.12.2010 EUR	31.12.2009 EUR '000s
A. Equity			
I. Subscribed capital	(20)	17,556,480.00	17,556
II. Capital reserves	(20)	53,229,220.46	53,229
III. Revenue reserves	(20)	297,885,434.32	248,563
Share attributable to the shareholders of Sto AG		368,671,134.78	319,348
IV. Share of minority interests	(21)	2,273,959.10	1,516
Total equity capital		370,945,093.88	320,864
B. Non-current provisions and liabilities			
I. Provisions for pensions and similar liabilities	(22)	39,407,842.50	36,323
II. Deferred tax liabilities	(11)	4,927,302.25	5,404
III. Other non-current provisions	(23)	4,616,313.74	5,207
IV. Non-current borrowings	(24)	27,900,972.04	41,411
V. Other non-current liabilities	(25)	422,591.03	442
Total non-current provisions and liabilities		77,275,021.56	88,787
C. Current provisions and liabilities			
I. Other current provisions	(23)	51,073,521.09	45,785
II. Current borrowings	(24)	16,349,422.93	17,635
III. Trade payables	(26)	39,745,852.54	33,971
IV. Current income tax liabilities		3,458,530.71	10,104
V. Other current liabilities	(25)	61,293,132.92	51,412
Total current provisions and liabilities		171,920,460.19	158,907
Total debt capital		249,195,481.75	247,694
Total assets		620,140,575.63	568,558

Sto AG, Stühlingen | Statements of changes in equity as at 31 December 2010

in EUR '000s	Subscribed capital	Capital reserve	Revenue reserves		
			Ac-crued profits	Currency translation reserve	Reserve for pensions
Status as at 01.01.2009	17,556	53,229	233,629	-3,320	914
EAT (Earnings after taxes)	0	0	55,389	0	0
Other income	0	0	0	636	-162
Income and expenses recognised	0	0	55,389	636	-162
Dividend payout	0	0	-14,666	0	0
Status as at 31.12.2009	17,556	53,229	274,352	-2,684	752
Status as at 01.01.2010	17,556	53,229	274,352	-2,684	752
EAT (Earnings after taxes)	0	0	57,864	0	0
Other income	0	0	0	7,094	-914
Income and expenses recognised	0	0	57,864	7,094	-914
Dividend payout	0	0	-14,666	0	0
Transactions between shareholders	0	0	-417	0	0
Acquisition of subsidiaries	0	0	0	0	0
Status as at 31.12.2010	17,556	53,229	317,133	4,410	-162

Revenue reserves		On Sto AG shareholders attributable shareholders' equity	Shares other shareholders	Total equity
Reserve for cash flow hedges	Treasury stock			
-633	-23,055	278,320	1,306	279,626
0	0	55,389	206	55,595
-168	0	306	3	309
-168	0	55,695	209	55,904
0	0	-14,666	0	-14,666
-801	-23,055	319,349	1,515	320,864
-801	-23,055	319,349	1,515	320,864
0	0	57,864	317	58,181
362	0	6,542	-28	6,514
362	0	64,406	289	64,695
0	0	-14,666	0	-14,666
0	0	-417	-55	-472
0	0	0	524	524
-439	-23,055	368,672	2,273	370,945

Sto AG, Stühlingen | Consolidated cash flow statement for 2010

in EUR '000s	2010	2009
1. Cash flow from operating activities		
Accounting profit	83,914	78,858
Depreciation of non-current assets (net of reversals)	25,151	24,466
Net profit/loss from disposal of non-current assets	-479	-776
Net profit/loss from the fair-value measurement of investments in associates	0	77
Net interest income/expense and other net finance income/expense	1,699	3,410
Income taxes paid	-30,523	-24,549
Change in tax assets and tax liabilities	-2,291	-916
Change in provisions	3,821	16,533
Change in net current assets	11,734	16,133
Cash flow from operating activities	93,026	113,236
2. Cash flow from investment activities		
Investments in property, plant and equipment and intangible assets	-22,022	-20,940
Payments for the acquisition of consolidated companies and other business units	-426	0
Payments received from the disposal of intangible assets and plant, property and equipment	952	1,386
Interest payments received	2,124	1,774
Dividends received	5	44
Disbursements for financial investments	-101,271	-39,289
Deposits from financial investments	34,289	14,000
Cash flow from investment activities	-86,349	-43,025
3. Cash flow from financing activities		
Payments for the acquisition of minority interests	-472	0
Payments for non-current borrowings	-14,324	-15,756
Payments for other borrowings	-471	-184
Dividend distribution	-14,666	-14,666
Interest payments	-2,356	-3,036
Cash flow from financing activities	-32,289	-33,642
Change in cash and cash equivalents from changes in exchange rates	3,912	317
Cash and cash equivalents at beginning of period	106,714	69,828
Change in cash and cash equivalents	-21,700	36,886
Cash and cash equivalents at end of period*	85,014	106,714

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

The capital flow statement is explained Note No. (27).

Sto AG, Stühlingen | **Notes to the consolidated financial statements as at 31 December 2010**

General information

1. Information on the Company

In its capacity as the operating parent company, Sto AG, Stühlingen, whose majority shareholder is Stotmeister Beteiligungs GmbH, Stühlingen, produces and distributes paints, plasters, coatings of all kinds, heat and acoustic insulation systems, concrete maintenance systems and products and goods for the preservation of buildings.

The address of its registered offices is Ehrenbachstrasse 1, 79780 Stühlingen, Germany. Sto AG was entered in the Commercial Register of the Local Court of Freiburg under number HRB 620675. It is listed in the "Regulated Market" segment for official trading on the stock exchange operated by Deutsche Börse AG, Frankfurt/Main as well as Boerse Stuttgart AG, Stuttgart. The other group member companies are engaged in the same business as Sto AG.

On 11 April 2011, the Executive Board passed a resolution to authorise the submission of Sto AG's consolidated financial statements and the Group management report to the Supervisory Board.

2. Basis of preparation

Sto AG prepared its consolidated financial statements for the year 2010 in accordance with the International Financial Reporting Standards (IFRS) in the form to be applied in the European Union and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

All standards and interpretations subject to compulsory application in fiscal 2010 were observed.

The revised standard **IAS 27** "Consolidated and Separate Financial Statements" was applied for the first time. The changes primarily relate

to accounting for shares without a controlling influence (minority shares) that will participate to the full extent in any losses of the Group in future, and to transactions that lead to loss of control of a subsidiary and the effects of which must be treated as impacting on profit or loss. Any remaining shares are to be recognised at fair value. In contrast, the effects of share sales that do not lead to a loss of control must be recognised in equity with no impact on profit and loss. This change in accounting methods is applied prospectively and had no material effects on the Sto Group's net assets, financial condition or results of operations. Accordingly, there were no changes with regard to assets and liabilities resulting from such transactions prior to the time of the first application of the new standard.

The amendments to **IAS 39** "Exposures qualifying for hedge accounting" were observed for the first time and applied retrospectively. The change indicates in concrete terms how the principles contained in IAS 39 for depicting hedge relationships are to be applied to the designation of a unilateral risk in an underlying transaction as well as to the designation of inflation risks as an underlying transaction. It is clarified that it is permissible to designate only part of the changes to fair value or the cash flow fluctuations of a financial instrument as an underlying transaction. The amendments had no impacts on the Sto Group's net assets, financial condition or results of operations since the Sto Group has fully hedged the risk of underlying transactions to date in the context of hedge accounting.

The amendment to **IFRS 3** "Business combinations" resulted in material changes being introduced with regard to accounting for such business combinations. There are impacts on the valuation of shares without a controlling influence, accounting for transaction costs, first

recognition and subsequent measurement of contingent consideration as well as of successive corporate acquisitions. These new rules and regulations are applied prospectively and have an impact on the extent of recognition of goodwill, on the results for the reporting period in which a business combination takes place and on future results.

In May 2008 and April 2009, the IASB published two collective standards for modification of various IFRS with the primary objective of eliminating inconsistencies and clarifying formulations. The collective standards "Improvements to **IFRS 2008** and **2009**" provide for a separate transitional rule for each amended IFRS standard. While the application of the following new rules and regulations leads to a change in accounting methods, it had no effects on the Group's net assets, financial condition or results of operations.

- IAS 7 "Statement of Cash Flows":
Clarification in IAS 7, in terms of which only such expenditure that leads to an asset recognised in the balance sheet being capable of being reported as cash flows from investment activities within the scope of the cash flow statement. This amendment will have effects on the presentation of the payout of contingent consideration resulting from corporate acquisitions concluded in the year 2010.

In addition, the following interpretations were of mandatory application for the first time in the financial year 2010:

Interpretation **IFRIC 16** "Hedges of a Net Investment in a Foreign Operation" has had to be applied prospectively since fiscal 2010. This interpretation provides guidance for identifying the foreign currency risks that can be hedged within the scope of hedging a net investment, for establishing which group companies can

hold the hedge instruments for the purpose of hedging the net investment, and for determining the foreign currency gain or loss to be reclassified from equity to profit or loss following the sale of the foreign operation hedged. For the Sto Group, this has no impact on the consolidated financial statements.

The following new rules and regulations are not applicable to the Sto Group and therefore have no effects on the Group's net assets, financial condition and results of operations:

- Amendments "First-time adoption of International Financial Reporting Standards" to IFRS 1
- Amendments "Share-based payment" to IFRS 2
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 15 "Agreements for the Construction of Real Estate"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- IFRIC 18 "Transfers of Assets from Customers"

The other new features listed below on improvements to **IFRS 2008** and **IFRS 2009** resulted in no effects on the accounting methods and the presentation of the Group's net assets, financial condition and results of operations:

Published in May 2008:

- IFRS 5 "Non-current assets held for sale and discontinued operations"

Published in April 2009:

- IFRS 1 "First-time adoption of International Financial Reporting Standards"
- IFRS 2 "Share-based payment"
- IFRS 5 "Non-current assets held for sale and discontinued operations"
- IFRS 8 "Operating segments"

- IAS 17 “Leases”
- IAS 18 “Revenue”
- IAS 36 “Impairment of assets”
- IAS 38 “Intangible assets”
- IAS 39 “Financial instruments: recognition and measurement”
- IFRIC 9 “Reassessment of embedded derivatives”
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”

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

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

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

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

The amendment to **IAS 12** “Income taxes” was published in December 2010 and has not

yet been implemented in European law. This amendment must be applied for the first time in accounting periods commencing on or after 1 January 2012. The amendment provides for deferred tax assets and deferred tax liabilities to be measured for certain assets on the assumption that the carrying amount of such assets is recovered in full by sale. This amendment will have no effects on Sto’s consolidated financial statements.

In November 2009, the IASB published a revised version of **IAS 24** “Related party disclosures”. This revision simplifies the disclosure rules relating to entities in which the state has an interest. Moreover, the definition of related entities and persons was fundamentally revised. The revised standard IAS 24 has already been incorporated into European law by the European Union. It is to be applied for the first time to financial years beginning on or after 1 January 2011. The revised IAS 24 will lead to no substantial changes for the Sto Group.

The amendment to **IFRS 7** “Financial instruments: disclosures” was published in October 2010 and is to be applied for the first time to financial years beginning on or after 1 July 2011. The amendment defines extensive new qualitative and quantitative disclosures on financial assets transferred that were not derecognised, and on the existing exposure until the reporting date in the case of financial assets transferred. This amendment has not yet been implemented in European law by the European Union. If such transactions should be carried out in future, this amendment would lead to extended disclosures on the transfer of financial instruments.

In November 2009 and October 2010, the standard **IFRS 9** “Classification and measurement” was published and supplemented. IFRS 9 must be applied for the first time in accounting periods commencing on or after 1 January

2013. The standard comprises new rules and regulations on the classification and measurement of financial assets and financial liabilities. According to the standard, debt instruments – depending on their respective characteristics and taking account the business model – are to be recognised either at amortised cost or at fair value through profit or loss. However, due to the instrument-specific optional selection, fluctuations in value of equity instruments may be recognised under other income. In this event, only certain dividend income would be recognised through profit or loss with respect to equity instruments. Exception: financial assets held for trading and which are required to be measured at fair value through profit or loss. For financial liabilities, the standard provides for existing classification and valuation rules to be retained subject to the following exceptions: Impacts of modifying own credit risk in the case of financial liabilities classified at fair value through profit or loss are required to be recognised as having no impact on profit or loss, and derivative liabilities on non-listed equity instruments may no longer be recognised at amortised cost. The standard provides for retrospective application in principle and has not yet been adopted in European law. The new standard will have an effect on the measurement of financial assets within the Sto Group.

In May 2010, as part of the “Improvements to **IFRS 2010**” project, a collective standard for the amendment of various IFRS was published and implemented in European law by the European Union. The times of adoption and transitional rules are specified for each standard. Unless stated otherwise, specific rules and regulations apply for the first time to the financial year beginning on or after 1 January 2011. According to a prudent assessment, the amendments specified below might have potential effects for the Sto Group:

- IFRS 3 “Business combinations”
- IFRS 7 “Financial instruments: disclosures”
- IAS 1 “Presentation of financial statements”
- IAS 21 “The effects of changes in foreign exchange rates”
- IAS 27 “Consolidated and separate financial statements”
- IAS 34 “Interim financial reporting”
- IFRIC 13 “Customer Loyalty Programmes”

The Sto Group assumes that these changes will have no substantial effects on the Sto Group’s net assets, financial condition and result of operations of the Sto Group.

In November 2009, the IASB amended **IFRIC 14** “IAS 19 – The limit on a defined asset, minimum funding requirements and their interaction” in order to eliminate an unintended consequence in the treatment of advanced contribution payments in cases calling for minimum funding requirements. The amendment to IFRIC 14 has already been implemented in European law by the European Union and is to be applied for accounting periods beginning on or after 1 January 2011. This amendment has resulted in no modifications to the Sto Group’s consolidated financial statements.

The following new rules and regulations are not applicable to the Sto Group and will therefore have no effects on the Group’s net assets, financial condition and results of operations:

- Amendment to IAS 32 “Classification of subscription rights”
- Amendments to IFRS 1 “First-time adoption of the International Financial Reporting Standards”
- IFRIC 19 “Repayment of financial obligations by equity instruments”
- “Improvements to IFRS 2010”
 - IFRS 1 “First-time adoption of the International Financial Reporting Standards”

- IAS 28 “Investments in associates”
- IAS 31 “Interests in joint ventures”

4. Companies consolidated

The consolidated financial statements include Sto AG as well as the domestic and non-domestic subsidiaries on which Sto AG is able to exercise a controlling influence as defined in IAS 27. IAS 27 defines control as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated for the first time upon the control being acquired, this generally being assumed to be the case with a share of 50% or more.

During the last financial year, the companies consolidated changed as follows:

At the beginning of the year, the remaining two thirds of the interests in Productos Sto Balear S.L., Santa María Del Camí/Spain were acquired and merged with Sto SDF Iberica S.L.U., Mataró/Spain. The fair values of identifiable assets and liabilities of the former Productos Sto Balear at the time of acquisition are shown as follows:

in EUR '000s	Fair value as at the time of acquisition
Intangible assets and property, plant and equipment	271
Income tax receivables	1
Inventories	51
Trade receivables	163
Other receivables and financial assets	104
Cash and cash equivalents	62
Total assets	652
Trade payables	181
Borrowings	171
Other liabilities	30
Total liabilities	382
Total identifiable net assets at fair value	270
Share of Sto AG	19
Total consideration	251

Since the beginning of the year, Productos Sto Balear S.L. has contributed TEUR 903 to consolidated revenues and TEUR 11 to consolidated pre-tax earnings.

The gross amount of the receivables corresponds to the fair values thereof. Exception: trade receivables, amounting to TEUR 265 (gross).

Contractual cash flows not expected to be recovered amount to TEUR 102.

in EUR '000s	Consideration
Outflow of cash and cash equivalents	140
Liability arising from contingent consideration	111
Total consideration	251

The extent of contingent consideration depends on the earnings performance of the acquired company in 2010 and 2011 as well as the success in recovering value-adjusted receivables, with the amount of contingent consideration being capped. As at 31 December 2010, the amount already capped was classified as a liability.

In the second half of the year, the Sto Group founded Sto Corp. Chile Ltda./Chile. This company serves as a holding of Industrial y Comercial Sto Chile Ltda./Chile.

In July 2010, the Sto Group acquired a 60% share in a Chilean producer and distributor of external wall insulation systems. Thanks to this company, meanwhile trading as Industrial y Comercial Sto Chile Ltda., Santiago de Chile/Chile, it is now possible to develop the South American market step by step, benefiting from local cost structures and the use of existing contacts. This corporate acquisition was effected in accordance with the full goodwill method.

The fair value of identifiable assets and liabilities of Industrial y Comercial Sto Chile Ltda./Chile at the time of acquisition is shown as follows:

in EUR '000s	Fair value as at the time of acquisition
Intangible assets and property, plant & equipment	752
Income tax receivables	16
Inventories	94
Trade receivables	460
Other receivables and financial assets	79
Cash and cash equivalents	276
Total assets	1,677
Trade payables	183
Income tax liabilities/deferred tax liabilities	161
Other liabilities	21
Total liabilities	365
Total identifiable net assets at fair value	1,312
Pro-rata value of shares of non-controlling shareholders	540
Total consideration	772

Since its date of acquisition, Industrial y Comercial Sto Chile Ltda./Chile has contributed TEUR 892 to consolidated sales and TEUR 35 to consolidated pre-tax earnings. Had the corporate merger taken place at the beginning of the year, revenues would have increased by TEUR 1,787 and consolidated earnings before taxes by TEUR 252.

The gross amount of the receivables corresponds to the fair values thereof. Exception: trade receivables, amounting to TEUR 494 (gross). Contractual cash flows not expected to be recovered amount to TEUR 34.

in EUR '000s	Consideration
Outflow of cash and cash equivalents	624
Liability arising from consideration	148
Total consideration	772

In September the Sto Group acquired the remaining 15% of shares in Sto s.r.o./Czech Republic. Cash consideration amounting to TEUR 472 was paid to the holders of shares without a controlling influence. The difference between the cost of acquisition and the carrying amount accounted for by the shares acquired, amounting to TEUR 391, was recorded in equity under revenue reserves.

Die Visco-Tec AG, Pratteln/Switzerland was merged with Sto AG, Niederglatt/Switzerland in fiscal 2010.

In December, Innolation GmbH, Lauingen/Germany was founded. The company had not yet commenced operations at the balance sheet date.

The companies consolidated are set out in the list of Sto AG's subsidiaries and investments, which forms part of the notes to the consolidated financial statements and has been lodged with the operator of the electronic "Bundesanzeiger".

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 264 b of the German Commercial Code and

come under the exemption rules:

- StoCretec GmbH, Kriftel
- Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim
- Gefro Verwaltungs-GmbH & Co. KG, Stühlingen
- StoVerotec GmbH, Lauingen
- Hemm Stone GmbH, Kirchheim
- Malfa Farben GmbH, Freiburg

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. Proportionate investments in associates are accounted for using the same accounting and valuation methods.

When subsidiaries are consolidated for the first time, their assets, liabilities and contingent liabilities are measured at their fair value as of the date of acquisition. If the price paid for the investment exceeds the identified assets, liabilities and contingent liabilities, this difference is accounted for as goodwill. Such goodwill is submitted to annual testing to determine any impairment in its value (impairment-only approach). If any impairment in the value of the goodwill is established, the corresponding loss 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. Deferred taxes are recognised on consolidation transactions recognised through profit or loss.

The remaining consolidation methods and accounting policies applied in the previous year were retained in the year under review.

6. Presentation of material accounting and valuation policies

The consolidated financial statements are generally prepared according to the cost of acquisition principle, except for derivatives, financial instruments available for sale as well as assets recognised at fair value through profit or loss, which are recognised at fair values as a matter of principle. 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 '000s).

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

Currency translation

Monetary items in foreign currency (in particular, cash and cash equivalents, receivables and liabilities) are translated for the first time at the rate prevailing on the transaction date and measured at fair value through profit or 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

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

	1 EUR =	Closing rate on		Average annual rate	
		31.12.2010	31.12.2009	2010	2009
Chile	CLP	621.5312	725.4943	658.7099	767.3150
Denmark	DKK	7.4745	7.4618	7.4473	7.4462
United Kingdom	GBP	0.8638	0.8910	0.8578	0.8909
Malaysia	MYR	4.0955	4.9079	4.2668	4.9079
Norway	NOK	7.8340	8.3230	8.0043	8.7278
Poland	PLN	3.9603	4.1668	3.9947	4.3276
Russia	RUB	41.6850	44.4050	40.2629	44.1376
Sweden	SEK	9.0040	10.2840	9.5373	10.6191
Switzerland	CHF	1.2545	1.4859	1.3803	1.5100
Singapore	SGD	1.7365	2.0383	1.8055	2.0241
Czech Republic	CZK	25.0600	26.8050	25.2840	26.4350
Hungary	HUF	281.8950	274.4350	275.4800	280.3300
USA	USD	1.3416	1.4430	1.3257	1.3948
People's Republic of China	CNY	8.7697	9.7660	8.9712	9.5277

closing rate and expenses and income at annual average rates.

Equity capital is translated at historic rates. Any resultant currency translation differences are recognised separately under equity until such time as the subsidiary in question is deconsolidated.

Business combinations

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

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

In the case of successive corporate acquisitions, the equity share previously held by the 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 contingent consideration representing an asset or a liability are either recognised in the income statement or in other net income. Contingent consideration

classified as equity is not remeasured, and its settlement at a later date is accounted for in equity.

Goodwill is measured at cost of acquisition on first-time recognition, calculated at the surplus of the total 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 through profit or loss.

Intangible assets

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

Goodwill is not subject to systematic amortisation. Instead, it is submitted to regular impairment testing ("impairment-only approach"). The Sto Group determines on an annual basis whether goodwill has been impaired. The value in use of the respective cash-generating unit as at 31.12.2010 was determined to be the realisable amount. This realisable amount is compared with the carrying amount of the respective cash-generating unit. A cash-generating unit 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 AG, the cash-generating units (CGUs) identified for purposes of calculating goodwill are identical to the legal entities. The Sto AG CGU comprises Sto AG, Stühlingen, StoVerotec GmbH, Lauingen, and StoCretec GmbH, Kriftel. 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 cash generating unit and adjusted accordingly.

The starting point is the current corporate planning of the respective legal entities at 31.12.2010. This is based on forecasts derived from external estimates of the economic situation and market studies as well as internal maintenance investment plans.

The moderate growth rates in sales implemented in particular at CGU Sto AG during the detailed planning period are based on expectations that the level of demand for thermal insulation will continue to grow in future. Despite inflation-induced increases in the prices of raw materials and commodities and fluctuations in the price of oil-based products, we assume that the gross profit margins will decline slightly for all CGUs in the light of gross profit margin trends in previous years prior to the commencement of the budget period.

The weighted average capital costs (WACC) before taxes are determined by taking account of a risk-free basic interest rate, 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, borrowing costs as well as the consolidated capital structure.

As a matter of principle, cash flows are discounted using a uniform Group interest rate which is adjusted to allow for any differences in the base interest rates of the individual currencies. In the year under review, pre-tax interest rates of between 10.0% and 16.5% (previous year: between 11.2% and 17.5%) were applied to the corporate planning period (five years).

As in the previous year, the perpetual annuity is based on a growth rate of 1.0%.

The following material assumptions were made with regard to the key CGUs Sto AG and Beissier S.A.S., La Chapelle La Reine/France:

- Pre-tax interest rates: For the CGU Sto AG 11.1% (previous year: 11.7%) and CGU Beissier S.A.S. 12.5% (previous year: 13.0%).
- 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 GCUs, turnover growth is assumed to be a low single-digit percentage.
- Margin changes: Owing to a further surge in procurement prices, slightly declining margins are assumed to apply to both CGUs.

Based on these calculations, there is no evidence at present to indicate that the carrying amounts of the respective cash-generating units could exceed the realisable amounts.

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

The sensitivity analysis for the CGU Sto AG has revealed that a sustained planning error by 44% in terms of EBIT would not require a goodwill impairment.

Research and development costs were taken to the income statement since capitalisation of the development costs in the form of internally generated intangible assets is not possible under IAS 38 where the requirements have not been met.

Property, plant and equipment

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

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

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

Depreciation is calculated on a straight-line basis using the following estimated useful lives:

The service lives and residual carrying amounts are verified on a regular basis. Maintenance and minor repairs are immediately recognised in profit and loss.

	Useful lives
Buildings	20 to 30 years
Fixtures to land	8 to 12 years
Technical equipment and machinery	8 to 10 years
Other technical, operating and business equipment	3 to 10 years

Assets under construction are recognised at historical cost under property, plant and equipment. They are not depreciated until such time as they become available for operation.

Borrowing costs

Borrowing costs capable of being directly assigned to the acquisition, construction or manufacture of asset for which a substantial period of time is required in order to render the asset ready for its intended use or sale are capitalised as part of the cost of acquisition or production of the relevant asset. All other borrowing costs are recognised as an expense in the period in which they were incurred. Borrowing costs are interest and other costs incurred by an entity in connection with borrowing activities.

Borrowing costs for all qualified assets for which construction began on or after 1 January 2009 are required to be capitalised. In the Sto Group there were no qualified assets for which borrowing costs would have had to be capitalised.

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 a contract.

Leased property, plant and equipment satisfy the conditions for classification as finance leases in accordance with IAS 17 provided that all the risks and rewards incidental to ownership of these assets are transferred to the Group company in question.

In these cases, the assets in question are recognised at the lower of the present value of the minimum lease payments or the fair value of the assets in question and are depreciated on a straight-line basis over their useful lives.

The obligations arising from future lease payments are discounted and recognised as liabilities.

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

Impairment of assets

Property, plant and equipment and intangible assets are tested for any impairment whenever any events or changes in circumstances indicate that their carrying amount may no longer be recoverable. If, in the case of property, plant and equipment and intangible assets initially recognised at cost, the carrying amount exceeds its recoverable amount, the difference is recognised as an impairment loss in the income statement. The recoverable amount is the higher of the 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 estimated for an individual asset or, if it does not generate any cash flows independently from other assets, for the cash-generating unit. If the indication that an asset is impaired no longer exists or the impairment has decreased, the impairment loss is reversed and the proceeds taken to the income statement. No reversal is made to an impairment of goodwill.

Investments in associates

Investments in associates relate to one associated company. An associate is an entity over which the Group has decisive control. Using the equity method, shares are accounted for at their cost of acquisition that represent the pro-rated equity acquired. The carrying amount is adjusted annually to allow for the share in such associates' profit/loss, dividends received, any impairments and other changes to their equity.

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

Financial instruments

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

IAS 39 defines the following different categories for financial assets:

- Financial instruments measured at fair value through profit or loss
(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 or loss

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

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

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

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

Held-to-maturity financial assets:

Held-to-maturity instruments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Sto 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 cost using the effective interest method. Gains and losses are reported in the income statement for the period in which the assets are derecognised or impaired, and through the amortisation process.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method net of any impairment losses. Gains and losses are reported in the income statement for the period in which the loans and receivables are derecognised or impaired.

Available-for-sale financial assets:

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

The Sto Group accounts for financial instruments at amortised cost or at fair value.

Financial assets or parts thereof are derecognised when the Sto Group loses control over the contractual rights arising from the assets. Exceptions from this are bills or trade notes

receivable passed on by us; these are cancelled only once they are settled by the drawee.

Financial assets are assigned to one of the above categories upon initial recognition. Where permissible and necessary, they are reclassified at the end of the accounting period. All purchases and sales of financial assets in accordance with normal market conditions are recorded on the day on which the Sto Group assumes the obligation to buy or sell the asset. These transactions are in accordance with normal market conditions if delivery of the assets is prescribed within a period defined by market regulations or conventions.

Financial liabilities are categorised as follows:

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

Financial liabilities at fair value through profit or loss:

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

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

Fair value:

The fair value of financial instruments traded in organised markets is determined by the market price listed on the balance sheet date. The fair value of financial instruments for which there is no active market is measured by using valuation methods. These valuation techniques include

recent arms-length transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other valuation models.

Amortised cost:

Held-to-maturity financial assets or liabilities as well as loans and receivables are measured at amortised cost, which is 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. In the case of current receivables and liabilities, amortised cost fundamentally equals the nominal or settlement amount.

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

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

Inventories

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

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

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

Trade receivables and other originated financial assets

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

Derivative financial instruments

The Sto Group uses derivative financial instruments such as currency forwards and interest rate swaps to hedge interest and currency risks. These derivative financial instruments are recognised at their fair value as of the date on which the contract is entered, and measured in subsequent periods at their fair value. Derivative financial instruments are recognised as assets if they have a positive fair value and as liabilities if they have a negative fair value.

Gains and losses from changes in the fair value of derivative financial instruments which do not

satisfy the conditions for recognition as hedges are immediately taken to the income statement. The fair value of currency forwards is calculated on the basis of the current forward exchange rate for contracts with a similar maturity structure. The fair value of interest swap contracts is calculated by reference to the market values of similar instruments.

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 inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. They are assessed on an ongoing basis to determine whether they have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedges satisfying the strict hedge accounting criteria are accounted for as follows:

- Cash flow hedges:
The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, while the ineffective portion is recognised directly through profit or loss.

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

If the forecast transaction or firm commitment are no longer expected to occur, the amounts previously recognised under equity are reclassified into profit and loss. If the hedging instrument expires or is sold, terminated or exercised (not including the replacement or rollover of a hedging instrument into another hedging instrument), the cumulative gain or loss on the hedging instrument that is recognised directly in equity from the period when the hedge was effective remains separately recognised in equity until the forecast transaction or firm commitment occurs.

In the Sto Group, derivative financial instruments are essentially currency forwards and options and interest rate swaps. These are used solely to hedge interest rate and currency risks.

Cash and cash equivalents

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

Treasury stock

Sto AG'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 post-retirement benefit commitments as defined in IAS 19. This method takes account of the benefit obligations and entitlement accruing on the balance sheet date as well as expected life expectancy, future salary and pension trends and expected fluctuation. Average life expectancy is estimated on the basis of acknowledged biometric models. Actuarial gains and losses are recognised in equity after deferred taxes.

Other provisions

In accordance with IAS 37, provisions are recognised for present liabilities towards third parties from a past event which is likely to result in a future outflow of economic resources, the amount of which can be reliably estimated. Provisions are reviewed at each balance sheet date and adjusted in the light of the best current estimate. Provisions in which the interest effect exercises a material effect in connection with the settlement of the obligation are recognised at the present value of the expected expenses. The discount is based on risk-free interest rates. The settlement amount also includes any expected increase in costs.

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

Trade payables and other originated financial liabilities

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

Deferred taxes

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

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

Deferred taxes are measured in accordance with the applicable national income tax rates expected as of the date of realisation, 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 recog-

nised amounts and they relate to income taxes levied by one and the same taxation authority for one and the same tax payer. Deferred taxes are recorded as tax income or expense in the income statement unless they relate to items recognised directly in equity, in which case they are also recognised in equity.

Recognition of income and expenses

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

Government funding

Government funding is recognised in accordance with IAS 20 if it is certain that the conditions involved will be fulfilled and the government funding will subsequently be granted. Earnings-related government funding is collected through profit or loss in the period in which the expenses to be defrayed are incurred. Government funding is generally tied to a number of conditions imposed. Fulfillment of these conditions is also verified when disbursing such government funding because expenses are generally refunded only once the expenses to be subsidized have actually been incurred. As a result, no repayments are anticipated.

Events after the balance sheet date

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

Discretionary decisions, estimates and assumptions by Management

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

The assumptions and assessments are based on premises 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 premises 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 the 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. A discounted cash flow method is used in order to calculate the value in use. Cash flows are derived from the finance plan of the following five years, with material future investments that will increase the profitability of the cash-generating unit tested not being included. The recoverable amount is heavily dependent on the discount rate used within the scope of the discounted cash flow method as well as on the expected future cash inflows and 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.

- **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. This includes determining the discount rates, future increases in wages and salaries, the mortality rate 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 assump-

tions. All assumptions are reviewed at each contracting cut-off 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 lifetime 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.

- **Fair value of financial instruments**

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

- **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 terms. In the event of a deterioration of customer's financial condition, the extent of derecognitions actually made may exceed the extent of the anticipated derecognitions.

- **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 possible extent is based on past experience, external experts, volumes sold as well as on current information available. Owing to the associated uncertainties, the actual costs may differ from the original estimates and, therefore, from the amount provisioned.

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

Group segment reporting as at 31 December 2010

Information on geographic segments by sales markets in EUR '000s	Western Europe		Other			
			Northern/eastern Europe		America/Asia	
	2010	2009	2010	2009	2010	2009
External revenues	812,023	751,206	90,038	91,348	83,959	82,056
Inter-segment revenues	25,357	25,854	37	196	346	139
Segment revenues	837,380	777,060	90,075	91,544	84,305	82,195
EBITDA	99,623	97,524	4,068	6,201	7,000	2,874
Depreciation	20,691	20,034	2,285	2,329	1,935	1,945
Operating result (EBIT)	78,932	77,490	1,783	3,872	5,065	929
EBT (Earnings before taxes)	76,695	73,760	2,030	4,191	5,360	1,054
Segment assets	492,897	444,373	50,932	56,128	61,051	52,882
Investments	14,908	18,599	1,060	594	2,200	1,129
Staff on balance sheet date	3,367	3,306	451	446	431	393

Notes on product groups in EUR '000s	Facade coatings		Facade systems		Interiors	
	2010	2009	2010	2009	2010	2009
External revenues	215,273	216,031	513,736	459,088	133,735	128,899

Segment reporting is explained in Note (28).

Reconciliation/ consolidation booking entries		Group	
2010	2009	2010	2009
25	16	986,045	924,626
-25,740	-26,189	0	0
-25,715	-26,173	986,045	924,626
73	212	110,764	106,811
240	159	25,151	24,467
-167	53	85,613	82,344
-171	-147	83,914	78,858
15,260	15,175	620,140	568,558
0	0	18,168	20,322
0	0	4,249	4,145

Other product groups		Group	
2010	2009	2010	2009
123,301	120,608	986,045	924,626

Notes on the consolidated income statement

(1) Revenues

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

(2) Other internally generated assets

Other internally generated assets in the year under review comprise the required capitalisation of the Group's use of own products as well as the customising of SAP software. In the previous year, this item comprised the utilisation of the Group's own products required to be capitalised.

(3) Other operating income

Government funding primarily relates to advances paid to fund research activities.

in EUR '000s	2010	2009
Income from the reversal of value adjustments for receivables and other assets	2,211	1,641
Income from the reversal of provisions and accrued liabilities	5,151	2,571
Currency translation gains	3,292	3,563
Income from recharged expenses to third parties	148	706
Reimbursement of pre-retirement reduced working hours	97	351
Proceeds received towards derecognised receivables	579	495
Government funding	258	320
Income from the disposal of assets	566	1,076
Other operating income	3,343	1,875
	15,645	12,598

To some extent, this funding is subject to certain conditions; we safely assume that we can meet the conditions imposed. If this should not be the case, we would expect to incur repay-

ment obligations of about TEUR 245. We did not include this risk under liabilities in our balance sheet.

(4) Cost of materials

in EUR '000s	2010	2009
Raw materials and manufacturing supplies	204,102	200,783
Goods purchased	226,781	201,004
Total materials and supplies to be consumed in the production process and goods purchased	430,883	401,787
Temporary staff	4,701	4,192
Commission production	1,394	2,339
Total services purchased	6,095	6,531
	436,978	408,318

(5) Staff expenditure

in EUR '000s	2010	2009
Wages and salaries	209,151	196,502
Social security contributions and expenditure on old-age pensions and support	43,681	43,644
	252,832	240,146

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

Annual average headcount

Number	2010	2009
Employees	4,092	4,033
Trainees	160	164
	4,252	4,197

In the year under review, research and development costs accounted for approx. 1.2% with an impact on profit and loss (previous year: approx. 1.2%).

(6) Other operating expenses

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.

in EUR '000s	2010	2009
Operating costs	22,533	20,012
Administration costs	34,540	34,154
Selling and marketing costs	80,326	72,921
Other staff costs	5,285	3,510
Rental and lease payments	26,848	24,527
Adjustments to receivables and other assets	6,856	9,543
Currency translation expense	6,603	2,939
Losses from the disposal of non-current assets	87	290
Other expenses	16,653	13,066
	199,731	180,962

(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.

Depreciation/amortisation in the year under review includes non-scheduled amortisation of a patent for which patent protection was terminated in the current financial year, from TEUR 194 (previous year: TEUR 0).

(8) Share in profit of associates

Earnings from associates in the previous year were accounted for by Productos Sto Balear S.L., Santa Maria del Cami/Spain.

(9) Total net interest

Interest and similar expenses include TEUR 161 (previous year: TEUR 163) from the compounding of interest of non-current provisions dis-counted in previous years.

in EUR '000s	2010	2009
Income from securities	1	11
Other interest and similar income	2,798	2,154
Interest and similar expenditure	-2,555	-3,278
Interest expense on post-employment benefit obligations	-1,984	-1,809
	-1,740	-2,922

(10) Other net financial income/expense

in EUR '000s	2010	2009
Expense arising from fair value measurement of derivatives	-2	-493
Income arising from fair value measurement of derivatives	36	5
Income arising from fair value measurement of securities	7	0
	41	-488

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

in EUR '000s	2010	2009
Actual domestic tax expense	15,350	15,791
Actual non-domestic tax expense	10,744	13,203
Actual tax expense	26,094	28,994
of which off-period tax expense	(-191)	(453)
Income from the reversal of tax provisions (off-period)	-19	-3
Actual income tax expense	26,075	28,991
Deferred tax assets/liabilities, domestic	-621	-726
Deferred tax assets/liabilities, non-domestic	280	-5,002
Deferred tax assets/liabilities	-341	-5,728
Income tax expense reported	25,734	23,263

Corporate tax in Germany was levied at a rate of 15.0% in the 2010 assessment period. Including trade tax and the solidarity surcharge, this results in an aggregate tax rate of 28.6%.

The local income tax rates for foreign companies range between 12.5% and 37.6%. Deferred taxes are measured using the tax rates valid or enacted as of the balance sheet date.

The utilisation of unused tax losses from earlier years resulted in a reduction of TEUR 154 (previous year: TEUR 26) in income tax expense in 2010.

Unused tax losses were valued at TEUR 4,458 (previous year: TEUR 4,081). Unused tax losses of TEUR 400 (previous year: TEUR 719) are available for an indefinite period, while TEUR 1,750 (previous year: TEUR 1,338) may only be utilised within 5 years and TEUR 2,308 (previous year: TEUR 2,024) only within 10 years.

Of the unused tax losses, a sum of TEUR 3,461 (previous year: TEUR 1,988) is assumed to be not available for the time being. Unused tax losses of TEUR 128 (previous year: TEUR 128) are available for an indefinite period, while TEUR 1,025 (previous year: TEUR 0) may only be

utilised within 5 years and TEUR 2,308 (previous year: TEUR 1,860) only within 10 years.

Changes in tax rates result in deferred tax liabilities of TEUR 37 (previous year: TEUR 93).

Deferred tax assets set up in equity with no impact on profit or loss amounted to TEUR 270 on the balance sheet date (previous year: TEUR 37). Utilisation of the option in accordance with IAS 19 to record actuarial profits and losses within equity resulted in an increase in equity of TEUR 378 in the current financial year (previous year: TEUR 74) due to the addition of deferred tax assets.

Deferred taxes for cash flow hedge reserves reduced equity capital by TEUR 145 (previous year: equity increase by TEUR 67).

No deferred taxes were recognised on the profits retained by subsidiaries of TEUR 2,600 (previous year: TEUR 2,091) as historically these profits have always been used to extend business activities at the individual locations and will continue to be used for this purpose in the future.

In 2006, as a result of statutory amendments in Germany, a corporate tax reimbursement claim was recognised for the first time in the income statement and reported in the balance sheet at a present value of TEUR 6,077.

The reimbursement claim had a present value of TEUR 4,734 at the balance sheet date (previous year: TEUR 5,298).

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 '000s	Deferred tax assets		Deferred tax liabilities	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Intangible assets	121	106	691	457
Property, plant and equipment	118	177	8,926	9,166
Investments in associates	0	1	0	0
Other non-current assets	0	5	0	0
Inventories	1,573	1,169	119	142
Current financial assets	0	0	47	11
Current trade receivables	855	803	215	216
Other current assets	0	12	533	637
Special tax items	0	0	114	49
Post-employment benefit provisions	2,495	1,953	3	5
Other non-current provisions	366	611	58	57
Non-current borrowings	782	1,038	0	0
Current provisions	6,992	6,213	837	573
Current borrowings	255	248	0	0
Trade payables	10	7	0	4
Other current liabilities	1,224	1,113	0	0
Unused tax losses	270	586	0	0
Tax reimbursements not yet utilised	0	2	0	0
Gross amount	15,061	14,044	11,543	11,317
Offset	6,616	5,913	6,616	5,913
Amount recognised in the balance sheet	8,445	8,131	4,927	5,404

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 relate to income taxes levied by one and the same taxation authority for the same tax payer.

Reconciliation of expected and reported income tax expense

in EUR '000s	2010	2009
Accounting profit	83,914	78,858
Expected income tax expense (tax rate: 28.6%; previous year: 28.6%)	24,000	22,553
<i>Reconciliation:</i>		
Tax-free income, other deductions and permanent differences	1,406	1,344
Change in tax rate	37	93
Deviations in local tax rates from deferred Group tax rate	97	-1,257
Deferred tax assets on unused tax losses recognised for the first time	0	-37
Tax reduction for unused tax losses not yet recognised	-25	-18
Effects of non-recognition of unused tax losses	308	153
Off-period taxes	-210	449
Other effects	121	-17
Income tax expense reported	25,734	23,263
Effective tax rate (%)	30.7%	29.5%

The increase in the effective tax rate is essentially based on the fact that companies with a higher local income tax rate increased their contribution to earnings.

(12) Earnings per share

Earnings per share are calculated by dividing the proportion of earnings attributable to Sto AG's shareholders by the weighted average number of ordinary and preference shares outstanding in the year under review. diluted earnings per share are identical in both years.

Basic earnings per share in accordance with IAS 33 amounted to TEUR 22,946 for preference shares (previous year: TEUR 21,968) and for ordinary shares TEUR 34,918 (previous year: TEUR 33,421). In addition to shares outstanding, diluted earnings per share also include potential shares (e. g. from options). Both as at 31 December 2010 and 31 December 2009 there were no potential shares. Accordingly, basic and

Number	Ordinary shares		Preference shares	
	2010	2009	2010	2009
Weighted average number of shares outstanding – basic/diluted	3,888,000	3,888,000	2,538,000	2,538,000

in EUR '000s	2010	2009
Of which attributable to the shareholders of Sto AG	57,864	55,389
Basic/diluted earnings – of which:		
Ordinary shares	34,918	33,421
Preference shares	22,946	21,968

in EUR	2010	2009
Earnings per share – basic/diluted		
Ordinary shares	8,98	8,60
Preference shares	9,04	8,66

In fiscal 2010, a dividend of EUR 0.25 per ordinary share plus a bonus of EUR 2.06 making a total of EUR 2.31 per ordinary share (total TEUR 8,981) and EUR 0.31 per preference share plus a bonus of EUR 2.06 making a total of EUR 2.37 per preference share (total: TEUR 6,015) was distributed from the unappropriated surplus for 2009, making a total of TEUR 14,996.

In fiscal 2009, a dividend of EUR 0.25 per ordinary share plus a bonus of EUR 2.06 making a total of EUR 2.31 per ordinary share (total TEUR 8,981) and EUR 0.31 per preference share plus a bonus of EUR 2.06 making a total of EUR 2.37 per preference share (total: TEUR 6,015) was distributed from the unappropriated surplus for 2008, making a total of TEUR 14,996.

Further notes on the income statement in accordance with IFRS 7 (financial instruments)

The Sto Group categorises financial instruments as follows:

- Financial instruments at fair value through profit or loss
- Financial assets measured at amortised cost, and
- Financial instruments not coming within the scope of IFRS 7.

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

in EUR '000s	2010	2009
Assets		
Designated assets to be measured at fair value through profit or loss (fair value option)	6	0
Assets held for trading	-3,955	-129
Sum total of financial assets measured at fair value through profit or loss	-3,949	-129
Available-for-sale assets*	0	0
Held-to-maturity assets	43	-19
Loans and receivables	-3,512	-6,567
Liabilities		
Financial liabilities measured at amortised cost	416	-501

* The amounts were rounded to 0 (zero).

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

Net gains and losses from available-for-sale financial assets include the share in profit of associates.

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

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

in EUR '000s	2010	2009
Interest income	2,397	1,791
Interest expense*	2,137	2,567
	260	-776

* The previous year figure was adjusted.

Impairment losses on financial assets by class

in EUR '000s	2010	2009
Measured at amortised cost	7,966	9,986

The measurement of the portfolio of financial instruments at fair value as at 31 December 2010 resulted in an expense, on balance, of TEUR 2,428.

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 2009

in EUR '000s	Industrial property rights and licences including software	Business or Goodwill	Advance payments	Total
Cost of acquisition / production				
1 January 2009	20,938	36,157	679	57,774
Additions	1,393	0	240	1,633
Change to companies consolidated	0	0	0	0
Disposals	1,898	0	2	1,900
Transfers	683	0	-542	141
Exchange rate differences	7	103	-7	103
31 December 2009	21,123	36,260	368	57,751
Cumulative depreciation and impairment losses				
1 January 2009	14,362	0	0	14,362
Depreciation for the year	2,707	0	0	2,707
Disposals	1,897	0	0	1,897
Transfers	86	0	0	86
Exchange rate differences	4	0	0	4
31 December 2009	15,262	0	0	15,262
Net carrying amount as at 31 December 2008	6,576	36,157	679	43,412
Net carrying amount as at 31 December 2009	5,861	36,260	368	42,489

Changes in intangible assets from 1 January until 31 December 2010

in EUR '000s	Industrial property rights and licences including software	Business or Goodwill	Advance payments	Total
Cost of acquisition / production				
1 January 2010	21,123	36,260	368	57,751
Additions	1,732	0	88	1,820
Change to companies consolidated	715	0	0	715
Disposals	392	0	0	392
Transfers	243	0	-262	-19
Exchange rate differences	124	42	0	166
31 December 2010	23,545	36,302	194	60,041
Cumulative depreciation and impairment losses				
1 January 2010	15,262	0	0	15,262
Depreciation for the year	2,880	0	0	2,880
Disposals	391	0	0	391
Transfers	0	0	0	0
Exchange rate differences	52	0	0	52
31 December 2010	17,803	0	0	17,803
Net carrying amount as at 31 December 2009	5,861	36,260	368	42,489
Net carrying amount as at 31 December 2010	5,742	36,302	194	42,238

Goodwill

Goodwill reported, amounting to TEUR 36,302 (previous year: TEUR 36,260) breaks down as follows:

Cash Generating Units in EUR '000s	31.12.2010	31.12.2009
Sto AG	15,760	15,760
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim	2,780	2,780
Beissier S.A.S., La Chapelle La Reine/France	3,635	3,635
Beissier S.A.U., Erreterria/Spain	2,679	2,679
Sto – ispo Sp. z o.o., Warsaw/Poland	2,402	2,402
Sto Építőanyag Kft., Budapest/Hungary	1,764	1,764
Sto Italia Srl, Empoli/Italy	1,398	1,398
Sto Isoned B.V., Tiel/Netherlands	1,189	1,189
Sto Norge AS, Oslo/Norway	1,153	1,111
Miscellaneous under TEUR 1,000	3,542	3,542
	36,302	36,260

With the exception of Sto AG, the cash-generating units (CGUs) identified for purposes of calculating goodwill are identical to the legal entities. The Sto AG CGU comprises Sto AG, Stühlingen, StoVerotec GmbH, Lauingen, and StoCretec GmbH, Kriftel. Impairment testing did not reveal any need for adjustments in the years under review.

(14) Property, plant and equipment**Changes in property, plant and equipment from 1 January to 31 December 2009**

in EUR '000s	Land, land rights rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other equipment operating and business equipment	Rendered advance payments and equipment under construction	Total
Cost of acquisition / production					
1 January 2009	246,351	148,280	148,519	4,366	547,516
Additions	7,165	1,315	8,053	2,155	18,688
Change to companies consolidated	0	0	0	0	0
Disposals	2,893	1,545	6,423	160	11,021
Transfers	9	-2,715	4,404	-1,839	-141
Exchange rate differences	406	-261	340	-22	463
31 December 2009	251,038	145,074	154,893	4,500	555,505
Cumulative depreciation and impairment losses					
1 January 2009	116,298	108,291	126,554	0	351,143
Depreciation for the year	7,392	6,412	7,955	0	21,759
Disposals	2,782	1,543	6,118	0	10,443
Transfers	-286	-2,791	2,854	137	-86
Exchange rate differences	-13	-247	202	0	-58
31 December 2009	120,609	110,122	131,447	137	362,315
Net carrying amount as at 31 December 2008	130,053	39,989	21,965	4,366	196,373
Net carrying amount as at 31 December 2009	130,429	34,952	23,446	4,363	193,190
of which, leased assets classified as financial leases, carrying amount as at 31 December 2009	3,642	0	2,998	0	6,640

Changes in property, plant and equipment from 1 January to 31 December 2010

in EUR '000s	Land, land rights rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other equipment operating and business equipment	Rendered advance payments and equipment under construction	Total
Cost of acquisition / production					
1 January 2010	251,038	145,074	154,893	4,500	555,505
Additions	1,401	3,152	8,412	3,384	16,349
Change to companies consolidated	226	30	52	0	308
Disposals	428	688	8,402	101	9,619
Transfers	209	3,918	375	-4,483	19
Exchange rate differences	3,966	2,747	2,793	66	9,572
31 December 2010	256,412	154,233	158,123	3,366	572,134
Cumulative depreciation and impairment losses					
1 January 2010	120,609	110,122	131,447	137	362,315
Depreciation for the year	7,561	6,615	8,095	0	22,271
Disposals	276	680	8,147	-3	9,100
Transfers	137	0	0	-137	0
Exchange rate differences	1,829	1,979	2,297	0	6,105
31 December 2010	129,860	118,036	133,692	3	381,591
Net carrying amount as at 31 December 2009	130,429	34,952	23,446	4,363	193,190
Net carrying amount as at 31 December 2010	126,552	36,197	24,431	3,363	190,543
of which, leased assets classified as financial leases, carrying amount as at 31 December 2010	3,401	0	2,825	0	6,226

Of liabilities to banks, an amount of TEUR 10,696 (previous year: TEUR 15,021) was secured by land charges at the balance sheet date.

Call options have mostly been agreed for the buildings and equipment leased under finance leases and these are expected to be exercised. Leases are based on a weighted interest rate of 4.5%.

Future lease payments are set out at their present value in the following tables:

in EUR '000s	up to 1 year	1–5 years	5–10 years	31.12.2009
Lease payments	1,451	4,328	477	6,256
Interest portions	198	504	39	741
Carrying amount/present value	1,253	3,824	438	5,515

in EUR '000s	up to 1 year	1–5 years	5–10 years	31.12.2010
Lease payments	1,529	3,766	0	5,295
Interest portions	136	359	0	495
Carrying amount/present value	1,393	3,407	0	4,800

(15) Investments in associates

The carrying amount of investments in associates as at 31.12.2010 stands at TEUR 0 (previous year: TEUR 19).

The following amounts are attributable to the Sto Group on account of the share of 33.0% (previous year: 33.0%) in Inotec GmbH:

in EUR '000s	31.12.2010	31.12.2009
Assets	2,227	2,274
Liabilities	2,413	1,830
Revenues	4,629	4,805
Net profit/loss for the period	–416	–79

On account of the full valuation adjustment in 2008, the prorated profit / loss of Inotec GmbH for the period did not reduce the Sto Group's profit for the year. The cumulative contribution to earnings by Inotec GmbH amounts to TEUR -495.

(16) Inventories

Inventories are measured at the lower of cost or the net realisable amount. Impairments in relation to the gross amount came to TEUR 4,704 (previous year: TEUR 2,521). Of this, an amount of TEUR 2,183 reduced earnings (previous year: TEUR 114 in reduced earnings).

Net carrying amounts are reported as follows:

in EUR '000s	31.12.2010	31.12.2009
Raw materials and manufacturing supplies	18,071	15,685
Work in progress	3,062	2,687
Finished products and goods	42,019	38,795
Payments made on account	525	411
	63,677	57,578

(17) Trade receivables

in EUR '000s			Carrying amount			Carrying amount
	current	non-current	31.12.2010	current	non-current	31.12.2009
from						
Third parties	99,577	723	100,300	100,215	921	101,136
Investments in associates	12	0	12	152	0	152
	99,589	723	100,312	100,367	921	101,288

The fair values of trade receivables equal their carrying amounts. Adjustments of TEUR 13,450 (previous year: TEUR 12,744) were taken into account.

Of liabilities to banks, an amount of TEUR 1,378 (previous year: TEUR 1,197) was secured by trade receivables at the balance sheet date.

(18) Other receivables and financial assets

in EUR '000s	Carrying amount			Carrying amount		
	current	non-current	31.12.2010	current	non-current	31.12.2009
Other receivables and financial assets due from third parties	114,545	2,072	116,617	45,935	1,306	47,241
Other receivables and financial assets due from associates	0	0	0	170	0	170
Other tax reimbursement claims	2,601	0	2,601	1,593	0	1,593
Prepaid expenses	3,018	360	3,378	2,624	203	2,827
Other payments made on account	316	0	316	237	0	237
Positive fair values of derivative financial instruments	184	0	184	55	0	55
	120,664	2,432	123,096	50,614	1,509	52,123

Other receivables and financial assets due from third parties include cash investments due for settlement in more than three months. In addition, this item includes receivables from suppliers amounting to TEUR 5,838 (previous year: TEUR 5,088). Adjustments of TEUR 114 (previous year: TEUR 51) were taken into account for other receivables.

Other tax reimbursement claims include VAT reimbursement claims of TEUR 2,394 (previous year: TEUR 1,211).

Derivative financial instruments have the following positive fair values:

Derivative financial instruments as a whole are described in greater detail in Note (29).

in EUR '000s	31.12.2010	31.12.2009
Hedges against		
currency risks	27	0
interest risks	157	55
	184	55

(19) Cash and cash equivalents

in EUR '000s	31.12.2010	31.12.2009
Credit balances with banks	84,151	106,577
Cheques, cash in hand	863	137
	85,014	106,714

Credit balances are held at various banks in different currencies.

(20) Equity capital

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

Subscribed capital

Subscribed capital equalled TEUR 17,556 as at 31 December 2010. It remains divided into 4,320,000 registered ordinary shares and 2,538,000 preference shares with no voting rights with a nominal value of EUR 2.56 per share.

The preference shares attract an advance dividend of EUR 0.06 in excess of that payable on the ordinary shares, however no less than EUR 0.13.

If distributable profit is not sufficient to pay the priority dividend of at least EUR 0.13 on preference shares 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 preference shares and prior to a dividend being paid on ordinary shares.

Preference shares are traded on the official market of the stock exchanges in Frankfurt/Main and Stuttgart. Ordinary shares are not listed.

Capital reserves

Capital reserves essentially comprise additions from premiums. The reserves have been reduced by a reclassification to financial liabilities. The amount reclassified comprises the annual guaranteed dividend to be paid out to the preferred shareholders each year in accordance with the articles of association. The extent of the capital reserve remains unchanged year-on-year.

Revenue reserves

Revenue reserves comprise the following items:

- Reserves for accrued profits:
Revenue reserves include the current profits earned by Sto AG 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.
- Post-employment benefit reserve:
The post-employment benefit reserve contains actuarial gains net of actuarial losses from the post-employment benefit provisions arising from differences between actual and assumed trends as well as changes in such assumptions.
- Cash flow hedge reserve:
This item contains the portion of the gain or loss from cash flow hedges identified as constituting an effective hedge.
- Treasury stock:
Sto AG, Stühlingen, holds treasury stock in the form of 432,000 registered ordinary shares with a notional par value of EUR 1,105,920.00. This is equivalent to 10% of all ordinary shares or 6.3% of the

share capital of Sto AG. The treasury stock is not dividend-entitled.

Proposed dividend

In accordance with Section 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 AG according to German commercial law carry a distributable profit of TEUR 51,545. At the annual general meeting, the Executive Board of Sto AG will be asking the shareholders to authorise a dividend of EUR 0.25 plus a bonus of EUR 3.06 for a total of EUR 3.31 per ordinary share, and EUR 0.31 plus a bonus of EUR 3.06 for a total of EUR 3.37 per preference share, i.e. a total distribution amount of TEUR 21,422 with TEUR 30,000 to be retained and the balance of TEUR 123 to be carried forward to new account.

Notes on capital management

The purpose of capital management is to ensure that the Group is able to effectively achieve its goals and pursue its strategies in the interests of the shareholders, employees and other stakeholders. In particular, management focuses on achieving the minimum return on invested assets sought by the capital market as well as on achieving an adequate return on equity. A further objective is to increase the long-term return on equity. To this end, it seeks to unlock as much value as possible within the Group and its subsidiaries to the benefit of all stakeholders. In selecting financial instruments, the Group attaches importance to matching-maturities finance, which is achieved by managing the terms of these financial instruments.

The capital structure at the balance sheet date is as follows:

in EUR '000s	31.12.2010	31.12.2009	Change in %
Equity attributable to the shareholders of Sto AG	368,671	319,349	15%
Current borrowings	16,349	17,635	
Non-current borrowings	27,901	41,411	
Less cash and cash equivalents	85,014	106,714	
Net assets/liabilities	40,764	47,668	
% of equity capital	11%	15%	

In 2010 the equity capital attributable to the shareholders of Sto AG rose by 15% over the previous year. This was due solely to the increase in revenue reserves. In the current financial year, financial liabilities have been further reduced. The decline in the level of cash and cash equivalents during the financial year is due to a higher number of financial investments with a lifetime in excess of three months. As in the previous year, no net debt has been incurred in the current fiscal year.

Under the terms of the syndicated loan of August 2006, the Group is bound by minimum capital requirements stipulated by the bank syndicate as the lender, under which net debt must not exceed equity capital. Any failure to comply with these minimum capital requirements entitles the lenders to terminate the syndicated loan for good cause.

These external minimum capital requirements were observed.

(21) Share in profit of minority interests

The shares of equity on the part of minority interests in the current financial year are attributable to shareholders of Sto Italia Srl, Empoli/Italy, as well as Industrial y Comercial Sto Chile Ltda., Santiago de Chile/Chile.

In the previous year, minority interests in the Group's equity capital were attributable to Sto Italia Srl, Empoli/Italy, and Sto s.r.o., Prague/Czech Republic.

(22) Post-employment benefits and similar obligations

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 date of entry 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 expense for the year in question and were valued at TEUR 396 in 2010 (previous year: TEUR 506).

In Germany, contributions to statutory pension funds came to TEUR 10,441 (previous year: TEUR 9,897).

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 entail fixed amounts based on length of service.

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. In accordance with the option afforded under IAS 19, all actuarial gains and losses are recognised in equity in full in the period in which they arise. Net actuarial gains and losses reported within revenue reserves, which result primarily from a change in the discounting rate, stand at TEUR -275 (previous year: TEUR 1,033)

The following amounts for benefits were recognised in the balance sheet:

in EUR '000s	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Present value of unfunded obligations	39,408	36,323	32,324	32,533	34,883

These amounts match the post-employment benefit provisions reported in the balance sheet.

The following amounts are reported in the income statement:

in EUR '000s	31.12.2010	31.12.2009
Current service cost	1,341	1,190
Revenue from plan assets	0	2,215
Interest on obligation	1,984	1,809
Sum total of the expenses recognised in the income statement	3,325	5,214

Current service cost and previous year revenue from plan assets are included in staff costs; interest on the obligation is reported under interest expenses, Note (9).

Post-employment benefit obligations (net debt reported in the balance sheet) changed as follows:

in EUR '000s	2010	2009
DBO (= Post-employment benefit provisions) at 1 January	36,323	32,324
Actuarial losses/gains	1,308	234
Current service cost	1,341	1,190
Revenue from plan assets	0	2,215
Interest on obligation	1,984	1,809
Pension payments	-1,548	-1,449
DBO (= net debt/post-employment benefit provisions reported in the balance sheet as at 31 December)	39,408	36,323

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:

in %	Germany		Foreign markets	
	2010	2009	2010	2009
Discount rate as at 31 December	5.25	5.55	4.35 – 5.25	5.55 – 5.90
Future salary increases	3.00	3.00	2.25 – 3.00	2.25 – 3.00
Future pension increases	1.69	1.73	0.00	0.00
Fluctuation rate	2.80	3.10	0.0 – 15.0	4.50 – 8.90

The Heubeck 2005 G tables have been used as the biometric basis for calculations for German companies since 31 December 2005.

Historical adjustments, i.e. the effects of any difference between expected and actual actuarial assumptions are set out in the following table, with a positive percentage indicating that the actual present value of the obligation is above the expected present value:

in %	2010	2009	2008	2007	2006
Difference between expected and actual trends in the present value of the obligations	0.59	1.13	2.67	-0.19	1.04

(23) Current and non-current other provisions

in EUR '000s	Staff division	Production division	Sales division	Other provisions	Total
Status as at 1 January 2009	14,027	997	24,470	1,383	40,877
Currency differences	7	0	-132	0	-125
Utilisation	-5,889	-146	-7,510	-470	-14,015
Netting of plan assets	-3,355	0	0	0	-3,355
Additions/formation	4,659	57	23,142	1,479	29,337
Interest cost	110	53	0	0	163
Reversal	-364	-26	-1,325	-175	-1,890
Status as at 31 December 2009	9,195	935	38,645	2,217	50,992
Currency differences	33	0	1,494	1	1,528
Utilisation	-5,097	-124	-4,249	-430	-9,900
Netting of plan assets	0	0	0	0	0
Additions/formation	5,256	34	11,108	1,539	17,937
Interest cost	106	55	0	0	161
Reversal	-329	0	-3,776	-923	-5,028
Status as at 31 December 2010	9,164	900	43,222	2,404	55,690
of which current	5,694	316	43,153	1,911	51,074

Provisions in the staff area have been set aside for pre-retirement reduced working hours, anniversary expenses, termination settlements and similar obligations, among other things.

Provisions of the production division comprise, inter alia, asset retirement obligations and disposal costs.

Provisions in the sales area cover amounts set aside to allow for all selling risks. 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. We expect the relevant costs for the adjustment of complaints to be incurred after settlement of damage, foreseeably within the following financial year.

In addition to provisions for purchase commitments, the remaining other provisions comprise additional factual circumstances subordinate in nature in specific cases in terms of their recognition.

(24) Current and non-current borrowings

in EUR '000s			Carrying amount			Carrying amount
	current	non-current	31.12.2010	current	non-current	31.12.2009
Liabilities to banks	14,697	20,333	35,030	16,416	32,696	49,112
Mandatory guarantee dividend to preferred shareholders	330	4,090	4,420	330	4,090	4,420
Liabilities under finance leases	1,322	3,478	4,800	889	4,625	5,514
	16,349	27,901	44,250	17,635	41,411	59,046

The covenants applicable to finance leases are explained in Note (14).

(25) Current and non-current other liabilities

in EUR '000s			Carrying amount			Carrying amount
	current	non-current	31.12.2010	current	non-current	31.12.2009
Advance payments received on orders	1,008	0	1,008	612	0	612
Negative fair values of derivative financial instruments	3,549	0	3,549	1,803	0	1,803
Other liabilities						
relating to taxes	7,025	0	7,025	5,715	16	5,731
Social security liabilities	2,343	0	2,343	1,775	0	1,775
Liabilities towards employees	25,301	81	25,382	23,309	225	23,534
Liabilities towards customers	12,405	0	12,405	9,307	0	9,307
Miscellaneous	9,662	342	10,004	8,891	201	9,092
	61,293	423	61,716	51,412	442	51,854

Derivative financial instruments have the following negative fair values:

in EUR '000s	31.12.2010	31.12.2009
Hedges against		
currency risks	2,650	321
Interest risks	899	1,482
	3,549	1,803

Derivative financial instruments as a whole are described in detail in Note (29).

(26) Trade payables

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

in EUR '000s	31.12.2010	31.12.2009
from		
Third parties	39,220	33,630
Investments in associates	526	341
	39,746	33,971

Further notes in accordance with IFRS 7 (Financial instruments)

Reconciliation of balance sheet items with financial instrument categories as at 31 December 2009

in EUR '000s	Measurement category acc. to IAS 39	Carrying amount 31.12.2009	Financial instruments					No financial instrument
			Amortised acquisition costs Carrying amount	Fair value	Fair value	Value recognition balance sheet acc. to IAS 17	Not in scope of application of IFRS 7	
Assets								
Investments in associates	n.a.	19	0	0	0	0	19	0
Trade payables	LaR	101,288	101,288	101,288	0	0	0	0
Income tax receivables	n.a.	7,026	0	0	0	0	0	7,026
Other receivables and financial assets								
– Available-for-sale financial assets	AfS	217	217	217	0	0	0	0
– Held-to-maturity investments	HtM	6,708	6,708	6,692	0	0	0	0
– Financial assets held for trading	FAHfT	110	0	0	110	0	0	0
– Derivative assets								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FAHfT	55	0	0	55	0	0	0
– Other assets	LaR/n.a.	45,032	40,375	40,470	0	0	0	4,657
		52,122	47,300	47,379	165	0	0	4,657
Deferred tax assets	n.a.	8,131	0	0	0	0	0	8,131
Cash and cash equivalents	LaR	106,714	106,714	106,720	0	0	0	0
Liabilities								
Deferred tax liabilities	n.a.	5,404	0	0	0	0	0	5,404
Borrowings	FLAC	53,531	53,531	53,614	0	0	0	0
Liabilities under finance leases*	n.a.	5,515	0	0	0	5,515	0	0
		59,046	53,531	53,614	0	5,515	0	0
Trade payables	FLAC	33,971	33,971	33,971	0	0	0	0
Income tax liabilities	n.a.	10,105	0	0	0	0	0	10,105
Other liabilities								
– Derivative liabilities								
with hedge relationship	n.a.	1,098	0	0	0	0	1,098	0
without hedge relationship	FLHfT	705	0	0	705	0	0	0
– Other liabilities	FLAC/n.a.	50,051	13,313	13,313	0	0	0	36,738
		51,854	13,313	13,313	705	0	1,098	36,738

* Reported under borrowings in the previous year.

Reconciliation of balance sheet items with financial instrument categories as at 31 December 2010

in EUR '000s	Measurement category acc. to IAS 39	Carrying amount 31.12.2010	Financial instruments					No financial instrument
			Amortised acquisition costs		Fair value	Value recognition balance sheet acc. to IAS 17	Not in scope of application of IFRS 7	
			Carrying amount	Fair value				
Assets								
Investments in associates	n.a.	0	0	0	0	0	0	0
Trade payables	LaR	100,312	100,312	100,312	0	0	0	0
Income tax receivables	n.a.	6,815	0	0	0	0	0	6,815
Other receivables and financial assets								
– Available-for-sale financial assets	AfS	230	230	230	0	0	0	0
– Held-to-maturity investments	HtM	14,602	14,602	14,602	0	0	0	0
– Financial assets held for trading	FAHfT	117	0	0	117	0	0	0
– Derivative assets								
with hedge relationship	n.a.	0	0	0	0	0	0	0
without hedge relationship	FAHfT	184	0	0	184	0	0	0
– Other assets	LaR/n.a.	107,963	101,668	101,761	0	0	0	6,295
		123,096	116,500	116,593	301	0	0	6,295
Deferred tax assets	n.a.	8,445	0	0	0	0	0	8,445
Cash and cash equivalents	LaR	85,014	85,014	85,583	0	0	0	0
Liabilities								
Deferred tax liabilities	n.a.	4,927	0	0	0	0	0	4,927
Borrowings	FLAC	39,450	39,450	39,543	0	0	0	0
Liabilities under finance leases	n.a.	4,800	0	0	0	4,800	0	0
		44,250	39,450	39,451	0	4,800	0	0
Trade payables	FLAC	39,746	39,746	39,746	0	0	0	0
Income tax liabilities	n.a.	3,459	0	0	0	0	0	3,459
Other liabilities								
– Derivative liabilities								
with hedge relationship	n.a.	588	0	0	0	0	588	0
without hedge relationship	FLHfT	2,961	0	0	2,961	0	0	0
– Other liabilities	FLAC/n.a.	58,167	19,103	19,103	0	0	336	38,728
		61,716	19,103	19,103	2,961	0	924	38,728

The carrying amounts of the financial instruments are aggregated as follows in accordance with the categories stipulated in IAS 39:

in EUR '000s	31.12.2010	31.12.2009
Available-for-sale (AFS)	230	217
Financial assets held for trading (FAhFT)	301	165
Held-to-maturity investments (HtM)	14,602	6,708
Loans and receivables (LaR)	286,995	248,377
Financial liabilities measured at amortised cost (FLAC)*	98,299	100,816
Financial liabilities held for trading (FLHfT)	2,961	705

* The previous year value was adjusted accordingly.

Balance sheet items measured at fair value

in EUR '000s	31.12.2010	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss				
– Derivatives	184	0	184	0
– Other	117	117	0	0
Available-for-sale financial assets	0			
Financial assets measured at fair value	301	117	184	0
Financial liabilities measured at fair value through profit or loss				
– Derivatives	2,961	0	2,961	0
Financial liabilities measured at fair value	2,961	0	2,961	0

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

Level 1

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

Level 2

The measurement is made on the basis of valuation methods in which the influential factors are derived either directly or indirectly from observable market data.

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 cost (refers solely to trade receivables, other receivables and financial assets):

in EUR '000s	2010	2009
Amount on 1 January	12,795	10,775
Exchange rate differences	383	76
Additions	5,100	7,542
Utilisation	2,503	3,940
Reversals	2,211	1,658
Amount on 31 December	13,564	12,795

Other disclosures

(27) 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 Cash Flow Statements).

The cash flow statement solely comprises the cash and cash equivalents reported in the balance sheet that include financial investments with an original term of up to 3 months.

Based on earnings before taxes, the cash flow is indirectly derived from operating activities. Earnings before taxes are adjusted to take account of non-cash expenses (essentially depreciation) and non-cash income. Cash flow from operating activities reflects changes in working capital.

Cash inflows and outflows from investing and financing activities are calculated using the direct method. Investing activities comprise disbursements for additions to intangible assets and tangible fixed assets, payments arising from the acquisition of consolidated companies and other business units, disbursements for the acquisition of consolidated companies and other business units, interest received, payments arising from the disposal of intangible assets and property, plant and equipment, as well as disbursements for financial investments.

Financing activities comprise cash outflows from payments to shareholders, interest payments and the repayment of loans, as well as changes to other borrowings. Changes in items of the balance sheet analysed for the cash flow statement cannot be directly derived from the balance sheet on account of non-cash currency translation effects and other non-cash transactions.

(28) Segment reporting

For the purpose of corporate management by the Executive Board, the Group is divided up into geographical business units. The geographical business units were consolidated in the segments of western Europe and Otherm with the segment Other being broken down into the regions of northern/eastern Europe and the Americas/Asia. The business segment of western Europe comprises the geographical business units of the euro zone, Switzerland, as well as the United Kingdom.

Internal reporting is essentially carried out in accordance with IFRS.

The activities of all segments extend to include the production and distribution of facade coatings, facade systems and interior products. The netting prices between segments conform to arms-length conditions. Transfers between business segments are eliminated on consolidation.

The segment results in the Sto Group are reported in the earnings categories of EBITDA, EBIT and EBT. The share of earnings from associates, amounting to TEUR 0 (previous year: TEUR -77) has not been assigned to any segment and is reported within the scope of reconciliation/consolidation booking entries.

Depreciation/amortisation and investments relate to property, plant and equipment and intangible assets. In the segment of Western Europe, a non-scheduled write-down of a patent was effected in the amount of TEUR 194.

Segment assets essentially comprise property, plant and equipment, intangible assets, inventories, trade receivables from third parties as well as other receivable and financial assets from third parties.

The inter-segment results are eliminated in the column "Reconciliation/consolidation booking entries". This column also includes the items which cannot be assigned to individual segments. No material adjustments were made.

Owing to the broad customer structure of the Sto Group, there is no customer with whom at least 10% of sales revenues are generated.

The breakdown of sales revenues is made according to the customer's home country.

in EUR '000s	2009		Total
	Germany	Other	
External revenues	450,629	473,997	924,626
Intangible assets, property, plant and equipment	168,040	67,639	235,679

in EUR '000s	2010		Total
	Germany	Other	
External revenues	489,219	496,826	986,045
Intangible assets, property, plant and equipment	164,270	68,511	232,781

(29) 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 or to exclude these risks. To this end, the usual instruments such as currency forwards, forward exchange, currency options, interest rate swaps and interest caps are used.

Hedging guidelines

Guidelines have been adopted to govern the scope for hedging and internal monitoring. As a matter of principle, the type and scope of hedging operations are determined by the hedged contract. Hedges may only be used to protect existing or planned transactions. For this purpose, only financial instruments with approved 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 2006 and expiring in 2012. The remaining credit facilities were arranged to expire in 2015 at the latest.

The following table sets out the undiscounted contractually agreed cash outflows from financial instruments.

in EUR '000s	Cash outflows			31.12.2009
	up to 1 year	1 – 5 years	5 –10 years	
Borrowings*	17,737	34,603	2,895	55,235
Trade payables	33,971	0	0	33,971
Other borrowings	13,308	0	0	13,308
Derivatives	481	389	13	883
	65,497	34,992	2,908	103,397

in EUR '000s	Cash outflows			31.12.2010
	up to 1 year	1 – 5 years	5 –10 years	
Borrowings*	15,943	22,250	1,650	39,843
Trade payables	39,746	0	0	39,746
Other borrowings	18,930	185	0	19,115
Derivatives	1,980	1,601	0	3,581
	76,599	24,036	1,650	102,285

* Even beyond the year 2020, there is an annual commitment for payment of TEUR 330 arising from the claim of preferential shareholders to the guaranteed dividend. Cash outflows from finance leases are reported in Note (14). The previous year figure was adjusted accordingly.

Under guarantees disclosed within the scope of contingent liabilities, the occurrence of an obligation is not anticipated at present.

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 the risk of losses in the event of financial institutions failing to honour their obligations. The Sto Group seeks to

mitigate such risks by means of diversification and the careful selection of counterparties. At the moment, no cash investments or derivative financial assets are overdue or impaired on account of defaults.

Allowance is made for risks from originated financial instruments by making adjustments to receivables.

On account of its broad customer structure, there is no conspicuous clustering of default risks within the Sto Group.

Presentation of net carrying amounts of financial instruments measured at amortised cost of acquisition:

in EUR '000s				Carrying amount
	not yet due and not value-adjusted	overdue and not value-adjusted	value-adjusted	31.12.2009
Other financial assets	40,076	0	110	40,186
Trade receivables	60,457	20,699	20,132	101,288
Other assets	6,792	129	131	7,053
Cash and cash equivalents	106,714	0	0	106,714
	214,039	20,828	20,373	255,241

in EUR '000s				Carrying amount
	not yet due and not value-adjusted	overdue and not value-adjusted	value-adjusted	31.12.2010
Other financial assets	107,934	0	0	107,934
Trade receivables	62,695	19,206	18,411	100,312
Other assets	8,419	58	89	8,566
Cash and cash equivalents	85,014	0	0	85,014
	264,062	19,264	18,500	301,826

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. Customer ratings are subject to ongoing monitoring by credit management.

Collateral amounting to TEUR 26 was held in the financial year for overdue and impaired trade receivables (previous year: TEUR 0). The financial instruments assigned to the category of financial assets measured at fair value are neither overdue nor impaired.

Maturity analysis of gross carrying amounts of overdue and not value-adjusted financial instruments measured at amortised cost:

in EUR '000s	overdue				Carrying amount 31.12.2009
	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	11,744	4,617	1,196	3,142	20,699
Other assets	54	0	0	75	129
	11,798	4,617	1,196	3,217	20,828

in EUR '000s	overdue				Carrying amount 31.12.2010
	up to 30 days	more than 30 days up to 60 days	more than 60 days up to 90 days	more than 90 days	
Other financial assets	0	0	0	0	0
Trade receivables	10,582	4,714	1,844	2,066	19,206
Other assets	58	0	0	0	58
	10,640	4,714	1,844	2,066	19,264

As at 31 December 2010, the Sto Group did not have any financial instruments for which the applicable contract had been modified to prevent them from becoming overdue.

Currency risk

Currency risks in connection with current receivables and liabilities are hedged by means of forward exchange transactions, currency forwards, and options. The currency hedge as at 31 December 2010 related only to USD/EUR, CAD/USD, CHF/EUR and EUR/CHF; the change in fair value was recognised in the income statement with an impact on profit and loss.

All non-functional currencies in which the Sto Group holds financial instruments are used as relevant risk variables in the sensitivity analysis stipulated by IFRS 7.

The essential currency risk in the Sto Group results from the change of the currency pair EUR/CHF. If the euro had been 10% lower/higher against the CHF, pre-tax earnings would have been down/up by TEUR 325 (previous year: TEUR 290).

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. Cash flow hedges in the form of interest swaps are transacted to minimise the risk.

The Sto Group uses interest swaps to reduce the risk of changes in interest in connection with non-current interest-bearing bank borrowings. The cash flow hedge portion is set out below in

the table entitled "Valuation of derivative financial instruments".

The Sto Group identifies interest rate risks as defined in IFRS 7 by means of a sensitivity analysis. This sets out the effects of risk-relevant market interest rates on the Group's net borrowing costs and equity capital.

If market interest rates as at 31 December 2010 had been 100 basis points (bp) higher, net profit after tax – all other things being equal – would have turned out TEUR 245 higher (previous year: TEUR 377). If, by contrast, they had been 100 bp lower, net profit after tax – all other things being equal – would have been TEUR 251 (previous year: TEUR 388) lower. In addition to the above effect, equity capital would have risen by TEUR 150 (previous year: TEUR 370) or declined by TEUR 151 (previous year: TEUR 361) after taxes.

Valuation of derivative financial instruments

The fair values of derivative financial instruments are determined on the basis of reference prices and measurement models.

Interest rate swaps/caps include cash flow hedges with a fair value of TEUR -588 (previous year: TEUR -1,098) and a corresponding nominal volume of TEUR 22,000 (previous year: TEUR 32,000). Cash flow hedges for interest payments were categorised as being highly

in EUR '000s	31.12.2010		31.12.2009	
	Nominal volume	Market value total	Nominal volume	Market value total
Forward exchange transaction(s)/options	30,153	-2,623	18,068	-321
Interest rate swaps/caps	58,406	-742	79,171	-1,427
	88,559	-3,365	97,239	-1,748

effective up until 2012. Accordingly, an unrealised gain of TEUR 508 net of deferred taxes of TEUR 145 is recognised in equity capital as at 31 December 2010. In the income statement for the period, TEUR 2 was recognised as an ineffective hedge. The change to the nominal volume of interest swaps/caps is due to the repayment of loans in 2010 as well as the sale and conclusion of additional interest hedges. The remaining terms of the currency derivatives range from 1 to 2 years and those of the interest derivatives from 1 to 10 years. The nominal volume of a derivative hedge transaction is the notional reference amount for which the payments are derived. The hedged contract and the risk are not the same as the nominal volume but only reflect the exchange or interest rate change to which they refer. The fair value is the amount which the Sto Group would have paid or received at the balance sheet date if the hedge had been settled. As the hedges are for the most part standard tradable financial instruments, fair value is derived from valuation models.

(30) Contingencies

in EUR '000s	2010	2009
Guarantees	45	295
Other contingent liabilities	1	1
	46	296

(31) Litigation

Neither Sto AG nor any of the members of its Group are involved in any court litigation or arbitration proceedings which are liable to exert a material 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.

(32) Other financial obligations

in EUR '000s	31.12.2009	Maturity		
		within one year	between 1 – 5 years	after 5 years
Obligations under rental contracts and leases	61,717	17,662	34,263	9,792
Obligations under maintenance contracts	5,230	3,504	1,716	10
Acceptance obligations	5,519	5,408	111	0
Other obligations	127	80	47	0
	72,593	26,654	36,137	9,802

in EUR '000s	31.12.2010	Maturity		
		within one year	between 1 – 5 years	after 5 years
Obligations under rental contracts and leases	63,386	17,284	35,201	10,901
Obligations under maintenance contracts	4,834	3,278	1,556	0
Acceptance obligations	5,703	5,661	42	0
Other obligations	216	122	94	0
	74,139	26,345	36,893	10,901

The obligations under rental contracts comprise primarily building rental contracts, while the obligations under leases relate to the vehicle fleet, equipment and IT hardware.

Of acceptance obligations, an amount of TEUR 2,131 (previous year: TEUR 2,229) relates to items of tangible fixed assets.

(33) Auditors' fees

The following fees paid to the auditors of the consolidated financial statements, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, for services provided are recorded as expenses in 2010:

in EUR '000s	2010	2009
Audits of the financial statements	342	363
Tax consulting services	6	34
Other certification or valuation activities	3	7
Other services	11	26
	362	430

(34) Events after the balance sheet date

Effective as of 25 February 2011, Sto AG increased its holding in Inotec GmbH from 33.0% to 90.0% by acquiring additional shares. The core business of Inotec GmbH is maintenance and sale of construction technology of every description, in particular to Sto AG and the latter's customers. Construction technology essentially comprises silo technology, mixers, pumps and all kinds of tools. The distribution of industrial agitation and mixing technology is a further mainstay.

Since Inotec GmbH is a key strategic partner to Sto AG in the field of construction technology, the holding was increased, duly taking account of the opportunities and risks involved. Measures for the strategic reorientation of the company were prepared but have not yet been implemented.

Further particulars in accordance with IFRS 3 B64 e to q cannot be made at the time of preparing the balance sheet since the acquisi-

tion process has not yet been concluded and documented internally.

On the whole, we do not consider this acquisition of material interest in reporting on the earnings, financial and asset position of the Sto Group.

(35) Disclosures on related parties (IAS 24)

IAS 24 defines related parties as persons or entities liable to be influenced by the reporting entity or capable of influencing the reporting entity in question.

All business relations with related parties are conducted on arms-length terms.

Members of the Executive Board and the Supervisory Board of Sto AG are members of the management boards and supervisory boards of other companies with which Sto AG maintains relations in some cases 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 are set out in the following table:

in EUR '000s	Share	Rendered deliveries and services		Received deliveries and services		Receivables to		Payables from	
		2010	2009	2010	2009	2010	2009	2010	2009
Inotec GmbH, Waldshut-Tiengen	33%	53	92	3,683	4,223	12	22	526	341
Productos Sto Balear S.L., Santa Maria del Cami/Spain	33⅓%	0	231	0	0	0	300	0	0

A loan receivable from Inotec GmbH amounting to TEUR 800 was already fully adjusted two years ago.

No goods or services were provided to or received from Stotmeister Beteiligungs GmbH as a related party in the year under review or in the previous year.

Similarly, there were no receivables or liabilities.

(36) List of subsidiaries and investments as at 31 December 2010

Domestic markets	Capital share in %
Name, registered office	
StoVerotec GmbH, Lauingen	100
StoCretec GmbH, Kriftel	100
Gefro Verwaltungs-GmbH & Co. KG, Stühlingen	100
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim	100
Südwest Lacke + Farben Verwaltungs-GmbH, Böhl-Iggelheim	100
Malfa Farben GmbH, Freiburg	100
Hemm Stone GmbH, Kirchheim	100
Innolation GmbH, Lauingen	100
Inotec GmbH, Waldshut-Tiengen	33

Foreign markets	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
Beissier S.A.U., Errenteria/Spain	100
Sto SDF Ibérica S.L.U., Mataró/Spain	100
Sto Isoned B.V., Tiel, Netherlands	100
Sto N.V., Asse, Belgium	100
Sto Italia Srl, Empoli/Italy	52
Sto Finexter OY, Tampere/Finland	100
Sto Scandinavia AB, Linköping, Sweden	100
Sto Danmark A/S, Hvidovre, Denmark	100
Sto Norge AS, Oslo, Norway	100
Sto – ispo Sp. z o.o., Warsaw, Poland	100
Sto Epitöanyag Kft., Dunaharaszti, Hungary	100
Sto s.r.o., Prague, Czech Republic	100
Sto AG, Niederglatt, Switzerland	100
Sto Ltd., Paisley, Great Britain	100
Sto Corp., Atlanta, USA	100
Sto SEA Pte. Ltd., Singapore/Singapore	100
Sto SEA Sdn. Bhd., Masai/Malaysia	100
Shanghai Sto Ltd., Shanghai/China	100
Wuhan Sto Building Material Co. Ltd., Hubei/China	100
OOO Sto, Moscow/Russia	100
Industrial y Comercial Sto Chile Ltda., Santiago de Chile/Chile	60
Sto Corp. Chile Ltda., Santiago de Chile/Chile	100

With regard to the changes in the current year, we wish to refer to the “General disclosures”, No. 4 “Companies consolidated”.

**(37) German
Corporate Governance Code**

In December 2010, the Executive Board and Supervisory Board of Sto AG issued the declaration of conformance with the recommendations of the Government Commission on German Corporate Governance Code in accordance with Section 161 of the German Companies Act.

**(38) Remuneration of the Board
of Directors and the Supervisory Board**

The remuneration paid to the members of the Executive Board complies with the statutory provisions contained in the German Companies Act. The short-term remuneration paid to members of the Executive Board for 2010 came to TEUR 2,616 (previous year: TEUR 3,262) and to TEUR 1,500 on account of termination of the employment relationship (previous year: TEUR 0). Future benefits after terminating the employment relationship (current service cost and past service cost in the previous year) amounted to TEUR 135 (previous year: TEUR 1,895). As at 31 December 2010, the post-employment benefit provisions for the current members of the Executive Board stood at TEUR 2,562 (previous year: TEUR 2,319). Post-employment benefit provisions for former members of the Executive Board and the Supervisory Board were valued at TEUR 2,053 as at 31 December 2010 (previous year: TEUR 1,890). The remuneration paid to former members of the Executive Board and the Supervisory Board came to TEUR 207 (previous year: TEUR 206).

Remuneration paid to Sto AG's Supervisory Board came to TEUR 402 (previous year: TEUR 398).

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:**Jochen Stotmeister**

Chairman of the Executive Board
 Grafenhausen, Dipl.-Betriebsw. (FH)
 Member of the BOD of Sto Corp., Atlanta, USA
 Member of the Supervisory Board of Golf AG
 Obere Alp, Stühlingen

Gerd Stotmeister

Deputy Chairman, Chief Technology Officer
 Allensbach, Dipl.-Ing. (FH)
 Member of the BOD of Shanghai Sto Ltd.
 Shanghai/China
 Curator of the Fraunhofer Institute for
 Construction Physics (IBP), Stuttgart
 Member of the Advisory Board of Handte
 Umwelttechnik GmbH,
 Tuttlingen

Rolf Wöhrle

Chief Financial Officer
 (from 1 September 2010)
 Villingen-Schwenningen, Dipl.-Betriebsw. (BA)
 Vice-President of the Administrative Board of
 Sto AG Schweiz, Niederglatt, Switzerland

Hans-Dieter Schumacher

Chief Financial Officer
 (until 31 August 2010)
 Tuttlingen, Dipl.-Kfm

Rainer Hüttenberger

Chief Marketing Officer
 (from 1 April 11)
 Maienfeld/Switzerland, Dipl.-Betriebsw. (FH)

Members of the Supervisory Board:**Dr. Max-Burkhard Zwosta**

Chairman
 Wittnau, Chartered Accountant and Tax
 Consultant
 Supervisory Board Chairman of
 Brauerei Ganter GmbH & Co KG, Freiburg
 Supervisory Board Chairman of Ganter
 Grundstücks GmbH, Freiburg
 Supervisory Board Chairman of Freicon AG,
 Freiburg
 Chairman of the Advisory Board of alfer alu-
 minium Gesellschaft mbH, Wutöschingen
 Member of the Advisory Board of Christian
 Bürkert GmbH & Co. KG, Ingelfingen
 Chairman of the Advisory Board of Walter
 Maisch Familien Holding GmbH & Co. KG,
 Gaggenau

Helmut Göbeke-Teichert

Deputy Chairman and Employee
 Representative, Marbach
 Trade Union Secretary IG Bergbau, Chemie,
 Energie (until 31 March 2010)
 retired from 1 April 2010

Helmut Hilzinger

Willstätt
 Managing Shareholder of Hilzinger GmbH,
 Willstätt

Mag. Dr. Heimo Scheuch

Vienna/Austria
 Chairman of the Executive Board of Wiener-
 berger AG, Vienna, Austria
 Member of the Supervisory Board of Soravia
 Group AG, Vienna/Austria

Peter Zürn

Westernhausen
 Member of the Management of the Würth Group, Künzelsau
 Member of the Supervisory Board of Würth á Islandi ehf., Garðabær, Iceland
 President of the Administrative Board of Würth Phoenix S.r.l., Bolzano/Italy
 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 Svenska AB, Örebro/Sweden
 Member of the Advisory Board of Würth Norge AS, Hagan/Norway
 Member of the Administrative Board of Auto-com Diagnostiv Partner AB, Trollhättan/Sweden
 Member of the Supervisory Board of Würth Belgie N.V., Turnhout/Belgium
 Member of the Supervisory Board of Würth Danmark A/S, Kolding/Denmark
 Member of the Administrative Board of Würth Hellas S.A., Athens/Greece
 Member of the Administrative Board of Würth Korea Co. Ltd., Seoul/South Korea

Prof. Dr.-Ing. Klaus Sedlbauer

Stuttgart-Feuerbach
 Chair of Construction Physics Faculty at Stuttgart University
 Head of the Fraunhofer Institute, Stuttgart, Holzkirchen and Kassel
 Chairman of the Supervisory Board of Calcon AG, Munich
 Senator of the Fraunhofer Society, Munich

Charles Stettler

Stäfa, Switzerland
 Member of the Executive Board of Zürcher Kantonalbank, Zurich/Switzerland
 Member of the Administrative Board of Swisscanto AG, Basel, Switzerland
 Member of the Foundation Council of Swisscanto-Supra Sammelstiftung der Kantonal-

banken, Basel, Switzerland
 Member of the Foundation Council of Swisscanto Freizügigkeitsstiftung der Kantonalbanken, Basel, Switzerland
 Management Board member of Hauseigentümerverband Zurich, Zurich, Switzerland
 Member of the Executive Board of the Deposit Guarantee Fund of Swiss Banks, Basel, Switzerland
 President of the Administrative Board of Sto AG, Niederglatt, Switzerland

Holger Michel

Employee representative, Burgdorf
 Trade Union Secretary of IG Bergbau, Chemie, Energie
 Member of the Supervisory Board of Pirelli Deutschland GmbH, Breuberg
 Member of the Supervisory Board of HT Troplast GmbH, Troisdorf

Melitta Menstell-Cooper

Employee representative, Stühlingen (until 31 May 2010)
 Chairperson of the Group Employee Representative Council and Chairperson of the Weizen Employee Representative Council at Sto AG (until 31 May 2010)

Erhard Röhl

Employee representative, Wiesbaden (until 28 February 2011)
 Technical Coordinator at Sto AG

Werner Trunz

Employee representative, Donaueschingen (until 31 December 2010)
 Head of Organisation and IT of the Sto Group (until 31 December 2010)

Klaus Eigenstetter

Employee representative, Bonndorf (until 28 February 2011)
 Personnel Officer of Sto AG

Barbara Meister

Employee representative, Blumberg
(from 1 June 2010)
Deputy Chairperson of the Group Employee
Representative Council and Chairperson of the
Weizen Employee Representative Council
of Sto AG (from 1 June 2010)

Jan Nissen

Employee representative, Trossingen
(from 1 January 2011)
Head of Materials Management within the Sto
Group

Lothar Hinz

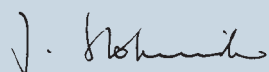
Employee representative, Reutlingen
(from 1 March 2011)
Chairman of the Group Employee Representa-
tive Council and Chairman of the Employee
Representative Council for the Baden-Württem-
berg sales region of Sto AG

Wolfgang Dell

Employee representative, Hattersheim
(from 1 March 2011)
Responsible for Maintenance
Plant Technology

Stühlingen, 11 April 2011

Sto Aktiengesellschaft
The Executive Board



Jochen Stotmeister
(Chairman)



Rolf Wöhrle



Gerd Stotmeister
(Deputy Chairman)



Rainer Hüttenberger

Audit certificate

Based on the final results of our audit of the consolidated financial statements and the Group management report we have issued the following auditors' report.

"We have audited the consolidated financial statements, comprising the income statement, the statement of recognised income and expenses, the balance sheet, the statement of changes in equity, the cash flow statement, and the notes to the financial statements, together with the Group management report of Sto AG, Stühlingen, for the financial year from 1 January until 31 December 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as they are to be applied in the EU and additionally Section 315a (1) of the German Commercial Code are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the consolidated management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures

in the books and records, the consolidated financial statement and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the general partner, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as they are to be applied in the EU and additionally Section 315a (1) of the German Commercial Code. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Villingen-Schwenningen, 18 April 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nietzer
Chartered
Accountant

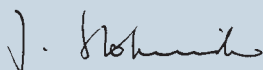
Greiner
Chartered
Accountant

Responsibility statement by the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stühlingen, 11 April 2011

Sto Aktiengesellschaft
The Executive Board



Jochen Stotmeister
(Chairman)



Gerd Stotmeister
(Deputy Chairman)



Rolf Wöhrle



Rainer Hüttenberger

Calendar of events in 2011

Interim report on the first half of 2011	18 May 2011
Annual General Meeting 2011	21 June 2011
Report on the first half of 2011	31 August 2011
Interim report on the second half of 2011	17 November 2011
Electronic publication of the annual financial statements for 2011.....	30 April 2012

The annual financial statements of Sto AG (German GAAP) are available in electronic form at www.unternehmensregister.de. In addition, they are published on the website www.sto.de or may be requested in writing by post:

Sto AG
Dept. F-S
Ehrenbachstrasse 1
79780 Stühlingen

This report contains forward-looking statements which are based on Management's current assumptions and estimates concerning future developments. Such statements are subject to risks and uncertainties which Sto cannot control or estimate precisely. If any uncertainty arises or the assumptions on which these statements are based prove to be incorrect, actual results may differ materially from these statements. Sto is under no obligation to update forward-looking statements to incorporate any events which come to light after the publication of this report.

Publisher's details

Published by	Sto AG, Stühlingen
Concept and design	Straub Druck+Medien AG
Text	TIK Text, Information & Kommunikation GmbH
Printing	Straub Druck+Medien AG

Photographic credits

Oswald Visuelle Medien, Schwörstadt: Title	groku, Schloß Holte-Stukenbrock: P. 47
Guido Erbring, Cologne: P. 1	Peter Himself, Berlin: P. 48
Bernd Schumacher, Freiburg: P. 4, 12	IGS/TU Braunschweig: P. 49
Martin Duckek, Ulm: P. 13	Museum Liaunig, Südkärnten: P. 49
Stefan Falk, Berlin: P. 44	Sto AG: P. 2, 27, 47, 50

Head office

Sto AG
Ehrenbachstrasse 1
79780 Stühlingen, Germany
Tel. +49 7744 57-0
infoservice@sto.eu.com
www.sto.com

Branches/Sales centres/

Distribution partners
Addresses and information can
be obtained by calling:
Tel. +49 7744 57-1010

Holding company, national

Inotec GmbH
Waldshuter Strasse 25
D-79761 Waldshut-Tiengen
Tel. +49 7741 6805-0
infoservice.inotec@sto.eu.com
www.inotec-gmbh.com

Subsidiaries, national

StoCretec GmbH
Gutenbergstr. 6
D-65830 Kriftel
Tel. +49 6192 401104
info.stocretec.de@sto.eu.com
www.stocretec.de

StoVerotec GmbH
Hans-Martin-Schleyer Strasse 1
D-89415 Lauingen/Donau,
Germany
Tel. +49 9072 990-0
infoservice.stoverotec@sto.eu.com
www.stoverotec.de

**SÜDWEST Lacke + Farben
GmbH & Co. KG**
Iggelheimer Str. 13
D-67459 Böhl-Iggelheim
Tel. +49 6324 709-0
info@suedwest.de
www.suedwest.de

HEMMSTONE GmbH
Mergentheimer Strasse
D-97268 Kirchheim
Tel. +49 9366 82-0
info@hemmstone.de
www.hemmstone.de

Subsidiaries, international

Belgium

Sto NV/SA
Z.5 Mollem 70
B-1730 Asse
Tel. +32 2 4530110
info.be@sto.eu.com
www.sto.be

Chile

Sto Chile Ltda.
Volcán Lascar Oriente 781
Parque Industrial Lo Boza
CL-Pudahuel-Santiago
Tel. +56 02 949 35 93
info@stochile.com
www.stochile.com

China

Shanghai Sto Ltd.
288 Qingda Road
Pudong
CN-201201 Shanghai
Tel. +862158972295
www.sto.com.cn

Denmark

Sto Danmark A/S
Avedøreholmen 86
DK-2650 Hvidovre
Tel. +4570270143
kundekontakt@sto.eu.com
www.stodanmark.dk

Finland

Sto Finexter OY
Mestarintie 9
FI-01730 Vantaa
Tel. +358 207659 191
asiakaspalvelu@sto.eu.com
www.stofi.fi

France

Beissier S.A.S.
Quartier de la Gare
F-77760 La Chapelle La Reine
Tel. +33 1 60396110
contact@beissier.eu
www.beissier.eu

France

Sto S.A.S.
224, rue Michel Carré
F-95872 Bezons Cedex
Tel. +33 1 34345700
mailsto.fr@sto.eu.com
www.sto.fr

Italy

Sto Italia Srl
Via G. di Vittorio, 1/3
Zona Ind. le Terrafino
I-50053 Empoli (FI)
Tel. +39 0571 94701
info.it@sto.eu.com
www.stoitalia.it

Malaysia

Sto SEA Sdn. Bhd.
No. 21, Jalan Rajawali 2
Bandar Puchong Jaya
MY-47100 Puchong, Selangor
Tel. +603 8070 8133
f.tan@sto-asia.com
www.sto-sea.com

Netherlands

Sto Isoned BV
Lingewei 107
NL-4004 LH Tiel
Tel. +31 344620666
info.nl@sto.eu.com
www.sto.nl

Norway

Sto Norge AS
Pb. 6686 Etterstad
N-0609 Oslo
Tel. +47 6681 3500
info.no@sto.eu.com
www.stonorge.no

Austria

Sto Ges.m.b.H
Richtstr. 47
A-9500 Villach
Tel. +43 4242 33133-0
info@sto.at
www.sto.at

Poland

Sto – ispo Sp. z o.o.
ul. Zabraniecka 15
PL-03-872 Warsaw
Tel. +48 22 5116102
info.pl@sto.eu.com
www.sto.pl

Russia

OOO Sto
Ul. Bolshaya Yakimanka 31
RU-119180 Moscow
Tel. +7 495 974-1584
info.ru@sto.eu.com
www.sto.ru

Switzerland

Sto AG
Südstrasse 14
CH-8172 Niederglatt/ZH
Tel. +41 44 8515-353
sto.ch@sto.eu.com
www.stoag.ch

Singapore

Sto SEA Pte. Ltd.
159 Sin Ming Road, #03-08
Amtech Building
SG-Singapore 575625
Tel. +65 64 533080
f.tan@sto-asia.com
www.sto-sea.com

Sweden

Sto Scandinavia AB
Gesällgatan 6
S-582 77 Linköping
Tel. +46 13 377100
kundkontakt@sto.eu.com
www.sto.se

Spain

Beissier S.A.
Txirrita Maleo 14
E-20100 Errenteria
Tel. +34 902 100 250
beissier@beissier.es
www.beissier.es

Spain

Sto SDF Ibérica S.L.
Pol. Ind. Les Hortes del Cami Ral
Via Sergia, 32 - nave 1
E-08302 Mataró (Barcelona)
Tel. +34 93 7415 972
info.es@sto.eu.com
www.sto.es

Czech Republic

Sto s.r.o.
Čestlice 271
CZ-251 70 Dobřejšovice
Tel. +420 225 996 311
info.cz@sto.eu.com
www.sto.cz

U.K. and Ireland

Sto Ltd.
2 Gordon Avenue
Hillington Park
GB-Glasgow G52 4 TG
Tel. +44 1418 928 000
info.uk@sto.eu.com
www.sto.co.uk

Hungary

Sto Építőanyag Kft.
Jedlik Ányos u. 17
H-2330 Dunaharaszti
Tel. +36 24 510210
info.hu@sto.eu.com
www.sto.hu

USA

Sto Corp.
3800 Camp Creek Parkway
Building 1400, Suite 120
Atlanta, Georgia 30331
Tel. +1 800 221-2397
marketingsupport@stocorp.com
www.stocorp.com

International distribution partners

Addresses and information
available from:
Tel. +49 7744 57-1131

Head office**Sto AG**

Ehrenbachstrasse 1
79780 Stühlingen, Germany

Switchboard

Tel. +49 7744 57-0
Telefax +49 7744 57-2178

Info Service

Tel. +49 7744 57-1010
Telefax +49 7744 57-2010
infoservice@stoeu.com
www.sto.com



Quality Management System
Sto AG, DIN EN ISO 9001, reg.-no. 3651
Environmental Management System
Sto AG, DIN EN ISO 14001, reg.-no. 3651
Plants in Stühlingen, Donaueschingen,
Tollwitz, Rüsselsheim, Kritteln