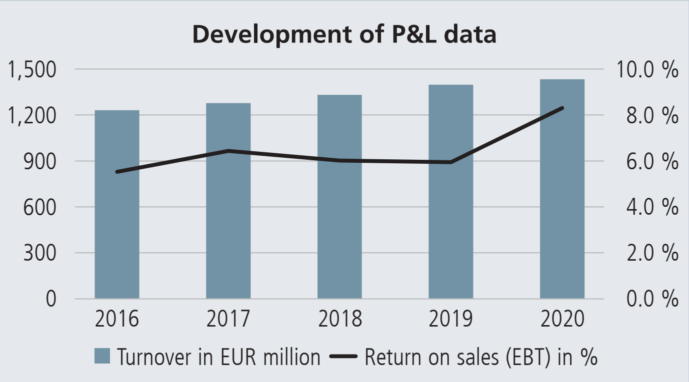
Building with conscience.

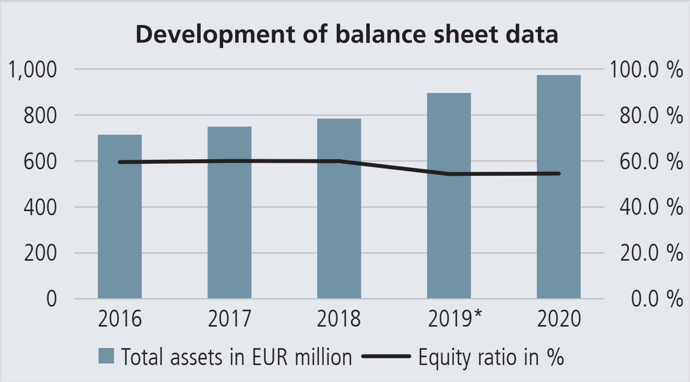
Sto SE & Co. KGaA | **2020 Annual Report**

Sto at a glance

Sto Group	2016	2017	2018	2019*	2020	Changes in % 20/19
Turnover	1,230.7	1,277.4	1,332.4	1,398.2	1,433.0	2.5
Germany	548.7	562.8	596.0	611.3	660.1	8.0
Outside of Germany	682.0	714.6	736.4	786.9	772.9	–1.8
Investments (without: financial assets and IFRS 16)	37.5	32.7	32.1	35.3	41.7	18.1
Depreciation/amortisation (without: financial assets and IFRS 16)	32.7	33.3	31.3	33.2	45.5	37.0
EBITDA	103.0	117.3	113.2	138.2	186.5	35.0
EBIT	70.3	84.0	81.9	85.9	120.8	40.6
EBT	68.1	82.2	80.2	83.1	119.0	43.2
Return on sales (EBT) (%)	5.5	6.4	6.0	5.9	8.3	
EAT (earnings after taxes)	45.7	55.8	53.8	56.3	80.7	43.3
Earnings per limited ordinary share (EUR)	7.14	8.62	8.33	9.03	12.54	38.9
Earnings per limited preference share (EUR)	7.20	8.68	8.39	9.09	12.60	38.6
Cash flow from current operating activities	95.4	86.5	80.7	117.0	177.2	51.5
per share (EUR)	14.85	13.46	12.56	18.21	27.58	51.5
ROCE (%)**	13.9	16.1	15.6	14.0	19.7	
Total assets	714.2	749.6	784.4	896.1	973.8	8.7
Equity capital	425.2	450.1	477.5	486.5	531.4	9.2
in % of total assets	59.5	60.1	60.9	54.3	54.6	
Employees (year end)	5,251	5,308	5,333	5,533	5,545	0.2
of which in Germany	2,895	2,884	2,887	2,943	3,000	1.9
of which outside of Germany	2,356	2,424	2,446	2,590	2,545	–1.7
Sto share						
Dividend per limited ordinary share (EUR)***	0.25/3.00	0.25/3.78	0.25/3.78	0.25/3.78	0.25/4.69	
Dividend per limited preference share (EUR)***	0.31/3.00	0.31/3.78	0.31/3.78	0.31/3.78	0.31/4.69	
Price-to-earnings ratio (31 Dec)	12.9	14.5	9.8	12.5	10.3	
Price-to-book ratio (31 Dec)	1.4	1.8	1.1	1.5	1.6	

(Figures in EUR million unless otherwise indicated)





* From 2019 including IFRS 16

** ROCE = EBIT divided by average capital employed
Capital employed = balance sheet values are determined on the basis of an arithmetic average of the respective reference date values at month end for the respective period. Capital employed = Intangible assets + Property, plant, and equipment + Rights of use + Inventories + Trade receivables ./. Trade payables.

*** 2020: proposal by the personally liable partner STO Management SE and the Supervisory Board

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

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

Picture caption for title page:

When designing the Folkart Hills residential complex in the Turkish resort of Çeşme, Dilekçi Architects, Istanbul/Turkey, drew inspiration from the rolling hills of the surrounding landscape. The white parapets of the elliptical buildings graphically trace the topography. Hidden beneath their rendered surface is a rainscreen cladding facade (StoVentec R). Its appearance is as exclusive as its location directly on the Aegean Sea, west of Izmir: for its individual design, the project received the "German Design Award" from the German Design Council in 2020. The award recognises innovative products and projects, as well as their manufacturers and designers, that are groundbreaking in the German and international design landscape. The award-winning Sto facade construction impressively demonstrated its robustness at the end of October 2020 during a severe earthquake in western Turkey: while many buildings in Izmir were destroyed, the earthquake-resistant StoVentec R facade showed no cracks whatsoever.

Foreword

Rainer Hüttenberger, Spokesman of the Executive Board

Dear Shareholders,

2020 was an exceptional year – also for Sto SE & Co. KGaA. The coronavirus pandemic affected nearly every area of our business and led to completely new challenges which our employees mastered excellently. Their dedication was the reason for the success that Sto managed to achieve in spite of the considerable workloads, limitations and changes caused by the coronavirus. Consolidated EBIT rose by 40.6 % to EUR 120.8 million as compared to the previous year's value, and EBT rose by 43.2 % to EUR 119.0 million. In relation to consolidated turnover, which rose by 2.5 % to EUR 1,433.0 million, the return on sales improved from 5.9 % to 8.3 %.

Thanks to the profitable, capital-sparing growth in the 2020 fiscal year, at the 2021 Annual General Meeting we will be able to propose distributing an ordinary dividend of EUR 0.31 per limited preference share and EUR 0.25 per limited ordinary share, as well as an increased bonus of EUR 4.69 per share. In this way, we want our shareholders to adequately benefit from the success of the company. At the same time, this allows us to continue to strengthen the capital base of Sto SE & Co. KGaA.

On behalf of the Executive Board, I would like to extend my thanks and appreciation to all Sto employees, in and outside of Germany, whose great work and commitment have made this dividend payout possible. They had to be extremely flexible in 2020 and make some hard sacrifices – both the employees who have been working from home for months and the employees in production, logistics, the sales force and other areas who have kept the company running around the world in difficult conditions.

The health and safety of our workforce has always been the top priority of our action plan, which we drew up and launched as soon as the coronavirus pandemic broke out last March. It is still in place today, although the first several weeks and months were dominated by extreme uncertainty. Neither scientists nor politicians nor any one of us could have predicted the direction in which the coronavirus pandemic would develop, how long it would preoccupy us, the magnitude it would take on or the industries and countries it would affect. We had no choice other than to be flexible and adapt our decisions promptly to the current facts and findings. Looking back, we can say that we consistently succeeded in keeping up the reliable execution of sales orders and projects as well as supplying customers. From the outset, we concentrated on the most important projects and cancelled projects that were not absolutely necessary. At the same time, we analysed assistance programmes offered in each country and identified and exploited savings potential in the Sto companies.

As expected, the coronavirus pandemic has had a significant negative impact in individual markets – it is known that in some regions it has had much more serious consequences than in our core market Germany, for example.

While the development of turnover was below what we had planned, but compared to other countries, where not only public life, but work at construction sites stopped completely in some cases, the restrictions in Germany were much less drastic. This can also be seen in our turnover figures: while our business volume outside of Germany declined by a total of 1.8 %, we were able to achieve a plus of 8.0 % in Germany, which is also due to first-time consolidation effects.

In order to be able to assess the regionally very different situation at any time in a reliable and thorough manner, we have set up a detailed transparency cockpit in which numerous facts on the respective market development, the situation in our local subsidiaries and important key financial figures are collected and aggregated on a weekly basis. This gives us a relatively accurate idea of the impact of the coronavirus pandemic on the entire Sto organisation at all times and allows us to respond quickly and in a targeted manner.

Crises aside, being able to adapt with flexibility to new challenges is a vital skill. At this moment, it is very clear to see that almost everything in life can change. This means that not only the details, but the basic direction, our strategy, need to be put to the test on a regular basis. We always need to be asking ourselves if the path we're taking actually fits the current environment. Are there opportunities that we haven't given enough consideration? Is there untapped potential or a better, more efficient route?

We asked ourselves these and other fundamental questions as part of a strategy review that has been running since 2019. The reorientation process has been somewhat delayed, as the coronavirus pandemic broke out in the middle of it. However, it has allowed us to incorporate some of the drastically changed general conditions into our analysis, which is almost complete by now. The resulting strategic objectives can be condensed into three main areas of focus: potential opportunities for growth for Sto, existing profitability potential and core competencies which we want to strengthen further. We will share the specific results of the strategy review at the 2021 Annual General Meeting and start implementing the initiatives derived from it around the middle of the year.

With the reorientation, we are not only accounting for the transformation of our environment, but trying to get ahead of the curve when it comes to global trends and new needs and requirements. This includes, for example, the subject of sustainability, which has taken on enormous importance in social and economic life. At Sto, we also systemically expand this area, although sustainable approaches have always defined our framework of values. This is embodied in our brand claim of 'Building with Conscience.', which has been in place since 1988 and represents our mission to contribute to the preservation of values and aesthetic appeal of buildings.

The extent to which the conscious handling of resources is a focus can be seen everywhere – just think of the 'Fridays for Future' movement, which not only dominated media reporting before the outbreak of the coronavirus pandemic. The trend in climate politics is also reversing at the political level, as international agreements with ambitious goals show. The building sector plays a key role in this, as a lot of energy and carbon dioxide can be saved with good insulation. The energy-efficient building refurbishment of owner-occupied living spaces has been promoted through fiscal measures in Germany since 1 January 2020 in order to achieve the climate action targets defined by the German government. This is likely to noticeably increase the refurbishment rate and the demand for external wall insulation systems.

A shift in mindset towards energy saving and carbon dioxide reduction is taking place at the EU level as well. The 'European Green Deal' declares that 'climate change and environmental degradation are an existential threat to Europe and the world'. By 2050, the EU plans to be completely climate-neutral, a plan for which the commission devised the European Climate Protection Act. The resulting initiatives contain numerous opportunities for Sto, which we intend to seize systematically. At the same time, we shouldn't ignore the risks that also arise from the EU specifications. For example, the Commission's chemicals strategy impacts the composition and labelling of our products, which can be seen in the in-depth discussions held on the potential health risk posed by the white pigment titanium dioxide.

Environmental compatibility and health protection are extremely important at Sto and we constantly optimise our product range in this regard. As such, we have been reducing or avoiding the use of solvents and plasticisers since the 1980's, relying on the systematic encapsulation of biocides for film protection. For 20 years now, we have oriented our product development around biomimetics, efficient solutions based on models found in nature. Our Lotusan® facade paint, for example, works on the principle of the lotus effect: a water-repellent microtexture minimises the water's contact with the surface so that dirt runs off with the rain, keeping the facade looking nice for longer.

Our EWIS range is always being expanded to include environmentally friendly versions to provide the perfect solutions for different needs. In 2021, we are introducing the first facade coating programme to be based on renewable raw materials under the AimS® brand. In combination with a suitable insulation material they can form sustainable facade insulation systems.

In addition to our in-depth research and development activities, digitisation is opening up a multitude of new opportunities for us. It has accelerated quickly as a result of the coronavirus pandemic – as seen in the many home offices that have been set up in a very short time, virtual conferences that make driving and flying unnecessary and classes that are conducted online. The digital transformation offers many opportunities from which we can benefit from substantially if we use the tools in the best way possible. This is what makes it an essential part of our reorientation and we have started to digitise and hence digitally support the entire process organisation, i.e. all stages of the value chain until the product reaches the customer. This helps us to increase efficiency and lay the foundation for the profit increase we have planned for the medium term.

Ladies and gentlemen, another year full of challenges and uncertainty lies ahead of us. Shaped by the coronavirus pandemic, fraught with many unpredictable influencing variables and full of questions yet to be answered. The 'usual' elements of uncertainty, such as the weather, also continue to preoccupy us.
A major proportion of Sto's products is used on the exterior. This means that their application is dependent on weather conditions, something that Sto is unable to influence. It is not only the coronavirus and the resulting measures imposed by various governments that can cause disruptions, but certain levels of cold and precipitation can also make it impossible to work at construction sites.

However, there are great opportunities for growth at the Sto Group, which we will systematically utilise with the results of the strategy review. Sto is one of the leading providers of high-quality facade systems and coatings, has an excellent brand, a broad range of products perfectly matched with each other, a good international position and a strong capacity for innovation. Our qualified workforce, outstanding sales base, customer-oriented logistics and not least the strategy reform we've launched are also factors underpinning the company's successful development going forward.

Against this backdrop, we anticipate an increase in turnover of 4.5 % to EUR 1,498 million in the Group for the 2021 fiscal year. The EBIT operating result is expected to fall between EUR 98 million and EUR 113 million.

In order to achieve these ambitious goals, we are even more dependent than usual on the flexibility and solidarity of our workforce. Together with our employees and the company's shareholders, who represent an extremely stable anchor for Sto, and in close cooperation with all our partners, we will work intensively to ensure that Sto manages the coronavirus pandemic as well as possible and emerges from it in a strong position.

Let's continue to stick together and above all, stay healthy!

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

Report of the Supervisory Board

Dr Max-Burkhard Zwosta, Chairperson

Members of the Supervisory Board

Fritz Stotmeister, Öhningen/Germany
Honorary Chairperson

Dr Max-Burkhard Zwosta, Wittnau/Germany,
Chartered accountant and tax consultant,
Chairperson of the Supervisory Board,
Chairperson of the Nomination Committee

Wolfgang Dell*, Hattersheim/Germany,
Administrator Maintenance Plant Technology, Sto SE & Co. KGaA,
Deputy Chairperson of the Supervisory Board (since 8 May 2020),
Member of the Audit Committee (since 10 June 2020)

Maria H. Andersson,
Munich/Germany, Family Officer, Partner, Managing Director Chairperson of the Finance Committee, Member of the Audit Committee

Dr Renate Neumann-Schäfer,
Überlingen/Germany, Corporate consultant, Economist, Chairperson of the Audit Committee, Member of the Finance Committee

Cornelia Reinecke,
Emmendingen/Germany, Head of Human Resources and Member of the Management Board of Sick AG, Member of the Nomination Committee

Prof Dr Klaus Peter Sedlbauer,
Rottach-Egern/Germany, Chair of Building Physics at the Technical University of Munich and Head of the Fraunhofer Institute for Building Physics, Stuttgart/Germany and Holzkirchen/German, Member of the Nomination Committee

Peter Zürn,
Bretzfeld-Weißlensburg/Germany, Kaufmann (business man)

Frank Heßler*,
Mannheim/Germany, Political Trade Union Secretary; Deputy regional manager of IG BCE of the regional district of Baden-Württemberg/Germany

Niels Markmann*
(since 24 April 2020), Velbert/Germany, Chairperson of the General Works Council and Chairperson of the Works Council for the North-West sales region, Sto SE & Co. KGaA

Barbara Meister*,
Blumberg/Germany, Chairperson of the Works Council Stühlingen/Germany, Sto SE & Co. KGaA; Member of the Finance Committee, Member of the Audit Committee

Roland Schey*,
Tengen/Germany, Head of Finance and Accounting of the Sto Group, Member of the Finance Committee

Martina Seth*,
Bad Münder/Germany, Head of the Wilhelm-Gefeller Education and Conference Centre of the IG BCE

** Employee representatives*

Dear Shareholders,

The Supervisory Board of Sto SE & Co. KGaA conscientiously and with due diligence fulfilled the duties incumbent upon it by law, the articles of association, the Deutscher Corporate Governance Kodex (German Corporate Governance Code, DCGK) and the rules of procedure in the year under review. It accompanied the management of the company by the personally liable partner STO Management SE in an advisory capacity and monitored it continuously. The Supervisory Board stayed informed of all major decisions and in particular, maintained constant contact with the Executive Board of the personally liable partner through its chairperson. The cooperation between the Supervisory Board and Management Board was always constructive and characterised by an open, trusting exchange between the parties. The Supervisory Board was briefed on a regular, timely and comprehensive basis on the important issues relating to the company and the Group and discussed all relevant contents in both their regular meetings and their committees.

The focus was on information about the current situation of the company and the Group, the business policy, planning including financial, investment, and personnel planning, the income situation, and the business development of the individual company and the Group, the opportunities and risks, risk management, and the compliance situation. The members of the Supervisory Board also comprehensively reviewed and gave conscientious advice on decisions and measures taken by the Executive Board of the personally liable partner, with the preparations of the responsible committees often serving as the basis. In decisions that were of crucial importance, the Supervisory Board was always involved immediately.

Furthermore, the Supervisory Board continually obtained assurances that the actions of the Executive Board of the personally liable partner STO Management SE were legitimate, orderly, and fit for purpose. None of the members of the Supervisory Board had any conflicts of interest regarding the execution of their offices during the reporting period. No member of the Supervisory Board was absent from half or more sessions during the period in which they belonged to the Board.

Key issues dealt with by the Supervisory Board

During the 2020 fiscal year, the Supervisory Board held five regular meetings, on 16 April, 10 June, 23 July, 5 November and 17 December 2020. Two extra meetings were held on 6 April and 15 December 2020. The Supervisory Board was able to pass resolutions at all times. The members of the Executive Board of the personally liable partner STO Management SE were present at the meetings unless topics had to be discussed in their absence.

At all of the meetings, the Supervisory Board dealt in-depth with the market situation and current developments of Sto SE & Co. KGaA and the Group companies of Sto SE & Co. KGaA, the company's strategy, risks and opportunities, personnel matters, compliance topics, investments, and corporate planning. A dominant topic of the Supervisory Board's work, which the committees discussed intensively throughout the entire reporting period and for which they examined possible measures, was the coronavirus pandemic, including the manifold effects on employees, the companies of the Sto Group and business partners. Due to the Act Concerning Measures Under the Law of Companies, Cooperative Societies, Associations, Foundations and Commonhold Property to Combat the Effects of the COVID-19 Pandemic (COVID-19 act), meetings of the Supervisory Board and its committees during the 2020 fiscal year were conducted via video and/or phone conferences. In the first extraordinary meeting on 6 April 2020, the Supervisory Board was fully informed of the status of the Sto Group and the company against the backdrop of the coronavirus pandemic. This included the presentation of the situation in the individual countries as well as the impact on turnover and development of income in the Group companies, along with an explanation on crisis management and presentation of the Transparency Cockpit, which was set up as an information tool. Furthermore, risks and possible measures to counter them were discussed in detail. The Supervisory Board was also thoroughly briefed on the current status quo regarding the coronavirus pandemic at each meeting for the 2020 fiscal year and via regular interim reports.

In addition to the current development of the coronavirus pandemic, the focus of the first ordinary meeting on 16 April 2020 was the examination of the annual financial statements and the management report for Sto SE & Co. KGaA, as well as the consolidated annual financial statement and Group management report, including the sustainability report, for the 2019 fiscal year. The auditor reported the results of their audit at the Supervisory Board meeting and explained the key points of the audit. The chairperson of the Audit Committee, who had looked at the documents in depth beforehand, also reported on the audit and the discussion of the financial statements, the sustainability report, and the dependent company report in accordance with Sections 312 et. seq. of the German Stock Corporation Act (Aktiengesetz, AktG). The Executive Board of the personally liable partner STO Management SE provided a report on the other mandatory publications, especially the Corporate Governance, remuneration and sustainability report. Following detailed discussions and based on its own extensive audit, the Supervisory Board approved the annual financial statement of Sto SE & Co. KGaA and the consolidated annual financial statement of the Sto Group for the 2019 fiscal year, as well as the company's sustainability report, the dependent company report, and the Corporate Governance Report, in accordance with Section 171 of the German Stock Corporation Act (AktG).

Furthermore, after thorough discussion, the Supervisory Board approved the report of the Supervisory Board for the 2019 fiscal year, the organisation of the agenda of the Annual General Meeting on 10 June 2020, and the Annual General Meeting to be conducted by way of the virtual Annual General Meeting based on the COVID-19 act, ordering voting by means of electronic absentee ballot, approving the use of a shortened deadline and allowing potential questions within the statutory period of time by means of electronic communication. The Supervisory Board followed the personally liable partner STO Management SE's proposal for the appropriation of profits.

The Supervisory Board also acknowledged and approved the Sto Group's 5-year plan for 2020-2024, which was discussed in detail, taking into account the details examined in the finance committee. The chairperson of the Supervisory Board also reported on the current status of the judicial appointment of Niels Markmann as an alternate member of the Supervisory Board for employee representatives.

The Supervisory Board meeting on 10 June 2020 primarily served the purpose of preparing for the company's Annual General Meeting taking place that same day. Among other things, the Supervisory Board approved the exercise of discretion of the Executive Board of the personally liable partner STO Management SE to answer all formally submitted questions from shareholders in full at the Annual General Meeting. Furthermore, the Supervisory Board member Wolfgang Dell was elected as a member of the Audit Committee.

The meeting on 23 July 2020 addressed the business development in the first half of 2020 as well as the tendering process for a new chartered accountant as auditor for the Sto SE & Co. KGaA annual financial statement and the

2021 consolidated annual financial statement. Based on the report from the chairperson of the Audit Committee regarding the tendering process and their thorough explanation, the Supervisory Board approved the procedure and procedural principles chosen. The follow-up measures from the results of the employee survey conducted in 2019 and the status of the ongoing strategy review were also outlined and discussed in the meeting.

On 5 November 2020, the Supervisory Board focused in particular on the projections for the 2020 fiscal year and the Group strategy. In addition to various other management board measures, the status of the eCommerce project 'nextGen B2B' was also presented and discussed.

In an ordinary meeting on 15 December 2020, the Supervisory Board addressed at length the crucial points and status of the Sto Group's strategy review and its potential implementation.

Planning for the 2021 fiscal year for both Sto SE & Co. KGaA and the Sto Group was the main item on the agenda to be deliberated at the Supervisory Board meeting held on 17 December 2020. In addition, the decision was made regarding the Audit Committee's proposal to exercise the right of nomination concerning the appointment of the auditor for Sto SE & Co. KGaA (annual financial statement and consolidated annual financial statement) for the 2021 fiscal year in accordance with written confirmation based on the selection process. Other topics included the auditor’s preliminary audit and audit planning of the annual financial statement and consolidated annual financial statement of the Sto Group for the 2020 fiscal year for Sto SE & Co. KGaA, the risk assessment and provisions for loss, and the adoption of the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG).

The Supervisory Board reviewed its activities as part of an efficiency review in accordance with Items D.12 and D.13 of the Deutscher Corporate Governance Kodex 2020 (German Corporate Governance Code, DCGK) in a special organisational meeting on 15 January 2020.

Supervisory Board committees

In the 2020 fiscal year, the Supervisory Board of Sto SE & Co. KGaA had a Nomination Committee, an Audit Committee, and a Finance Committee. These bodies made preparations for the agenda items to be discussed by the Supervisory Board and the decisions which need to be taken.

The Nomination Committee met once in 2020 to prepare selection criteria for the Supervisory Board elections taking place in 2022. The Audit Committee met ten times and the Finance Committee met four times in the 2020 fiscal year. Major topics for the Audit Committee were the 2019 annual financial statement and consolidated annual financial statement for Sto SE & Co. KGaA, the management report, the dependent company report, and the auditor's report. Other major points were the implementation of the selection procedure and the submission of a recommendation for preparing the exercising of the Supervisory Board's right of nomination concerning the appointment of the auditor of Sto SE & Co. KGaA (annual financial statement and consolidated annual financial statement) for the 2021 fiscal year. The current business development, the current projection for the year as a whole and interim reports concerning the 2020 half-year report were also discussed. Furthermore, the members of the Audit Committee discussed issues of Compliance Management and the effectiveness of the internal control and risk management system, as well as the internal audit. The Finance Committee primarily examined the important management issues of STO Management SE, the financing of Group companies, as well as Group planning.

Corporate Governance and Declaration of Compliance

In the year under review, the Supervisory Board of Sto SE & Co. KGaA duly addressed the principles, recommendations and suggestions of the Deutscher Corporate Governance Kodex (German Corporate Governance Code, DCGK). A Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) was issued in December 2020 which is based on the version of the Code of 16 December 2019. It is available on the company's website along with older versions of the declaration. Further details can be found in the Corporate Governance Report of 2020 Annual Report.

Audit of the annual financial statement

On 10 June 2020, the ordinary Annual General Meeting of Sto SE & Co. KGaA appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, to act as the auditor for the 2020 fiscal year. The chartered accountant audited the annual financial statement of Sto SE & Co. KGaA, prepared by the Executive Board of the personally liable partner STO Management SE, the management report, the consolidated annual financial statement, and the Group management report for the 2020 fiscal year as well as the dependent company report in accordance with Sections 312, 278 of the German Stock Corporation Act (AktG). The relevant audit partners with respect to Section 319a (1) sentence 4 of the German Commercial Code (HGB) were Andreas Nietzer and Stephan Busser. The auditors confirmed that the management reports of Sto SE & Co. KGaA and the Group appropriately describe the economic situation as well as the opportunities and risks associated with future development. The effectiveness of the monitoring system within the scope of Section 91 (2) of the German Stock Corporation Act (AktG) was also confirmed. The auditor therefore issued an unreserved audit opinion.

The annual financial statements of the company and the Group, the management reports, and the auditor reports as well as statements to be published in the annual report which were not to be reviewed by the auditor were distributed to all Supervisory Board members in a timely manner. The Audit Committee pre-examined these documents in its meeting held on 21 April 2021. In advance of the committee and Supervisory Board meeting, other preliminary examinations and explanatory meetings were held between the Executive Board of the personally liable partner STO Management SE, the Chairperson of the Supervisory Board, and the Chairperson of the Audit Committee to discuss key audit matters. At the Supervisory Board meeting on 22 April 2021, the statements and reports as well as declarations were discussed and reviewed in detail. Auditor representatives were present at both meetings to report on the audit results and provided additional information when requested. They confirmed the effectiveness of the monitoring systems within the scope of Section 91 (2) of the German Stock Corporation Act (AktG) to the Supervisory Board. The auditors also confirmed in writing that, apart from the audit, they did not provide the company with any other significant services in the fiscal year of 2020 and there were no circumstances that could impair their independence as auditors.

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

The Supervisory Board carried out its own in-depth audit of the annual financial statements, the management reports of Sto SE & Co. KGaA and the Sto Group as well as of the statements published in the annual report which were not to be reviewed by the auditor, and did not have any objections. The Supervisory Board approved the annual financial statement of Sto SE & Co. KGaA prepared by the Executive Board of the personally liable partner STO Management SE, and the consolidated annual statement for 2020 in accordance with Section 171 of the German Stock Corporation Act (AktG), as well as the dependent company report. The Supervisory Board will hence propose the approval of the annual financial statement of Sto SE & Co. KGaA for the 2020 fiscal year at the Annual General Meeting to be held on 16 June 2021. The non-financial statements, in particular those statements and data on sustainability and Corporate Social Responsibility, have been reviewed by the Supervisory Board and judged to be accurate in its analysis and objective.

The Supervisory Board agrees to the proposal of the personally liable partner STO Management SE to recommend a dividend distribution of EUR 31,896,720.00 at the Annual General Meeting. This means that limited preference shareholders are expected to receive an ordinary dividend of EUR 0.31 as well as an increased bonus of EUR 4.69 per share, and limited ordinary shareholders are expected to receive an ordinary dividend of EUR 0.25 and also an increased bonus of EUR 4.69 per share.

Personnel-related matters
With the district court's decision of 24 April 2020, Niels Markmann was appointed a member of the Supervisory Board. Wolfgang Dell was chosen as deputy chairperson of the Supervisory Board with the decision of 8 May 2020.

The Supervisory Board would like to thank all employees of Sto SE & Co. KGaA as well as the members of the Executive Board of the personally liable partner STO Management SE for their considerable commitment, their flexibility and their performance during the fiscal year, especially in light of the coronavirus pandemic. We wish the whole team the best of health and much success in mastering the challenges to come in the 2021 fiscal year, which will be no less demanding.

Stühlingen, 22 April 2021

Dr Max-Burkhard Zwosta
Chairperson of the Supervisory Board

Corporate Governance Report/ Declaration on management of the company

In this report, Sto SE & Co. KGaA and its personally liable partner STO Management SE describe all the processes involved in the management and monitoring of the company (Corporate Governance) as well as the key company management practices in accordance with Sections 289f and 315d of the German Commercial Code (HGB) (Declaration on management of the company). This combined document is part of the annual report and, as such, is also published under 'Investor Relations' on the Sto website at www.sto.de. The supplementary remuneration report is included in the Notes to the consolidated annual financial statement of the Sto Group.

Sto is committed to responsible and transparent management and monitoring of the company, with a focus on sustainable value creation. All internal decision-making and control processes in the Sto Group are based on this principle.

Statutory regulations, ethical standards, a sound financial policy, a strategy that is geared towards sustainability, and the Corporate Governance Code all provide the foundation for our approach to corporate governance. The legal form of the company is a Kommanditgesellschaft auf Aktien (corresponds approximately to a partnership limited by shares). This results in several anomalies that require us to deviate from the principles, recommendations, and suggestions that are contained within the latest version of the Code of 16 December 2019. To an extent, Sto SE & Co. KGaA also applies slightly different regulations because of specific matters relating to its status as a medium-sized listed family business. Deviations from the principles, recommendations, and suggestions of the Code and the respective reasons are explained in the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG). The current and previous versions of this declaration are published on the website at www.sto.de. They can be found under 'Entsprechenserklärung' (Declaration of Conformity) by going to the 'Investor Relations' area and selecting the 'Corporate Governance & Compliance' category.

Management and monitoring of the company
The corporate bodies of Sto SE & Co. KGaA are the personally liable partner STO Management SE (which is responsible for managing the company's business operations), the Supervisory Board, and the Annual General Meeting. There is a separation in terms of personnel between management of the company and monitoring of the Management Board in accordance with the statutory regulations.

Personally liable partner
The sole personally liable partner of Sto SE & Co. KGaA is STO Management SE. STO Management SE acts through its Executive Board, i.e. the management body, via which it governs and manages Sto SE & Co. KGaA on behalf of STO Management SE. Within this context, STO Management SE acts under its own authority and in the interests of the company; this means aiming to achieve sustainable added value while keeping the needs of shareholders, employees, and other stakeholders in mind. In its work, the personally liable partner STO Management SE complies with all statutory regulations, and observes the Code, as well as other recognised external standards, and company regulations.

The personally liable partner STO Management SE develops the corporate strategy and ensures this strategy is implemented. Its tasks also include drawing up the annual financial statement of Sto SE & Co. KGaA, the consolidated annual financial statement of the Sto Group, the half-year financial report, and the interim reports. It makes arrangements that are necessary in order to ensure compliance with legal requirements and company-internal directives within the Sto Group (see Section 'Key practices of Corporate Governance/Compliance'), and is responsible for the establishment and further development of the risk management and controlling system.

Detailed information about risk management is provided in the Group management report, which is part of this annual report.

Diversity

The Executive Board of listed companies sets target figures for the percentage of women in the two management levels below the Executive Board in accordance with Section 76 (4) of the German Stock Corporation Act (AktG). At Sto SE & Co. KGaA, this is the responsibility of the personally liable partner STO Management SE in accordance with Section 278 (3) of the German Stock Corporation Act (AktG). The latter promotes diversity as required by the Code, which it considers an important success factor for the future of the Group. Furthermore, industry-specific conditions and the current proportion of women in the workforce were also taken into account when setting the target quotas.

The Executive Board of the personally liable partner STO Management SE has established the goal of achieving a quota of 4.0 % for management positions a level below the personally liable partner, i.e. the division manager level, and of 20.0 % for the department manager level by 31 December 2025. As at 31 December 2020, 0 % of the management positions on the division management level and 11.5 % of the department manager positions were held by women. By 31 December 2021, these percentages are expected to be at 0 % and 12.0 % respectively.

Despite the relevant requests having been submitted during the process of searching for candidates, it was not possible to find any suitable female candidates during the 2020 fiscal year. This means that the proportion of women at the second management level still falls short of the set quota target.

Supervisory Board

The Supervisory Board of Sto SE & Co. KGaA monitors and advises the personally liable partner STO Management SE in the management of its business. Furthermore, it checks for compliance with the statutory disclosure rules in the manner detailed by the Supervisory Board and is directly involved in all decisions of fundamental importance to Sto SE & Co. KGaA. The work of the Supervisory Board is governed by legal requirements, the articles of association, the Code, and also by rules of procedure. The latest versions of these are available on the company website at www.sto.de and can be found under 'Geschäftsordnung Aufsichtsrat' (Supervisory Board rules of procedure) by going to the 'Investor Relations' area and selecting the 'Corporate Governance & Compliance' category.

In comparison to the Supervisory Board of an Aktiengesellschaft (German public limited company), the rights and obligations of the Supervisory Board of Sto SE & Co. KGaA are restricted. For instance, it does not have the authority to appoint personally liable partners or their corporate bodies. Nor is it authorised to specify their contractual conditions, to adopt rules of procedure relating to management, or to specify business transactions requiring approval. Instead, these tasks are performed by the Supervisory Board of STO Management SE in its capacity as the overseer of the Executive Board (which constitutes the management body).

In the 2020 fiscal year, the Supervisory Board of Sto SE & Co. KGaA gathered for five ordinary and two extraordinary meetings. The details of the work undertaken by the Supervisory Board and focal points of its meetings and committees are explained in depth in the report of the Supervisory Board.

The Supervisory Board and its committees regularly review how effectively the Supervisory Board is performing its tasks, either internally or with the involvement of external advisors. In the 2020 fiscal year, the Supervisory Board conducted an internal efficiency review as part of a separate organisational meeting without any representatives from the personally liable partner present. The results of the review confirmed that cooperation is professional, constructive, critical, and characterised by a high level of trust as well as openness – both internally within the Supervisory Board and in its dealings with the management and supervisory bodies of the personally liable partner STO Management SE. The organisational meeting confirmed that meetings are organised and conducted efficiently, and that there is an adequate supply of information. No fundamental need for change was identified. Individual suggestions were and are being taken on board and implemented. Within this context, attention was also paid to ensuring adequate professional development for the members of the Supervisory Board.

To increase the efficiency of the activities of the Supervisory Board, technically qualified committees are formed. The members of the committees are listed in the overview below. In 2020, the Audit Committee and Finance Committee met regularly in advance of the Supervisory Board meetings to discuss complex issues and prepare their findings for the full Supervisory Board meetings. Thus, the Audit Committee drew up a recommendation for the full Supervisory Board as part of a tendering procedure. This concerned exercising the right of nomination when appointing an auditor for Sto SE & Co. KGaA (annual financial statement and consolidated annual financial statement of the Sto Group) for the 2021 fiscal year. The work of the committees is presented in detail in the report of the Supervisory Board.

A Nomination Committee is formed if there are upcoming Supervisory Board elections. This committee met once in the 2020 fiscal year to consider the elections that are to take place in 2022 and to draft the competence profiles in accordance with recommendation C.1 of the Code. The competence profiles are to be drawn up well in advance of the next ordinary Supervisory Board elections.

The Supervisory Board conducts an intensive review of the consolidated annual financial statement of the Sto Group and the annual financial statement of Sto SE & Co. KGaA based on the findings of the auditor, the audit procedures of its Audit Committee, and as part of its work within the full Supervisory Board. The personally liable partner discusses the half-year financial report and the interim reports produced within the first and second half year with the Chairperson of the Supervisory Board and the Chairperson of the Audit Committee, who consult with the other members of the Supervisory Board.

Composition of the Supervisory Board

In accordance with the German Co-Determination Act, the Supervisory Board of Sto SE & Co. KGaA is composed of an equal number of shareholder and employee representatives, i.e. six shareholder and six employee representatives:

- **Dr Max-Burkhard Zwosta,** Wittnau/Germany, year of birth: 1951, Chartered accountant and tax consultant, Chairperson of the Supervisory Board, Chairperson of the Nomination Committee, Member of the Supervisory Board since: 27 October 2005
- **Wolfgang Dell*,** Hattersheim/Germany, year of birth: 1960, Administrator Maintenance Plant Technology, Sto SE & Co. KGaA, Deputy Chairperson of the Supervisory Board (since 8 May 2020), Member of the Audit Committee (since 10 June 2020), Member of the Supervisory Board since: 1 March 2011
- **Maria H. Andersson,** Munich/Germany, year of birth: 1966, Family Officer, Partner, Managing Director, Chairperson of the Finance Committee, Member of the Audit Committee, Member of the Supervisory Board since: 14 June 2017
- **Dr Renate Neumann-Schäfer,** Überlingen/Germany, year of birth: 1954, Corporate consultant, economist, Chairperson of the Audit Committee, Member of the Finance Committee, Member of the Supervisory Board since: 14 June 2017
- **Cornelia Reinecke,** Emmendingen/Germany, year of birth: 1969, Head of Human Resources and Member of the Management

Board of Sick AG, Member of the Nomination Committee, Member of the Supervisory Board since: 14 June 2017

- **Prof Dr. Klaus Peter Sedlbauer,** Rottach-Egern/Germany, year of birth: 1965, Chair of Building Physics at the Technical University of Munich and Head of the Fraunhofer Institute for Building Physics, Stuttgart/Germany and Holzkirchen/Germany, Member of the Nomination Committee, Member of the Supervisory Board since: 27 June 2007
- **Peter Zürn,** Bretzfeld-Weißlensburg/Germany, year of birth: 1959, Kaufmann (business man), Member of the Supervisory Board since: 27 June 2007
- **Frank Heßler*,** Mannheim/Germany, year of birth: 1961, Political Trade Union Secretary and Deputy regional manager of IG BCE of the regional district of Baden-Württemberg/Germany, Member of the Supervisory Board since: 14 June 2017
- **Niels Markmann*,** Velbert/Germany, year of birth: 1971, Chairperson of the General Works Council and Chairperson of the Works Council for the North-West sales region, Sto SE & Co. KGaA, Member of the Supervisory Board since: 24 April 2020
- **Barbara Meister*,** Blumberg/Germany, year of birth: 1961, Chairperson of the Stühlingen Works Council , Sto SE & Co. KGaA, Member of the Finance Committee, Member of the Audit Committee, Member of the Supervisory Board since: 1 June 2010
- **Roland Schey*,** Tengen/Germany, year of birth: 1965, Head of Finance and Accounting of the Sto Group, Member of the Finance Committee, Member of the Supervisory Board since: 14 June 2017
- **Martina Seth*,** Bad Münder/Germany, year of birth: 1964, Head of the Wilhelm-Gefeller Education and Conference Centre of the IG BCE, Member of the Supervisory Board since: 14 June 2017

** Employee representatives*

The current term of office is, in principle, due to end on closure of the Annual General Meeting in 2022.

In accordance with Section 96 (2) Sentence 1 of the German Stock Corporation Act (AktG), it must be ensured that at least 30 % of the Supervisory Board consists of women or men respectively when new members are being appointed to the Supervisory Board of co-determined listed companies. The minimum percentage must be fulfilled by the Supervisory Board as a whole, unless the shareholder or the employee representatives object to the overall fulfilment in accordance with Section 96 (2) Sentence 3 of the German Stock Corporation Act (AktG). A corresponding objection was unanimously agreed upon and declared by the Supervisory Board of Sto SE & Co. KGaA. Accordingly, the Supervisory Board must include at least two women and two men on both the shareholder and employee representative sides. This obligation is being fully met: currently, three of the six shareholder representatives on the Supervisory Board of Sto SE & Co. KGaA and two of the six employee representatives are women.

In Section 2 (1) of its rules of procedure, the Supervisory Board stipulates that Supervisory Board members should not normally serve beyond the end of the Annual General Meeting following their seventieth birthday. The composition of the Supervisory Board ensures that it has the necessary expertise, skills, and professional experience required to properly carry out its tasks. All members of the Supervisory Board member are proven experts in their respective fields. They are solely responsible for engaging in the education and training measures that are necessary for them to meet the requirements placed on them and receive appropriate support from Sto SE & Co. KGaA in doing this. Among others, Maria H. Andersson and Dr Renate Neumann-Schäfer qualify as independent financial experts for the purposes of Section 100 (5) of the German Stock Corporation Act (AktG).

When proposing new members, the Supervisory Board must ascertain that the candidates can invest the necessary time involved and must examine their personal and business relationships with the company, its corporate bodies, and major shareholders, as well as any other criteria listed in C.6 of the Code concerning the independence of the candidates.

The Chairperson of the Audit Committee is independent and, as a financial expert, has the special knowledge required for this position. This chairperson does not simultaneously serve as the Chairperson of the Supervisory Board and has not been a member of the Executive Board for the past two fiscal years.

As can be seen, three out of the six shareholder representatives sitting on the company's Supervisory Board have been members the Supervisory Board for more than twelve years. These members do not exhibit any further characteristics that would indicate any potential dependence on their part as defined by recommendation C.7 of the Code. The Supervisory Board is satisfied that – regardless of how long they have been members of the company's Supervisory Board – these members are sufficiently independent of the company and the personally liable partner. By virtue of their personal economic and professional circumstances, none of the three members are in any way reliant on their Supervisory Board activities on behalf of the company. The company takes the view that having a mix of different experiences, qualifications, and backgrounds is the key to optimum monitoring of the company. Moreover, the Chairperson of the Supervisory Board is serving his last term as a Supervisory Board member for the company due to the set age limit that has been put in place. This means, once again, that there is nothing here to indicate dependence on the company and that independence is ensured accordingly.

Remuneration of the management body and the Supervisory Board

Information concerning the remuneration and expense allowance paid to the personally liable partner STO Management SE can be found in the Group management report, along with – in the context of this expense allowance – the main features of the remuneration system for the management body and the supervisory body of STO Management SE. This remuneration and expense allowance are summarised in the Notes to the consolidated annual financial statement of the Sto Group.

Further information on remuneration of the Supervisory Board is contained in the company's articles of association, Notes/Notes to the consolidated annual financial statement, as well as in the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG).

Share trading

Persons with management functions at STO Management SE or Sto SE & Co. KGaA must disclose any private transactions involving Sto limited preference shares to the German Federal Financial Supervisory Authority (BaFin) and to Sto SE & Co. KGaA in accordance with Art. 19 of the MAR (Directors' Dealings). No notifications of Directors' Dealings occurred in fiscal 2020.

Annual General Meeting

The Annual General Meeting of Sto SE & Co. KGaA essentially has the same rights as an Aktiengesellschaft (German public limited company). In addition, it officially confirms the annual financial statement of Sto SE & Co. KGaA. The shareholders exercise their rights at the Annual General Meeting. As the personally liable partner of Sto SE & Co. KGaA, STO Management SE is responsible for convening the Annual General Meeting and the timely dispatch of all statutory reports and documents, including the agenda. These documents and the Annual Report are also available on the Sto website. At the Annual General Meeting, the personally liable partner presents the annual financial statement of Sto SE & Co. KGaA, the consolidated annual financial statement of the Sto Group as well as the management/Group management report for the previous fiscal year and explains the key events. Unlike the Annual General Meeting of an Aktiengesellschaft (German public limited company), the Annual General Meeting of a Kommanditgesellschaft auf Aktien (roughly equivalent to a partnership limited by shares) cannot vote on the remuneration of the Executive Board or on a remuneration system, because there is no Executive Board in the case of this legal form. Rather, the remuneration and expense allowance due to STO Management SE as the personally liable partner responsible for managing Sto SE & Co. KGaA, are determined from the legislation and from the articles of association of Sto SE & Co. KGaA.

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

At the end of 2020, Sto SE & Co. KGaA's subscribed capital amounted to an unaltered figure of EUR 17.556 million. Each of the 4.32 million limited ordinary shares (ordinary shares) grants one voting right. The 2.538 million limited preference shares (preference shares) do not have voting rights but take priority for the purpose of profit distribution and are entitled to a higher dividend. There were no shares with preferential or multiple voting rights.

Accounting and auditing of financial statements

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

The consolidated annual financial statement of the Sto Group as well as the annual financial statement of Sto SE & Co. KGaA, including the respective management reports, are audited by an independent auditing company elected at the Annual General Meeting following a proposal by the Supervisory Board. The election is preceded by an independence check in order to ensure that any conflicts of interest that might give rise to doubts concerning the impartiality of the auditor are ruled out at an early stage. The auditing company commissioned by Sto for the fiscal year of 2020, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, has issued a corresponding statement in this regard.

The auditor responsible takes part in the deliberations of the Supervisory Board of Sto SE & Co. KGaA concerning the annual financial statement and the consolidated annual financial statement as well as in the corresponding Audit Committee meeting where the auditor reports on the key findings of their audit.

Transparency and external reporting

Sto SE & Co. KGaA informs its shareholders, financial analysts, the media, and the general public about important topics in a regular, timely and comprehensive manner. These include, in particular, the economic situation and development of the company/Group, as well as important business changes within the Group. The company uses a variety of media for this purpose.

Annual and interim reports, press releases, and voting rights announcements, inside information, all financial and sustainability reports, as well as other key information, can be found in the 'Investor Relations' area of the Sto website at www.sto.de. Much of it is also available in English. Annual and half-yearly financial reports are also lodged with and published in the German federal government gazette (Bundesanzeiger) and in the companies register on the day of publication.

Key dates for financial communications are published in the financial calendar of the annual report and on the company's website on a regular basis.

Key practices of Corporate Governance/ Compliance

Over and above the legal requirements and the German Corporate Governance Code, Sto SE & Co. KGaA bases its conduct on internal regulations and external standards. For example, Sto is a member of the UN Global Compact initiative. It is run under the auspices of the United Nations and defines ten principles in the areas of human rights, labour standards, environmental protection, and anti-corruption. Measures that we have put in place in order to implement the Global Compact are outlined in the 'Sustainability and Corporate Social Responsibility' section of the annual report and on the company's website. It also represents the annual Communication on Progress (COP) required by the Global Compact.

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

The purpose of consistent compliance management is to ensure adherence to company rules and values, and to make sure that all business practices within the Group are legally compliant. At Sto, compliance provides the foundation for integrity in the business arena. It underpins the company's strong commitment to ethical and fair behaviour in our own organisation, and creates the framework for dealing with external partners.

Sto’s Compliance Management System consists of several interconnected building blocks. It covers the areas of prevention, detection, and response, and is supported by the implemented risk management procedures, the directives, and extensive training and advice for employees worldwide. Ways and means are provided for reporting suspected or actual violations of company rules and statutory regulations in order to facilitate the detection and complete investigation of misconduct. Every instance of misconduct is investigated thoroughly.

By following the logical sequence of the PDCA cycle (Plan, Do, Check, Act), the Compliance Management System can be implemented using the optimum methodology and can be continuously developed by remedying weak points. At Sto, compliance is integrated into our operational and added-value processes from end to end, with implementation based on seamless communication. Responsible conduct is reinforced and indelibly imprinted on the minds of all employees through the 'tone from the top' strategy adopted by the Executive Board of STO Management SE. Moreover, legally compliant, risk-aware, opportunity-oriented, and informed action in a dynamic business environment help to ensure Sto's competitiveness and sustainable corporate success in line with Sto's corporate mission of 'Building with conscience.'

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

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

Composition of subscribed capital

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

Restrictions on voting rights or the transfer of shares

To the knowledge of the personally liable partner STO Management SE, there are no restrictions relating to the transfer of preference shares. In accordance with Sections 4 (1), 16 of the articles of association of Sto SE & Co. KGaA, the preference shares do not confer any voting rights. Of the 4,320,000 ordinary shares, the Stotmeister family holds a total of 3,888,000 shares (Stotmeister Beteiligungs GmbH 3,887,996 shares, Jochen Stotmeister 1 share, Gerd Stotmeister 1 share, Helga Stotmeister 1 share, Heidi Heimburger 1 share), with 432,000 shares also being held by Sto SE & Co. KGaA at the 2020 year end. The ordinary shares held by the family are limited in their transferability due to the fact that they are registered shares and hence require the consent of the company, represented by the personally liable partner (furthermore by family-internal agreements), and are not traded on the capital market.

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

The 432,000 ordinary shares held by Sto SE & Co. KGaA do not have any voting rights. As described above, the remaining ordinary shares are held by the Stotmeister family, who thus holds 90 % of the shares with voting rights.

Holders of shares with special rights

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

Type of control of voting rights in case of employee shareholdings

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

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

In the legal form of a 'Kommanditgesellschaft auf Aktien' (KGaA, partnership limited by shares), the personally liable partner has the legal authority to manage and represent the company. The personally liable partner of Sto SE & Co. KGaA is STO Management SE. It acts through its Executive Board. The co-determined Supervisory Board of Sto SE & Co. KGaA is not authorised to appoint or dismiss the personally liable partner or its Executive Board as the management body of STO Management SE. Rather, the personally liable partner has joined the company by means of a declaration. The appointment and dismissal of the Executive Board of STO Management SE is carried out by the Supervisory Board of STO Management SE in accordance with the provisions of the articles of association and the law.
As stipulated by Sections 278 (3), 133, 179 of the German Stock Corporation Act (AktG), amendments to the articles of association of Sto SE & Co. KGaA require a resolution by the Annual General Meeting of Sto SE & Co. KGaA. This resolution requires a majority of at least three quarters of the voting share capital represented at the adoption of the resolution. Furthermore, amendments to the articles of association also require the consent of the personally liable partner STO Management SE in accordance with Section 285 (2) of the German Stock Corporation Act (AktG).

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

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

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

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

Compensation agreement of the company with the members of the management body of the personally liable partner or employees in the event of a takeover bid

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

Management report for the Sto Group (IFRS)

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

Members of the Executive Board of STO Management SE in the fiscal year of 2020
(personally liable partner of Sto SE & Co. KGaA)

Rainer Hüttenberger,
Stein a. Rhein/Switzerland | Spokesman of the Executive Board, responsible for Sales Sto Brand International, Business Unit Organisation, Corporate Strategic Development, and M&A

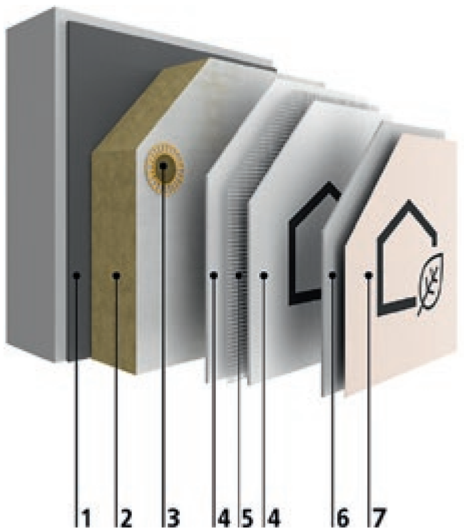
Michael Keller,
Bonndorf/Germany | Chief Sales Officer, responsible for Sales Sto Brand Germany, Distribution, Marketing Communication, and Central Services

Jan Nissen,
Bad Dürrheim/Germany | Chief Technical Officer, responsible for Process Engineering, Innovation, Materials Management, and Logistics

Rolf Wöhrle,
Bad Dürrheim/Germany | Chief Financial Officer, responsible for Finance, Controlling, Legal, Internal Audit, and Information Technology

The 2020 fiscal year at a glance

- Turnover in the Sto Group up by 2.5 % to EUR 1,433.0 million in 2020
- Sto manages to grow organically in spite of the coronavirus pandemic – facilitated by first-time consolidation effects in the face of negative currency translation effects
- Turnover in Germany increases by 8.0 % to EUR 660.1 million; business outside of Germany is affected by the coronavirus pandemic, dropping by 1.8 % to EUR 772.9 million
- Consolidated EBIT improves markedly by 40.6 % to EUR 120.8 million and earnings before tax (EBT) by 43.2 % to EUR 119.0 million
- Return on sales improves considerably from 5.9 % to 8.3 %
- Cash flow from operating activities amounts to EUR 177.2 million, up significantly compared to the previous year (previous year: EUR 117.0 million)
- Size of the Group's workforce expands slightly by 12 to 5,545 employees
- Outlook for 2021: increase in turnover of 4.5 % to around EUR 1,498 million and an EBIT of between EUR 98 million and EUR 113 million expected



StoTherm AimS system build-up
1 Adhesive: StoLevell Uni
2 Insulation: Sto-Stone Wool Insulation Board
3 Fixing:
Sto-Thermo Anchor II UEZ 8/60
4 Base coat: StoArmat Classic AimS
5 Reinforcement:
Sto-Glass Fibre Mesh
6 Finish: Stolit AimS
6 Paint coat (optional):
StoColor Lotusan AimS

The new StoTherm AimS is the first facade insulation system to include coatings partially based on renewable raw materials.

A. Group fundamentals

Business model
Sto is a major international manufacturer of products and systems for building coatings. The Group's product range is divided into four product groups: the core business of **facade systems** – which contributed 46.7 % of consolidated turnover in the year under review – mainly consists of external wall insulation systems (EWIS), a segment in which the company occupies a leading position, as well as rainscreen cladding facades (RSC). Render and paint systems for external applications are covered by the **facade coatings** product group. In 2020, these accounted for 22.5 % of consolidated turnover. The third group is **products for interiors,** which includes plaster and paint systems for home and office interiors (for example), as well as decorative coatings, interior claddings, and acoustic systems for regulating sound. This group accounted for 14.8 % of turnover in the year under review. Everything else is covered by **Other product groups**. This encompasses, in particular, high-quality floor coatings and products for concrete repair, which Sto also produces and distributes.
One of the key factors for the success of the Sto Group is its **pool of knowledge**, which it has gained by ensuring that the products in its range complement one another perfectly. Because everything is perfectly coordinated

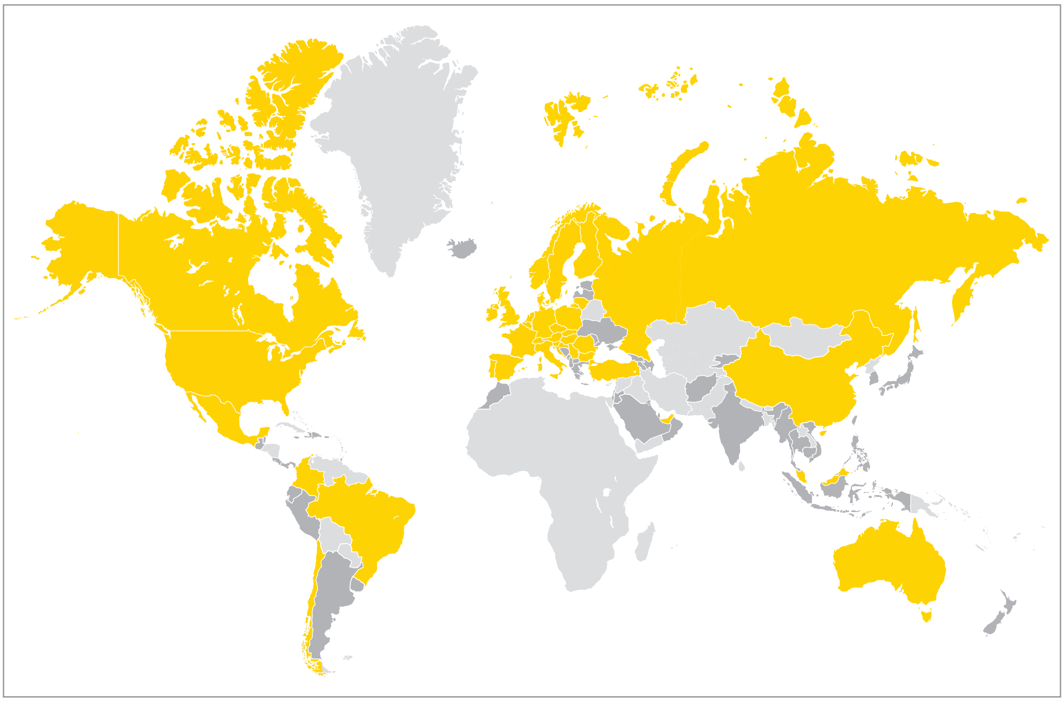
with everything else – from the individual components within the core business of facade systems and the supplementary business areas (such as design or advice services) right through to the alternative coating materials and claddings such as brick slips – more efficient processing can be achieved and value can be conserved over the long term. At the same time, Sto is able to afford building owners maximum freedom to create their own designs.

The Sto business model is built, in particular, on the pillars of expertise, quality, and customer benefit. It is also supplemented by the internationally harmonised market presence via which Sto has successfully established itself as an **international product brand**. The brand strategy, which we continually develop and improve, is based on the four core brand values 'Close', 'Experienced', 'Performing', and 'Advanced'. Following a survey conducted by the University of St. Gallen and German business magazine WirtschaftsWoche in early 2018, Sto has had the honour of officially being able to call itself the 'World market leader for external wall insulation systems'.

The Group's **innovative strength** is another pillar of the positive image the Sto brand has cultivated and of our corporate success. To secure the position we are seeking to uphold as a technology leader and tap into new growth areas at the same time, we engage in comprehensive research and development activities within the Group. This is one of the cornerstones of our strategy. The actions we take in this area are also enshrined in our corporate vision: 'Technology leader in the sustainable design of living space tailored to human needs. Worldwide.'

Sales markets

The business activities of the Sto Group are divided into the segments of **Western Europe** and **Other**, with the latter being broken down into the regions of **Northern/Eastern Europe** and **America/Asia/Pacific** within the internal reporting framework. Our corporate manage-



ment is primarily focused on these regions. In Western Europe, which includes Germany and is also the most important market, Sto generated a total of 77.6 % of the consolidated turnover in the 2020 fiscal year. Germany – the most significant individual market – accounted for 46.1 %. 10.0% was generated by Sto in Northern/Eastern Europe and another 12.4 % in America/Asia/Pacific.
Further **internationalisation** of our business activities is one of Sto's strategic growth initiatives. We accelerate expansion by continuously and systematically developing and penetrating new markets. On the one hand, this allows us to seize existing sales opportunities worldwide and, on the other hand, to spread the entrepreneurial risk by partially offsetting fluctuations in individual countries. At the end of 2020, the Group was represented in 38 countries with 50 subsidiaries of our own and their operating sites. In addition, we were in supplier relationships with distribution partners in many other regions.

Sto products are used both in the construction of new buildings and in the renovation of existing buildings. The comparative importance of these two market segments within the Group varies from region to region and depends on the characteristics specific to each country.

Customers and distribution system

The Sto brand's portfolio is largely distributed via a **direct distribution system**, which – in Germany – covers almost the entire country. The portfolio is targeted at professional customers, such as painters and building contractors. Architects, planning offices, and the real estate industry are also served directly by the company at a local level. For some years now, this has been supplemented by a **multi-stage distribution concept** that enables Sto to tap into additional sales potential and to increase our market share. Via this second distribution channel, we exclusively offer selected products that we have clearly defined as distinct from our core business and that have their own brand positioning, such as lacquers and fillers. In the coming years, we intend to expand this sales channel gradually via wholesalers and specialist dealers.

Group structure

The parent company of the Group is Sto SE & Co. KGaA, headquartered in Stühlingen in the German state of Baden-Württemberg. In addition to functioning as the Group's holding company, it is also responsible for operational business in Germany involving facade systems and coatings as well as interior products.
In **Germany**, the main companies of the Sto Group are the following:

- **StoCretec GmbH**, Kriftel/Germany, which is responsible for the areas of floor coatings and concrete repair.
- **Innolation GmbH**, Lauingen/Germany, produces insulants for internal use at Sto and develops innovative insulant technologies.
- **Liaver GmbH & Co. KG**, Ilmenau/Germany produces expanded glass granulate made of recycled glass. The company also uses these materials to produce acoustic products and shipbuilding panels.
- **Verotec GmbH**, Lauingen/Germany, produces carrier boards for acoustic systems, rainscreen cladding systems, and architectural elements for other Group companies. The company also sells its products and services to external partners.
- **Ströher GmbH**, Dillenburg/Germany, and its subsidiaries focus on brick surfaces for facade systems, outdoor ceramics, and interior tiles.
- **Südwest Lacke + Farben GmbH & Co. KG**, Böhl-Iggelheim/Germany, is the Group's specialist for paints and lacquers, and works primarily with trading companies.

- **VIACOR Polymer GmbH**, based in Rottenburg am Neckar/Germany, has been supplementing our range of floor coatings since 1 January 2020. VIACOR specialises in polyurethane-based industrial flooring and sports floor coatings.

Outside of Germany, business is largely handled by national companies operating independently, with their service spectrum offered in each case being tailored to suit local conditions. Some of these companies produce on site, while the remaining products are sourced mainly through the Group.

A list of all subsidiaries of Sto SE & Co. KGaA is reproduced in the Notes for the Group.

The business fields of the Sto Group are each managed by a team of product managers that is responsible for products and systems worldwide. The Heads of the Business Fields are responsible for the strategic positioning of their areas and products, and coordinate marketing and sales objectives with the respective subsidiaries. This allows Sto to become better acquainted with the vast range of different requirements that the individual markets have, address the demand in the regions in a targeted manner, and tap into additional sales potential through its specialist technical expertise.

The business fields are supplemented by central units that are able to provide subsidiaries and product groups with worldwide assistance in dealing with overarching issues. These include, for example, Technical Service and Strategic Marketing. This creates the right conditions for Sto to conduct efficient management on a global scale, and for targeted further development of the service portfolio.

Business management control system

The personally liable partner STO Management SE, represented by its four-member Executive Board, is responsible for managing Sto SE & Co. KGaA's business. It develops the Group strategy and ensures its implementation. The parent company Sto SE & Co. KGaA, its subsidiaries, and the other Group units are controlled and managed by reference to strategic and operational targets as well as key financial covenants. These are based on business figures which are uniformly determined throughout the Group and are part of a standardised reporting system. The primary key operating ratios that are employed and also serve as the basis for planning and controlling are: net turnover, earnings before interest and taxes (EBIT), earnings before tax (EBT), and return on sales. Additionally, ROCE (Return on Capital Employed) is used as a key figure for monitoring return on capital employed. It is based on the EBIT divided by the average capital employed.

The reports compiled within this standardised reporting system are submitted directly to the Executive Board of STO Management SE, which then forwards all relevant information to Sto's Supervisory Board. Additionally, management meetings between the Executive Board and the executive staff of the subsidiaries or sales regions take place on a regular basis. This system strengthens the decentralised entrepreneurial responsibility of our employees at a local level while also guaranteeing a high degree of transparency within the Group.

In addition to the internal indicators, we also regularly monitor external early indicators as part of our planning processes and as a means of corporate and risk management. Especially relevant are global economic data and detailed industry information such as the development of the building construction volume and the new construction and renovation segments.

Declaration on management of the company/Non-financial statement

The specifications relating to the Declaration on management of the company, as outlined in Section 315d of the German Commercial Code

(HGB), as well as the specifications according to Sections 289a and 315a of the German Commercial Code and the explanations by the personally liable partner, can be found in the Corporate Governance Report which is part of the Annual Report. This information is also provided online at www.sto.de, where it can be found under the 'Corporate Governance & Compliance' category in the 'Investor Relations' area. The non-financial statement in line with Section 315b of the German Commercial Code (HGB), provided as a supplement to the Group management report in the form of the combined non-financial consolidated report, is contained in the 'Sustainability and Corporate Social Responsibility' chapter of the Annual Report, which is also available to view online at www.sto.de in the section 'Investor Relations' under the category 'Sustainability & CSR'. The statement provides information about key issues in five areas: environmental matters, employee matters, social matters, respect for human rights, and combating of corruption and bribery.

Fundamentals of the remuneration system

Due to its legal form, Sto SE & Co. KGaA does not have an Executive Board; business is conducted by the personally liable partner STO Management SE. It is the sole member of the management body of Sto SE & Co. KGaA in accordance with Section 287 (2) of the German Stock Corporation Act (AktG). In accordance with Section 6 (3) of the articles of association of Sto SE & Co. KGaA, the personally liable partner STO Management SE receives an expense allowance from Sto SE & Co. KGaA for managing the business of Sto SE & Co. KGaA. The remuneration that is paid to the members of the STO Management SE management body under this expense allowance comprises both a fixed and a variable component. The variable component can consist of a larger share, although it is capped at a maximum. The variable element consists of a long-term incentive, based on the turnover development of the Sto Group and the ROCE key figure of the past three fiscal years in comparison to the target for this reporting period, as well as a short-term incentive that is dependent on earnings after taxes. No stock options are granted.

The members of the Supervisory Board of Sto SE & Co. KGaA receive a fixed remuneration and a compensation for costs incurred in accordance with Section 11 of the articles of association of Sto SE & Co. KGaA. The chairperson is entitled to four times and his or her deputy to two and a half times the amount of the basic remuneration. The chairperson of a Supervisory Board Committee is remunerated with a fixed annual amount. If a committee has only been formed for part of a fiscal year, it is paid on a pro rata basis.

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

Strategic objectives

The Sto business model is oriented towards long-term success. In our view, this relies on sustainable, solid business management, constant progress, and a financially strong basis. We pursue the goal of global technology leadership in the sustainable design of living space tailored to human needs. We achieve this corporate vision by realising our mission of 'Building with conscience.', which we have been pursuing since 1988. Our corporate vision, along with the other principles on which our practice is based, is defined in the Sto Guiding Principles, providing employees and managers with guidance when making strategic and operational decisions. The Sto Guiding Principles go hand in hand with the Strategy 2025 objectives that were set as part of the strategic review:

- **Sustainable, profitable growth that protects capital** – We align our decisions with this overarching corporate objective.
- **Customer focus** – We are a reliable and flexible partner, and stand for expert advice, excellent products and services, as well as perceptible sustainability. We offer our customers various options for easy and reliable business transactions.
- **Performance potential** – With our segmented, efficient distribution organisation, we consistently tap market potential all around the world. Based on our current product and system portfolio, we will develop convincing, differentiating complete solutions along the value chain of our target groups in the future. Integrated, standardised processes – implemented or supported digitally whenever appropriate – are the prerequisite for cost efficiency and productivity.
- **Committed employees** – We increase the commitment of our employees by providing them with systematic and targeted continuing professional development opportunities. In order for the strategy to be implemented successfully, it is very important for the corporate culture to be characterised by a willingness to embrace change, which is why this is supported worldwide. Highly motivated and committed employees embody and ensure the attractiveness of the company.

We intend to achieve these objectives of our revised strategy by focusing specifically on
- **improving growth,**
- **increasing profit,**
- **and expanding our core competence**

through a total of 14 core initiatives.

B. Financial report

Overview of business development in 2020 and comparison with the forecast

2020 was an extraordinary year that also presented Sto with completely new challenges. The coronavirus pandemic had an impact on all areas of our company and determined the overall course of business development. In order to counteract the negative consequences for Sto in a structured manner, a detailed action plan was drawn up for the entire Group as soon as the pandemic broke out. The top priority here was the protection of our employees. Through comprehensive hygiene concepts for our sites and extensive solutions for working from home, as well as ensuring the necessary distance, we are protecting the health of our employees as best as we possibly can.

The action plan for maintaining our business processes was also implemented quickly in the spring. Primarily, this ensured a reliable supply to our customers, and allowed orders and projects to be handled as smoothly as possible. We concentrated strictly on the most essential processes, and any projects not relating to the core process of providing services and supplying goods to customers were reviewed, stopped, or put on hold. These also included investments and planned recruitments. In addition, we analysed the assistance programmes on offer in the individual countries and the potential for cost savings within the Sto companies so that we would be as well prepared as we could be for every scenario. We implemented these as necessary.

In several of the markets outside of Germany that were hardest hit by the first wave of the coronavirus pandemic – such as France, Italy, and Southeast Asia – there was a drastic decline in turnover in some cases, particularly in the second quarter. This correlated with the regulations put in place by the various governments to contain the infection. By comparison, the core market of Germany was much less severely affected because work on construction sites was able to continue uninterrupted. Nevertheless, the problems of turnover losses and project delays still had to be overcome here. Once the number of cases began to decline from the middle of the year onwards, business revived around the world, with this trend largely being sustained through to the end of the year despite the resurgence of the pandemic in the autumn.

For 2020 as a whole, Sto's consolidated turnover increased by 2.5 % to EUR 1,433.0 million (previous year: EUR 1,398.2 million). Thus, it was moderately higher than the updated forecast published in November 2020 that had predicted a slightly higher level of turnover than the previous year. The losses sustained as a result of the coronavirus pandemic, particularly outside of Germany, contrasted with the very satisfying business development seen in the first quarter. This development was attributable to the good weather conditions at the beginning of the year and also the fact that development was relatively unaffected by coronavirus at that time, apart from a few exceptions, such as China. In the final weeks of the reporting period, we once again benefited from the favourable weather conditions in the most important Sto markets. In summary, Sto was able to grow organically. In addition, first-time consolidation effects had a positive impact on consolidated turnover in 2020: in addition to VIACOR Polymer GmbH – based in Germany and included since the beginning of the year – Skyrise Prefab Building Solution Inc. (Canada) and Unitex Australia Pty Ltd. (Australia) were included in the reporting period as a whole for the first time. In contrast, the Group no longer included the business operation of VeroStone GmbH, which was sold on 31 December 2019 as part of an asset deal. The remaining assets were combined and, since January 2020, have been held by the renamed company Sto BTV GmbH, Stühlingen/Germany. When adjusted for all first-time consolidation and the overall negative currency translation effects as well as the effect from the sale of the business operations of Sto BTV GmbH (formerly VeroStone GmbH), consolidated turnover grew by 2.0 % in the year under review.

The Sto Group recorded substantial growth in earnings in 2020. The primary factors that had a positive impact in this regard were improvements in the gross profit margin, the increase in turnover, and the earnings-securing measures that were introduced to compensate for the adverse effects of coronavirus. All earnings values exceeded the forecast ranges: consolidated earnings before interest and taxes (EBIT) increased by 40.6 % in comparison to the previous year, rising to EUR 120.8 million (forecast of 5 November 2020: between EUR 106 million and EUR 116 million; previous year: EUR 85.9 million), earnings before tax (EBT) increased by 43.2 % to EUR 119.0 million (forecast of 5 November 2020: between EUR 103 million and EUR 113 million; previous year: EUR 83.1 million), and the return on sales increased from 5.9 % to 8.3 % (forecast of 5 November 2020: between 7.4 % and 8.0 %). In 2020, net income (EAT) reached a value of EUR 80.7 million (previous year: EUR 56.3 million). The return on capital employed (ROCE) improved from 14.0 % to 19.7 % as a result of the profitable growth that protects capital.

Due to the very good development of income, the financial and asset situation of the Sto Group remained extremely sound. With an equity ratio of 54.6 % (31 December 2019: 54.3 %) and cash stocks of EUR 130.0 million (31 December 2019: EUR 128.6 million), Sto possesses an excellent foundation for further business development. Taking borrowings into account, net financial assets amounted to EUR 117.1 million on the reference date

(31 December 2019: EUR 119.8 million). Cash flow from operating activities grew to EUR 177.2 million (previous year: EUR 117.0 million).

At the Annual General Meeting on 16 June 2021, the Executive Board of the personally liable partner STO Management SE will propose a dividend distribution of EUR 31,896,720.00. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and an increased bonus of EUR 4.69 per share. Limited ordinary shareholders will be paid an ordinary dividend of EUR 0.25 and also an increased bonus of EUR 4.69 per share. The weather conditions in January and February 2021 were normal for the time of year. As a result of the associated precipitation and low temperatures, the results for the beginning of the 2021 fiscal year were, on balance, in line with expectations and remained significantly below those of the same period the previous year when the weather had been extraordinarily good.

In contrast, the month of March showed a very positive development. This meant that, overall, consolidated turnover in the first three months of the year was up on the previous year and exceeded expectations.

The further development in the current year is characterised by considerable uncertainties due to the ongoing coronavirus pandemic. In light of the dramatic resurgence in COVID-19 cases at the beginning of the year – leading to the reimposition of substantial restrictions across large parts of the world – the unpredictable further spread of the virus, and, in particular, the corresponding responses of the respective governments, which could significantly affect the business development of the Sto Group, the forecast is shrouded in a great deal of uncertainty. As things currently stand, Group turnover for 2021 as a whole is expected to rise by 4.5 % to approximately EUR 1,498 million. Within this context, consolidated earnings before interest and taxes (EBIT) in 2021 are forecast to amount to between EUR 98 million and EUR 113 million.

At the time of compiling the Group management report, the Executive Board of STO Management SE views the business prospects of the Sto Group as positive overall in spite of the numerous risks presented in the risks and opportunities report.

Overall economic and sector-related general conditions in 2020

Global economic development

In 2020, the entire global economy was affected by the coronavirus pandemic, suffering the biggest slump for decades. According to the estimate released by the International Monetary Fund (IMF) in January 2021, the repercussions of the pandemic – such as lockdowns, interrupted supply chains, and the uncertainty reigning in many economic sectors – caused global economic output to decline by -3.5 % in 2020. This meant that the researchers actually revised their October forecast upwards by 0.9 percentage points due to the fact that, after suffering substantial losses in the first half of the year, many countries had managed to recover surprisingly quickly as of the third quarter. Alongside the lower number of cases in the summer months, the other main factors contributing to this were the extensive government support schemes and the expansive monetary policy of many reserve banks, as well as increasing confidence due to the rapid progress made in the areas of testing and vaccine development.

Another event that had a positive impact on the global economy was the fast recovery of the economy in China, where gross domestic product (GDP) is expected to have increased by 2.3 % for 2020 as a whole following the rapid containment of the COVID-19 outbreak. As regards developing and emerging countries, the IMF believes that GDP has experienced an overall reduction of -2.4 %. Meanwhile, economic performance in the industrialised nations dropped far more dramatically by an estimated -4.9 %. According to the estimates, there was a decline of -3.4 % in the USA and of -7.2 % in the eurozone. Within this context, significant slumps were seen particularly in Spain (-11.1 %), Italy (-9.2 %), and France (-9.0 %).

According to initial calculations by the Federal Statistical Office (Destatis), Germany's gross domestic product (GDP) in 2020 was -5.0 % below the previous year when adjusted for prices. This meant that the German economy had entered a deep recession after a ten-year period of growth. All areas were affected by the slump: the trade, transport and hospitality sector was down by 6.3 % compared to the 2019 level; in the manufacturing sector (without construction), economic performance decreased by -9.7 %; and in the processing sector it even fell by -10.4 %. By contrast, the building industry remained relatively resistant to the crisis: gross value added increased by 1.4 % in comparison to the previous year once adjusted for price. The impact of the coronavirus pandemic was also visible on the demand side of GDP: according to Destatis, private consumer spending declined by -6.0 % in comparison to the previous year once adjusted for price. At the same time, public spending increased by 3.4 %. Gross capital investment decreased by -3.5 %, the most significant decline in this area since the financial and economic crisis, although construction investment bucked the trend and increased by 1.5 %.

International trends for the construction sector

In the view of the Hauptverband der Deutschen Bauindustrie e.V. (general association for the German construction industry, HDB) and the Zentralverband des Deutschen Baugewerbes (German Construction Confederation, ZDB), the **construction industry in Germany** has coped well with the coronavirus pandemic so far. In their December projection, the associations estimated that turnover within the main construction sector increased by a nominal 3.0 % in 2020. The residential construction sector, which is believed to have achieved nominal growth of 4.0 %, fared best. Meanwhile, the commercial construction sector was significantly hit by the consequences of the coronavirus pandemic. The associations expect this sector to have experienced growth in turnover of just 1.0 %.

By contrast, a respectable nominal increase of 3.0 % is anticipated for public-sector construction. According to provisional information from Destatis, the number of building permits for residential properties in Germany increased by 3.9 % in the first eleven months of 2020 compared to the same period the previous year. This figure includes the building permits for new buildings as well as those for construction work on existing buildings.

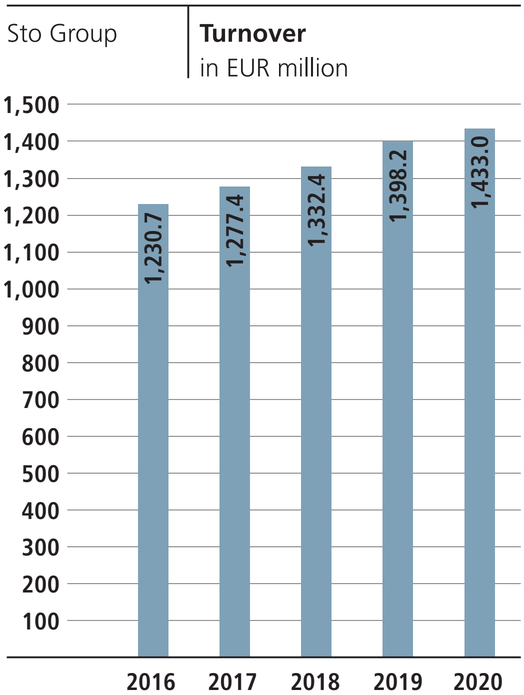
Within the building coatings subsegment in Germany, the professional sector of relevance to Sto grew moderately while the do-it-yourself (DIY) segment – where the Sto brand has no presence – experienced a special boom as a result of the coronavirus pandemic. According to information from the Verband der deutschen Lack- und Druckfarbenindustrie e.V. (VdL, Association of the German Paint and Printing Ink Industry), turnover in the area of building coatings, plasters and renders increased by 18.0 % compared to the previous year. Within the EWIS market, sales in Germany grew by 5.2 % in 2020 according to information from the market research institute B+L Marktdaten GmbH.

In the wake of the coronavirus pandemic, the **European construction industry** was clearly under pressure in 2020. According to estimates by the EUROCONSTRUCT network, the volume of construction in its 19 member states shrank by -7.8 %. This was mainly caused by the significant slump in economic performance in many European countries as well as obstacles on the supply side, following which a large proportion of construction sites remained closed for several weeks between March and May. In addition to the very strict lockdown restrictions, as well as the hygiene and social distancing rules, the progress of the work was often also hampered by border closures, which, in turn, also led to partial shortages of personnel and material. This did not just affect the construction of new buildings (-10.5 %), but also refurbishment and maintenance projects (-7.3 %).

According to information from GTAI (Germany Trade & Invest), the construction industry in **China** still managed to achieve growth in 2020 despite the relatively short, sharp impact of the coronavirus pandemic. Initial projections suggest that investments in the real estate industry grew for the year as a whole due to the fact that the internal market is not yet saturated, cheap money is available for state-run companies, and the economy has been picking up again since the summer months. The residential construction sector, which accounts for nearly three quarters of all real estate in China, recovered particularly quickly from the decline. Nevertheless, the first half year was still the worst one recorded for many years as a result of the temporary lockdown. In the period up to the end of July, which remained significantly affected by the spring lockdown, real estate investments in residential construction increased by 4.1 % in contrast to investments in office construction (-2.1 %) and retail space (-4.5 %), which continued declining.

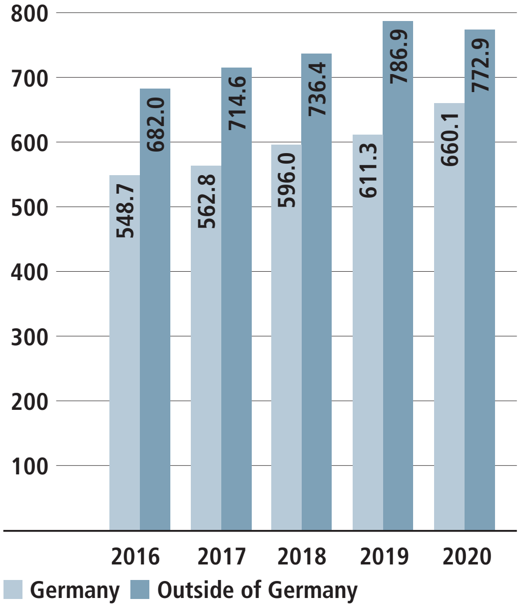
According to GTAI, the construction industry in the **USA** suffered a downturn in 2020. Although the companies were able to rely on existing orders in the year of the pandemic, they only received a small number of new orders. Commercial building construction was hit the hardest, with investment in this area dropping by -24 % in the first eight months. By contrast, residential construction clearly started to regain an upward trajectory from the middle of the year. According to GTAI, a construction and modernisation boom occurred in the single-family home segment immediately after the end of the lockdown in May, and this has been driving a strong upswing since June. The annualised number of residential construction projects started was 1.5 million – compared to a forecast figure of 1.22 million.

Business performance and development of turnover



In the 2020 fiscal year, the Sto Group achieved an **increase in turnover** of 2.5 % to EUR 1,433.0 million (previous year: EUR 1,398.2 million). Of this amount, EUR 28.2 million were attributable to organic growth. A total of EUR 26.7 million of the increase resulted from first-time consolidation effects. VIACOR Polymer GmbH, which has been part of the Sto Group since the beginning of 2020, Unitex Australia Pty Ltd., which has been consolidated since 1 August 2019, and the Canadian Skyrise Prefab Building Solutions Inc, in which Sto has had a majority share since May 2019, have been included in the period under review for the first time and have hence had higher turnover contributions in comparison to the previous year. In contrast, a decrease in turnover of EUR 10.4 million resulted from currency translation effects, with the Norwegian krone, the US dollar, the Hungarian forint and the Turkish lira being devalued in particular while the Swiss franc saw a positive development. When adjusted for first-time consolidation and currency translation effects as well as the effect from the sale of the business operations of Sto BTV GmbH (formerly VeroStone GmbH) on 31 December 2019, consolidated turnover increased by 2.0 % as compared to the same period of the previous year.

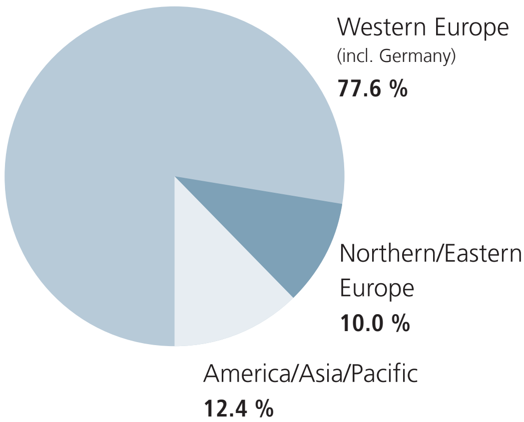
Sto Group | **Turnover in Germany and outside of Germany** in EUR million



The Sto Group saw a tangible increase in **Germany**, where turnover rose by 8.0 % to EUR 660.1 million as compared to the previous year (previous year: EUR 611.3 million). Key factors for the positive development were the good weather conditions especially at the beginning and at the end of the year, the work on the construction sites in Germany, which continued despite the coronavirus pandemic, and the first-time consolidation of VIACOR Polymer GmbH. Adjusted for the first-time consolidation effect as well as the effect from the sale of the business operations of Sto BTV GmbH (formerly VeroStone GmbH) on 31 December 2019, growth in Germany amounted to 7.1 %.

Outside of Germany, the coronavirus pandemic also led to partially significant restrictions in the construction industry and hence to turnover losses in the Sto companies. The different development in the individual countries correlated strongly with the respective regulations taken by the governments to contain the infection. Furthermore, growth from the expansion of the companies consolidated outside of Germany (EUR +11.7 million) was largely offset by the net negative currency translation effects (EUR -10.4 million). This means that the Sto Group's business volume generated outside of Germany decreased by a total of -1.8 % to EUR 772.9 million (previous year: EUR 786.9 million). When adjusted for first-time consolidation and currency translation effects, this corresponds to a decline of 1.9 %. In comparison to the previous year, the share of Group turnover generated outside of Germany decreased from 56.3 % to 53.9 %.

Sto Group | **Regional breakdown of consolidated turnover**



The **segment of Western Europe** (incl. Germany) saw an increase in turnover of a total of 3.8 % to EUR 1,111.7 million (previous year: EUR 1,070.9 million) which was mainly attributable to the solid development of Sto SE & Co. KGaA in Germany and the first-time consolidation effect from VIACOR. In contrast, the deficits existing at the end of the first half of the year in the countries particularly affected by the coronavirus pandemic, such as France or Italy, could not be made up for everywhere despite the catch-up effects generated in the second half of the year. Business volume also declined in Switzerland, where positive currency translation effects did not compensate for the losses due to the difficult market environment, as well as in Great Britain. Without the effects from first-time consolidations, the sale of the business operations of Sto BTV GmbH (formerly VeroStone GmbH), and currency translations, the segment recorded a primary growth of 3.3 %.

Sto saw a significant decline in **Northern/ Eastern Europe** where turnover fell by a total of -8.1 % to EUR 143.8 million (previous year: EUR 156.5 million), with business development varying from one region to another. In Northern Europe, Norway and – with a time lag – Sweden were particularly affected by the coronavirus pandemic. The strongest declines among the Eastern European companies were recorded in the Czech Republic, Poland and Slovakia, while the company in Turkey was able to achieve increases. In addition, the development of turnover in this segment was considerably impacted by the negative currency effects.

The increase in the region of **America/ Asia/Pacific** in the amount of EUR 6.7 million (+3.9 %) mainly resulted from the first-time consolidation effects of EUR 11.7 million. On the other hand, the lockdowns, some of which lasted for months, had a negative impact, especially in the Southeast Asian countries. Since Sto's business in China has not yet fully recovered, this meant that turnover decreased significantly in Asia. In the USA, the slumps caused by the coronavirus pandemic could not be fully recovered, although demand increasingly improved following the easing of corona restrictions. The business development of the US subsidiary was additionally impacted by negative currency translation effects. On balance, turnover in this segment increased to EUR 177.5 million (previous year: EUR 170.8 million); adjusted for first-time consolidation effects this results in a decline of 2.9 %. In primary terms, i.e. also adjusted for currency translation effects, the increase amounted to 0.8 %.

Performance of product groups

Turnover in the product group of facade systems, which contributed 46.7 % to Group turnover, decreased slightly by -1.2 % to EUR 668.9 million in 2020 (previous year: EUR 677.1 million). In Germany, Sto was able to increase its turnover generated with external wall insulation systems in a growing market, while, on balance, the negative effects of the coronavirus pandemic dominated outside of Germany. Sto offers a wide range of systems with different insulation materials for professional customers such as painters and building contractors, making it highly attractive for the target groups involved such as architects, planning offices and the real estate industry. In the business area of facade coatings, which has high margins, turnover increased by 5.8 % to EUR 322.1 million (previous year: EUR 304.6 million), with the corresponding share in Group turnover amounting to 22.5 %. Turnover generated by interior products increased by 6.9 % to EUR 211.5 million (previous year: EUR 197.8 %; share: 14.8 %). Interior coatings saw a particularly good increase of 9.1 %. In the other business fields, the product area of floor coatings recorded an increase of 5.4 % to EUR 230.6 million (previous year: EUR 218.8 million) which was especially due to the first-time consolidation of VIACOR Polymer GmbH. Across the Group, companies that are primarily engaged in business with building owners from the industrial sector were particularly affected by the economic downturn. This is particularly evident in the product area of industrial flooring, which had to cope with significant declines in demand.

Income situation

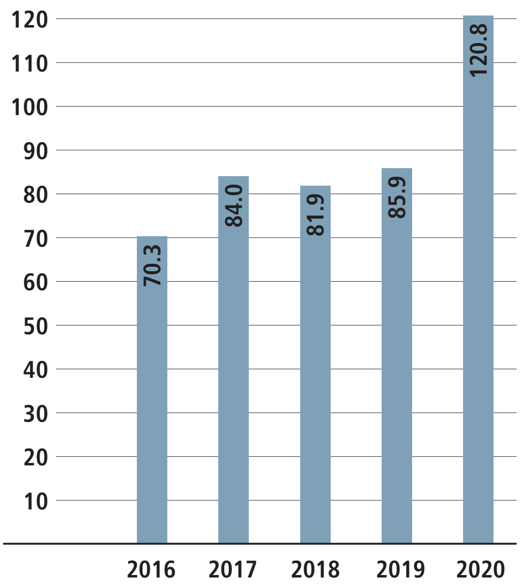
Thanks to consistent cost management, consolidated earnings saw pleasing growth in 2020. This was mainly due to improvements in the gross profit margin and measures to secure earnings to compensate for the negative impact of the coronavirus pandemic. Despite the 2.5 % increase in turnover, **cost of material** decreased slightly by 0.5 % to EUR 628.4 million (previous year: EUR 631.6 million). This was largely due to the declining price development on the procurement markets as well as the product mix effects.
In relation to total revenues in the amount of EUR 1,432.9 million (previous year: EUR 1,396.7 million), the gross margin rate improved from 54.8 % to 56.1 %.

Personnel expenditure, which rose by 3.3 % to EUR 384.3 million (previous year: EUR 372.2 million). This increase mainly resulted from collective bargaining effects. In addition, the increase in the average number of employees over the year, in particular due to the expansion of the companies consolidated, also had an impact.

Other operating expenses decreased from EUR 269.6 million to EUR 252.5 million. Among other things, travel and hospitality costs as well as expenses for advertising and marketing saw noticeable savings in 2020. These were contrasted by increased expenses for hygiene and protective measures, for example. **Other operating income** rose from EUR 19.1 million to EUR 21.4 million, as a result of which the negative balance of **other operating expenses and other operating income** improved to EUR 231.1 million (previous year: EUR 250.5 million).

In total, consolidated earnings before interest, taxes, and depreciation/amortisation (**EBITDA**) increased by 35.0 % to EUR 186.5 million (previous year: EUR 138.2 million). Adjusted for **depreciation/amortisation**, which increased from EUR 52.3 million to EUR 65.7 million, this resulted in consolidated earnings before interest and taxes (**EBIT**) of EUR 120.8 million (previous year: EUR 85.9 million).

Sto Group | **EBIT** in EUR million

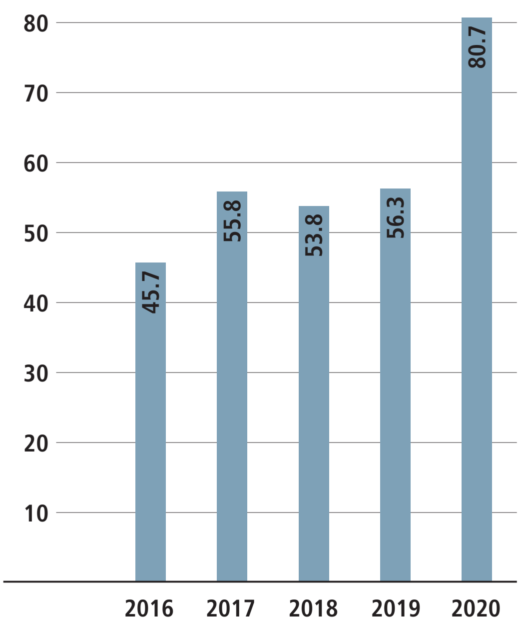


When broken down by **segment**, EBIT in Western Europe amounted to EUR 111.9 million, which was significantly higher than in the previous year (previous year: EUR 84.9 million). Despite the decrease in turnover, Northern/Eastern Europe was able to increase its earnings to EUR 8.5 million (previous year: EUR 1.5 million). The segment of America/Asia/Pacific recorded earnings before interest and taxes of EUR 0.3 million (previous year: EUR -0.4 million).

Financial income/expense improved from EUR -2.8 million to EUR -1.8 million which was mainly due to earnings from financial assets accounted for using the equity method.

At EUR 119.0 million, Group consolidated earnings before tax (**EBT**) exceeded the previous year's value by 43.2 % (previous year: EUR 83.1 million) with return on sales improving to 8.3 % (previous year: 5.9 %). The tax rate remained stable at 32.2 % as compared to the previous year. **Net profit for the year** rose by 43.3 % from EUR 56.3 million to EUR 80.7 million.

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



Diluted and basic earnings were EUR 12.60 per limited preference share (previous year: EUR 9.09) and EUR 12.54 per limited ordinary share (previous year: EUR 9.03).

As a result of profitable growth that protects capital, return on capital employed (**ROCE**) increased by 19.7 % in the Sto Group as at the reference date of 31 December 2020 (31 December 2019: 14.0 %).

Sto SE & Co. KGaA – Dividend

The parent company Sto SE & Co. KGaA experienced growth in **earnings before income taxes**, determined in accordance with the German Commercial Code (HGB), from EUR 71.4 million to EUR 97.1 million, and in the **net profit for the year** from EUR 51.8 million to EUR 71.2 million. The financial and asset situation of Sto SE & Co. KGaA remained extremely solid, with an equity ratio of 68.5 % (previous year: 69.6 %). The Executive Board of the personally liable partner STO Management SE will propose a total dividend payout of EUR 31,896,720.00 to the Annual General Meeting on 16 June 2021. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 as well as an increased bonus of EUR 4.69 per share. Limited ordinary shareholders are to be paid an ordinary dividend of EUR 0.25 as well as an increased bonus of EUR 4.69 per share.

Financial situation

The Sto Group's **financial management** is handled centrally by Sto SE & Co. KGaA. It aggregates the capital requirements at Group level and takes the necessary financing measures for the entire Group. The most important objectives are to ensure liquidity, optimise financial expenses and income, and control and minimise currency and interest risks. We use a wide range of financial instruments in order to ensure as little dependence as possible on individual markets and methods of financing. When working with banks, top priority is given to those that enjoy good credit ratings and are able to build long-term business relationships characterised by mutual trust.
We aim to establish a balanced relationship between equity and debt capital in order to ensure a long-term financing scope. Our current financial requirements – which can fluctuate significantly with the seasons over the course of the year – are mainly covered using operating cash flow and available liquidity. Where necessary, we also make use of temporary credit facilities based on a syndicated loan agreement whose remaining term expires in 2022. In light

of the unforeseeable risks arising from the coronavirus pandemic, Sto carried out a precautionary, partial withdrawal from the syndicated loan in the amount of EUR 80 million in the first half of 2020. This amount was paid back in time by the end of the year. At the 2020 year-end, the present value of disbursements due from leasing contracts in the future stood at EUR 64.7 million (previous year: EUR 65.7 million).

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

The Sto Group's liquidity is managed via a **cash-pooling system**, into which almost all of the subsidiaries operating in the eurozone are integrated. This allows us to net cash surpluses and cash requirements, and minimise the number of external banking transactions. We invest any surplus liquidity under conditions that are as favourable as possible.

The main tasks of **treasury** are to ensure solvency, for which the necessary financial resources for internal and external financing are recorded, and to reduce the financial risks resulting from international business. This approach takes into account the increasing internationalisation of business activities and the increasing risk management requirements that come with it.

Development of liquidity in 2020

In the 2020 fiscal year, **cash flow from operating activities** in the Sto Group increased to EUR 177.2 million compared to EUR 117.0 million in the previous year. The increase is mainly attributable to the significantly higher net profit for the year as well as the changes in net working capital of EUR +17.4 million as compared to EUR -7.1 million the previous year. Depreciation/amortisation rose from EUR 52.3 million to EUR 65.7 million, and the build-up of provisions declined from EUR 8.6 million to EUR 5.3 million. The cash flow margin improved, rising from 8.4 % to 12.4 %.

In the year under review, **cash flow from investment activities** amounted to EUR -123.7 million (previous year: EUR -31.6 million), with outflows from Property, plant, and equipment as well as Intangible assets increasing from EUR -35.3 million to EUR -41.7 million in comparison to the previous year. In 2020, an amount of around EUR -1.0 million was spent on the acquisition of consolidated companies and other business units (less acquired cash and cash equivalents), following an outflow of EUR -18.9 million the previous year. Major reallocations took place in the area of financial investments: cash and cash equivalents totalling EUR 39.6 million (previous year: EUR 48.7 million) were released on expiry of the maturity date; an amount of EUR -121.6 million (previous year: EUR -27.9 million) was reinvested. Cash flow from investment activities adjusted for these deposits and disbursements amounted to EUR -41.7 million (previous year: EUR -52.3 million).

Sto Group | **Cash flow statement** in EUR K

	2020	2019
Cash flow		
from operating activities	177,183	116,955
from investment activities	–123,664	–31,585
from financing activities	–49,186	–62,892
Change in cash and cash equivalents from changes in exchange rates and impairments in accordance with IFRS 9	-2,897	835
Cash and cash equivalents at beginning of period	**128,607**	**105,294**
Change in cash and cash equivalents	1,436	23,313
Cash and cash equivalents at the end of period	**130,043**	**128,607**

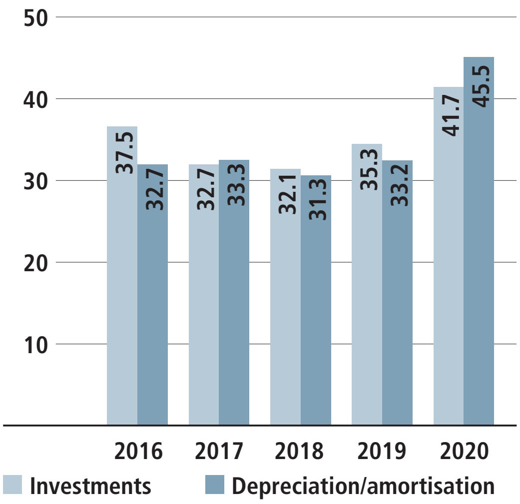
Cash flow from financing activities amounted to EUR -49.2 million (previous year: EUR -62.9 million), with dividend payout to the shareholders remaining virtually unchanged at EUR -26.0 million (previous year: EUR -26.1 million). Payments for current borrowings increased from EUR -4.2 million to EUR -85.2 million, and the corresponding deposits from EUR 3.0 million to EUR 83.5 million. In the year under review, disbursements for non-current borrowings amounted to EUR -1.1 million as compared to EUR -8.8 million the previous year which deposits stood at EUR 2.5 million (previous year: EUR 0 million).

As at the end of 2020, **financial resources** amounted to EUR 130.0 million (previous year: EUR 128.6 million). This takes into account a total amount of EUR -2.9 million (previous year: EUR +0.8 million) resulting from changes to the exchange rates well as impairment of expected losses on cash and cash equivalents in accordance with IFRS 9. As compared to the same day of the previous year, cash and cash equivalents increased by EUR 1.4 million (previous year: EUR 23.3 million).

Investments

In 2020, Group-wide investments in Property, plant and equipment, and Intangible assets, which amounted to EUR 41.7 million (previous year: EUR 35.3 million), were mainly attributable to the measures regarding the expansion of the production capacity at the site in Villach/Austria, and the construction of a new logistics building for Südwest Lacke + Farben GmbH & Co. KG in Böhl-Iggelheim/Germany. In addition, investments were made in the usual replacement and expansion measures as part of the ongoing 'Retrofit' programme. One of the focal points was implementing a digital strategy in our production activities. The planned budget for 2020 of EUR 52 million was undercut overall as various projects were postponed or cancelled due to the coronavirus pandemic. As in the previous year, we did not undertake any investments in financial assets.

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



Across the Group as a whole, EUR 36.4 million (previous year: EUR 27.3 million) of the total amount were invested in the segment of Western Europe, EUR 2.5 million in the segment of Northern/Eastern Europe (previous year: EUR 2.0 million), and EUR 2.8 million (previous year: EUR 6.1 million) in America/Asia/Pacific.

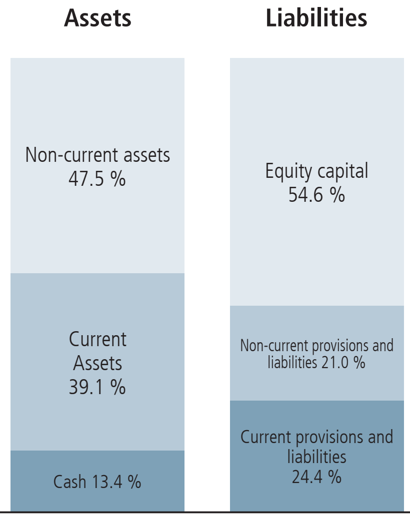
Asset situation

As at 31 December 2020, the **consolidated balance sheet** of Sto SE & Co. KGaA witnessed an increase of 8.7 % to EUR 973.8 million as compared to the end of the year (31 December 2019: EUR 896.1 million).

On the assets side, total **non-current assets** in the Sto Group increased from EUR 438.1 million to EUR 462.7 million, despite fixed assets slightly declining from EUR 401.2 million to EUR 399.7 million. In contrast, other non-current assets rose significantly from EUR 36.9 million to EUR 63.0 million. This was mainly due to long-term financial investments that were made as part of the optimisation of financial management. This resulted in an increase in the item of non-current financial assets from EUR 5.2 million to EUR 26.3 million. Non-current trade receivables totalled EUR 1.7 million (31 December 2019: EUR 1.2 million).

Year-on-year, **current assets** in the Sto Group increased from EUR 458.0 million to EUR 511.1 million with inventories growing only slightly from EUR 101.3 million to EUR 103.2 million. Despite the solid turnover development, current trade receivables decreased from EUR 137.7 million to EUR 128.7 million as at the end of the year. This was also due to the optimised accounts receivables management. On the other hand, current financial assets increased from EUR 57.6 million to EUR 119.4 million. Year-on-year, cash and cash equivalents rose from EUR 128.6 million to EUR 130.0 million.

Sto Group | **Balance sheet structure as at 31 Dec 2020**



On the **liabilities side** of the consolidated balance sheet, **equity** increased from EUR 486.5 million to EUR 531.4 million due to improved earnings. This results in a very solid **equity ratio** of 54.6 % (31 December 2019: 54.3 %).

The increase in **non-current provisions and liabilities** from EUR 195.0 million to EUR 204.5 million mainly resulted from the increase in the largest item of post-employment benefit provisions which grew considerably from EUR 123.8 million to EUR 132.5 million due to the changes in the market interest rates.

In total, **current provisions and liabilities** increased from EUR 214.6 million to EUR 238.0 million. Other current provisions, which grew from EUR 48.2 million to EUR 49.4 million, primarily contain warranty provisions in the sales area. This relates to insurance refund claims that are included on the assets side as other current assets. Income tax liabilities increased by EUR 9.3 million to EUR 19.7 million due to the solid development of earnings. Trade payables amounted to EUR 51.5 million (31 December 2019: EUR 48.9 million) as at the end of December.

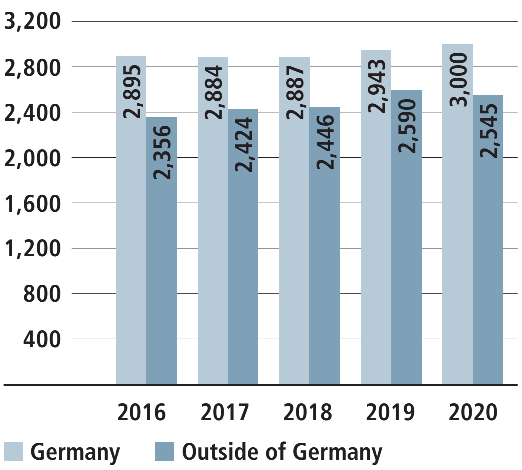
At the end of December 2020, total current and non-current borrowings amounted to EUR 12.9 million after EUR 8.8 million on the same day of the previous year. Taking into account cash and cash equivalents of EUR 130.0 million, net financial assets stood at EUR 117.1 million (31 December 2019: EUR 119.8 million).

C. Other performance indicators

Employees

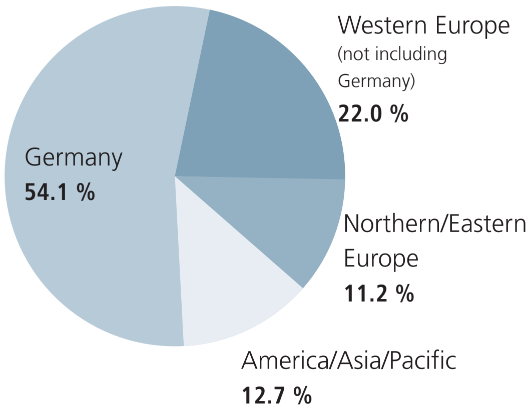
As at 31 December 2020, the Sto Group had a total of 5,545 employees (previous year: 5,533). As compared to the same day of the previous year this equals a marginal increase of 12 employees or 0.2 %. As compared to the 2019 year-end, the number of employees in Germany rose by 57 to 3,000 (31 December 2019: 2,943). However, in net terms, the increase is almost entirely attributable to the addition of 55 employees of VIACOR Polymer GmbH, which has been part of the companies consolidated since the beginning of 2020.

Sto Group | **Employees**
Number



Outside of Germany, the workforce declined by -45 to 2,545 employees (31 December 2019: 2,590). Selective adjustments were made in regions battling difficult economic conditions, while targeted additional hirings were made in countries with short- and medium-term growth prospects. Year-on-year, the percentage of the Group's workforce employed outside of Germany declined slightly from 46.8 % to 45.9 %.

Sto Group | **Employees per region**



In the segment of Western Europe (incl. Germany), the number of employees grew by 56 to 4,220 in net terms largely due to first-time consolidations (previous year: 4,164). In contrast, the number of employees in Northern/Eastern Europe declined by -29 to 619 (previous year: 648) and in the region of America/Asia/Pacific the number decreased by -15 to 706 (previous year: 721).

The employees of the Sto Group are a key success factor for the company, which is why we attach great importance to their concerns and interests. Attractive, secure jobs and job conditions, a high degree of personal responsibility and extensive training and development opportunities are, in our view, important prerequisites for motivated, productive employees.

We also aim to anchor the greatest possible diversity of skills in the Sto workforce, as in our experience, teams with a heterogeneous make-up are better at solving complex tasks and provide more scope for integrating societal and economic trends. That is why we specifically promote diversity and tolerance in the company and support people regardless of ethnic origin, gender, age, sexual orientation, disability, and religion. In 2020, the proportion of female employees in the Group remained almost unchanged at around 25 %; the average age was 43.6 (previous year: 43.4).

Impact of the coronavirus pandemic

In 2020, the coronavirus pandemic also had a major impact on our activities and measures in the area of Human Resources. Immediately after the outbreak of the pandemic, a global crisis team was defined under the leadership of the Head of Human Resources of the Sto Group and an emergency plan was drawn up. The primary goal was and is the protection of our employees, which we took into account, among other things, by setting up appropriate hygiene regulations and taking labour policy steps such as the establishment of home office options or the restriction of business trips. Our activities also focused on official requirements such as reporting obligations, written confirmation of necessary commutes and of the indispensability of employees, or quarantine reimbursements, and we always maintained an intensive exchange with the staff and their representatives.

The transparency cockpit we have set up for this purpose, which records key facts such as the number of employees taken ill at our subsidiaries worldwide on a weekly basis, gives us an up-to-date picture of the entire Sto organisation and enables us to react quickly if necessary.

We have pursued a restrictive recruitment policy to counter the economic slumps in various countries, some of which have been considerable. In some companies, parts of the workforce had to enter short-time work, or the number of employees had to be reduced.

HR strategy

In 2020, the HR strategy defined for the Sto Group was re-evaluated as part of the Group-wide strategy review. In the process, it was also specified in what way the Human Resources division should contribute to the achievement of the Group's goals. The result underlined the existing focal points.

The top priority of our human resources strategy is the targeted promotion of the **Sto culture,** which is based on mutual respect, enables our workforce to play their part in shaping the company, and encourages our employees to take responsibility for ambitious goal. The strategy is constantly being evolved, with the efficiency of the processes increasingly taking centre stage. At the same time, we pay great attention to preserving the core of our culture. Our activities can be divided into the following three areas:

Professional personnel and managerial development: Customised qualification programmes are our way of ensuring that the Sto workforce is prepared for the demands of the future, of uncovering existing management potential in the Group and of systematically developing this potential. We offer our employees attractive prospects and support our managers in the development of their respective teams.

Employer attractiveness and securing the next generation of employees: We secure the next generation of employees that Sto needs for its planned global corporate growth through targeted personnel marketing; we proactively counter the shortage of skilled workers with a diverse training programme, and offer applicants and our Sto employees appealing general conditions. In a survey conducted by an independent opinion research institute and the magazine 'Stern', which evaluated more than 1,300 companies with over 500 employees, Sto received the award as the best employer in the building materials, metals and materials sector. In particular, the employees' and the competitors' willingness to recommend the company was included in the list of the '650 Best German Employers 2021'.

Competitive conditions of employment: Our agreements with the employee representatives, with which we have a constructive relationship, ensure a high degree of flexibility and competitive cost structures in the area of HR. This is supported by remuneration models in line with the market, which ensure an appropriate remuneration level, and future-oriented HR concepts with which we counteract demographic change.

The basis for this strategy are efficient and professional processes in the entire HR division which we continually improve.

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Fluctuation

At Sto, we calculate the fluctuation rate by looking at the number of exits from the company (not including natural ones, such as people entering retirement) in relation to the average number of permanent staff. Our aim is to keep this rate in the lower single-digit range across the Group. At Sto SE & Co. KGaA, the rate stabilised at a very good 3.3 % in the year under review. The proportion of voluntary terminations declined from 1.7 % to 1.0 %. This shows that Sto continues to be an attractive employer. In 2020, the average period of employment in the Sto Group was 11.0 years (previous year: 10.8 years).

Occupational safety

Preventing and minimising accidents is a key component of our policy on occupational safety. In principle, we aim to keep the rate of reportable accidents at work or on the way to and back from work consistently below ten accidents per 1,000 employees per year. In 2020, the rate at Sto SE & Co. KGaA was 15.5 (previous year: 13.5). A total of 33 work accidents, five commuting accidents and one accident during a business trip were reported.

As in the previous year, the main cause was human error, which resulted accidents mainly due to falling, tripping or slipping. In addition, some incidents involving industrial trucks were reported. In order to further improve safety for our employees and increase awareness of possible sources of danger, the tried-and-tested safety inspections were further intensified in 2020 and employees were given detailed information. With regard to hazards related to the coronavirus pandemic, we have significantly expanded safety briefings. In 2020, we installed software for recording and documenting risk assessments which helps us further improve the process.

Several external reviews also attest to our high health and safety standards. The three factories of the US subsidiary, Sto Corp., have been audited in accordance with the local certification 'Safety & Health Achievement Recognition Program' (SHARP), which, like the ISO 45001 standard (previously: OHSAS 18001), documents a high safety and health standard. In addition to the Swedish Sto Scandinavia AB

At the 2020 year-end, the Sto Group had a total of 5,545 employees.

and the Spanish Beissier S.A.U., the Chinese Shanghai Sto Ltd. has also been certified in accordance with ISO 45001 in 2020. Verotec GmbH and Innolation GmbH have also implemented a globally valid standard on occupational safety and health with the 'Recognition of the Occupational Health and Safety System' according to OHRIS (Occupational Health and Risk Management System). The Polish Sto Sp.z o.o. fulfils the AQAP (Allied Quality Assurance Publications) standard.

Health management

The focus of health protection activities in 2020 was on preventive measures to protect against coronavirus infections. We developed a comprehensive hygiene and protection concept, provided our employees with masks and disinfectants and made numerous changes to the workplaces (e.g. plexiglass screens). The option of working from home was also significantly expanded where possible in order to significantly reduce the presence in the company. In addition, we have comprehensively trained the staff on how to implement the various measures.

Our target-group-oriented health management programme, with which we want to increase the well-being of our employees and contribute to maintaining their productivity, had to be greatly reduced in 2020 due to the coronavirus pandemic. The programme includes, for example, offers around the topics of nutrition, sport and protection against the flu. Noise protection, good ventilation, cleanliness and ergonomics at the workplace are also part of a healthy, safe working environment at Sto.

Further education and training activities

In the year under review, the coronavirus pandemic also left its mark on the wide range of qualification and further training courses offered within the Sto Group. On the one hand, the focus was on the digitisation of the training courses in order to be able to offer events online to as many employees as possible. On the other hand, new content was added to the training programmes to help employees cope with the coronavirus pandemic. These included, for example, management seminars on 'Managing teams remotely', 'Agility', or 'New Work'. At the same time, management training for team leaders and heads of departments as well as development programmes for prospective SalesCentre managers were continued, while numerous standard courses of the seminar programme had to be cancelled due to corona.

Vocational training at Sto

In September 2020, a total of 87 young people (previous year: 93) started their vocational training at Sto in Germany. In Germany, the number of trainees, and students of cooperative state universities totalled 241 at the year-end (previous year: 233). In relation to the total workforce in Germany, this equates to a share of 8.0 % (previous year: 7.9 %). As a result, Sto far exceeded the approximately 4.8 % training rate of all the businesses working in the chemical industry in Germany. The range of available vocational training options includes 25 different industrial and commercial training paths, as well as cooperative study courses (classes at university combined with practical training in the company) in various areas.

A special page dedicated to providing extensive information about vocational training can be found at www.sto.de. Many of the usual activities to present the Sto Group as an attractive training company, such as career fairs and career orientation offers at schools, could not take place in 2020 due to the coronavirus pandemic.

Research and development

In order to underpin the position we strive for as an innovative technology leader in the industry, we continuously push the intensive research and development activities in the Group at a high level. These activities contribute to the permanent expansion of our expertise and the development of new markets, customers, and growth areas for Sto. In addition, our R&D work ensures that we are always able to receive sufficient supplies of the materials we need, at the standards of quality we expect and with reasonable value for money – regardless of changes in general conditions. As a result of the coronavirus pandemic in 2020, there were repeated delays in the delivery of raw materials and purchased products, so that the search for available alternatives and their timely testing and release posed a particular challenge in the year under review.

Personal contact with our suppliers and customers, for example, was also significantly restricted by the coronavirus pandemic. Although we were able to maintain communication in principle with the help of virtual meetings, the otherwise usual intensive exchange with all those involved in the R&D process was significantly impaired. This not only resulted in delays in project work, but also reduced the exchange of ideas as a basis for requirements-based innovations.

Products for the wet and cold season, such as the organic base coat StoArmat Classic HD launched in 2020, extend the facade season.

In general, sustainability aspects remained of great importance for our R&D work: both in terms of the selection and procurement of materials and in the manufacture of products. CO_2 emissions in particular are an essential criterion for the use of input materials, with the replacement of previous components sometimes being associated with high development efforts. In principle, we use raw materials that have been deliberately selected with sustainability in mind.

Our Group-wide development activities take place predominantly at our Stühlingen headquarters. We also operate R&D departments based at various sites of the Sto Group in and outside of Germany. Their activities are geared specifically towards each regional situation concerning the supply of raw materials, product features, and price structures. All R&D departments collaborate intensively.

In 2020, a total of EUR 14.0 million (previous year: EUR 13.7 million) was recorded with an impact on profit and loss in the Sto Group's research and development costs, corresponding to 1.0 % (previous year: 1.0 %) of consolidated turnover.

Major developments in 2020 include a new ecological external wall insulation system which adds to our range of environmentally friendly building products. These facade coatings on the basis of renewable raw materials can be identified via the addition of 'AimS®' in their names. The first products of this product family, which includes base coats, renders and facade paints, will be launched in 2021. In combination with a suitable insulation material they can form sustainable facade insulation systems. We are thus following market and environmental trends as part of our aspired position as a technology leader.

Fundamental research
The basis for successful development activities and the creation of new or improved technologies is in-depth fundamental research. The Sto Group focuses on sustainability, ecology, functionality and automation in application. To ensure that as much expertise as possible feeds into our research, our R&D team regularly works with external researchers and developers, such as research institutes, universities and start-ups. However, due to the coronavirus pandemic and the associated restrictions, several projects had to be postponed in 2020.

Production and procurement

The basis for the premium quality standards that Sto products achieve is the company's extensive and varied production expertise. We continually develop applications and methods, and making ongoing improvements to production processes, to ensure we maintain our achieved level, and to always acquire new skills.
In 2020, due to the coronavirus pandemic, the focus was on the development of hygienic protection measures and organisational changes. These included, for example, setting up separate shifts that do not cross each other as well as staggered working hours. In addition, cleaning intervals were increased and employees were intensively trained in order to safely comply with the regulations defined throughout the Group. Despite the associated restrictions and the strongly fluctuating order intake, especially at the beginning of the coronavirus pandemic, production was maintained largely without disruptions throughout the period under review.

The most important products/materials produced in-house at the Sto Group are coating materials such as renders and paints, as well as adhesive and reinforcing compounds. Some of the expanded polystyrene-based (EPS) insulants are produced at the locations of Innolation GmbH in Lauingen/Germany and Amilly/France. Our Swedish subsidiary produces special insulants based on EPS. The production of these materials which are exclusively used for Group-internal supply allows us to strategically develop our technical expertise in this sensitive area, and reduce the extent to which we are dependent on suppliers.

Due to the market conditions and the customer structure of the Sto Group, the business of the Sto companies is dominated by orders with short lead times. The Sto Group does not consider key figures relating to order receipt and backlog to be significant. Instead, a high level of goods availability – which is also facilitated by flexible production conditions – and a fast delivery service are vital for the company.

International production network
At the 2020 year-end, the Sto Group's global production network comprised a total of 34 locations, of which 12 were in Germany and 22 outside of Germany. The production facility of VIACOR Polymer GmbH became part of the network in the year under review. Despite the challenges related to the coronavirus pandemic, the Sto factories operated mostly at a high capacity level. Individual subsidiaries had to temporarily introduce short-term work due to the impact of the coronavirus pandemic.

The production equipment at the production sites of the Sto Group are constantly being modernised or renewed. The measures increasingly focus on the digitisation of the processes. The work involved in upgrading the control technology in the dosing and mixing plants at our headquarters in Stühlingen, which had started in 2019, was successfully completed in 2020. At the location in Donaueschingen/Germany, the modernisation of the process control system was prepared and implemented with the turn of the year 2020/2021. The system supports virtually every process in the production environment and in order processing. Another renovation project was the replacement of the palletising system in the factory of Sto SE & Co. KGaA in Tollwitz/Germany with a more modern and more efficient system.

In order to identify any potential for optimisation at an early stage and to continuously improve performance in production, the non-conforming batch rate at the production sites is regularly monitored. Our aim is to keep this proportion of the total production volume that cannot be delivered due to defects below 0.1 % across the Group. In 2020, this level of quality was again achieved at almost all Sto factories in Europe, and we supported the implementation of the pursued goals with numerous recurring training and qualification measures.

Certified quality management

All key production facilities within the Sto Group are registered in the integrated management system, which incorporates all existing quality, environmental, safety and energy management systems. Additionally, the majority of the Group's plants are certified in accordance with external standards. In the year under review, 27 (previous year: 26) out of a total of 34 locations (previous year: 33) had a certification in accordance with the international quality management standard ISO 9001:2015. A new addition was the plant of VIACOR Polymer GmbH, which has been part of the companies consolidated since 1 January 2020. At the year-end, 17 plants (previous year: 15) of the Sto Group had a certification in accordance with the environment management system standard ISO 14001:2015. In addition to the VIACOR Polymer GmbH plant, the Shanghai Sto Ltd. production facility was also newly audited. Furthermore, in 2020, we carried out successful surveillance audits in accordance with ISO 9001:2015 and ISO 14001:2015 at several production sites in Germany and outside of Germany, as well as random audits based on the certification matrix.

As at the end of 2020, Sto SE & Co. KGaA's headquarters in Stühlingen, all the production sites and SalesCentres in Germany, and five subsidiaries had a certification in accordance with the system ISO 50001:2018 for improving energy efficiency. In addition to the certification through external standards, internal audits with different scopes took place at various locations of the Sto Group.

The production of EPS insulation boards is a particular focus of quality assurance at Sto. In order to ensure that a high level of quality is maintained among all the suppliers involved in the manufacturing process, we additionally apply supplement enhanced measures to these products that go beyond the requirements of the applicable standard. In the year under review, among other things, the function of Quality Manager – Product Creation and Procurement was established, which reports directly to the Chief Technology Officer. The new position is intended to help coordinate the quality processes even better, especially for bought-in products, and to intensify cooperation between the departments involved.

Procurement

In 2020, the key raw materials sourced by the Sto Group continued to be base materials such as sand, cement, and lime, as well as special chemicals and raw materials based on crude oil. Binders and pigments are among the most important input materials in terms of value. Examples of other items that are procured include insulants, mesh, and containers. In comparison to the previous year there were no significant changes to the procurement portfolio.

In the procurement markets in 2020, the coronavirus pandemic led to significant declines in demand and resulting price reductions in many areas relevant to Sto. Among others, this affected epoxy resins, insulation boards, and binders. The year under review only saw cost increases in specific areas, for example for mineral basic raw materials, which became more expensive due to increasing renaturation costs, and for CO_2 certificates.

Transport prices remained largely stable in 2020 which was due to the Group-internal optimisation approaches and the declining price of diesel. However, protection and hygiene measures on the part of the logistics partners were necessary to a greater extent, which led to increased effort in scheduling. Overall, the cost of goods sold in the Group fell from 45.2 % to 43.8 % in 2020.

As a result of the lockdowns in several countries and the more difficult border traffic caused by the coronavirus pandemic, important supply chains came under pressure in the second quarter, which led to supply bottlenecks in some cases, especially for raw materials. In addition, some suppliers from countries with high infection rates temporarily stopped their production, so we had to resort to other sources or materials of equivalent quality. Thanks to the well-developed Sto supplier network, forward-looking stockpiling and our 'multiple sourcing' supply strategy, we were able to compensate for delays and ensure reliable supplies to our customers without compromising on quality. Furthermore, the continuous improvement process implemented at Sto allows us to continually identify new procurement sources and to increase our flexibility.

Procurement management

The basis for end-to-end security of supply at all production locations of the Sto Group is proactive procurement management, which relies on close, long-term relationships with suppliers. Sto SE & Co. KGaA acts as an internal service provider within the Sto Group for the professional procurement of capital goods, services, and consumables, and supports the subsidiaries by providing tailored consultation services, expertise, and state-of-the-art procurement methods.

After having focused on internationalisation and the bundling of requirements in indirect purchasing in the past years, we concentrated mainly on the further development of purchasing processes in 2020. In particular, by introducing an SRM (Supplier Relationship Management) system, we were able to further automate our processes, further strengthen supplier relationships and improve transparency in purchasing.

As a means of identifying price fluctuations and bottlenecks early on, we digitally monitor the supply chain at every stage, from the purchase of raw materials to storage and all the way through to delivery to the customer. In 2020, this planning process, which takes into consideration forecast calculations from sales, for example, was extended by additional product groups. The process also underwent further improvement. As a result, we were able to maintain a high OTIF (on-time and in-full delivery) for our customers in the year under review.

Twice a year, we perform a systematic **supplier evaluation** at all our key European Sto companies. This involves assessing the companies based on the criteria of price, quality, commercial cooperation, sustainability, and supply conditions. The results are weighted in different ways and are condensed into a single key figure with a maximum score of 100. As last year, Sto SE & Co. KGaA aims for a score of 90.0. In 2020, we achieved a score of 87.4 points (previous year: 87.7). The slight decline was mainly due to the coronavirus pandemic and the related challenges, such as lockdowns and more difficult border crossings which affected the supply reliability of some of our partners. In the year under review, the newly installed SRM system was used for the assessment which allowed for a much more detailed evaluation of the suppliers according to product groups. Inventory ratios (average inventory in relation to annual sales) are agreed with the Sto subsidiaries as part of Group-wide **stock management**. These values depend on whether the company concerned is a production and/or sales company, and ranged between 2.8 % and 30.6 % in 2020. The process of defining the targets also involves analysing the relevant market conditions, such as product launches, strategic stockpiling of raw materials and trading goods, and necessary logistics-related changes. Higher stock values were approved in cases where this was necessitated by production-related, logistics-related, or strategic stockpiling. In 2020, for example, the strategic stockpiling of individual raw materials or trading goods was adjusted in order to avoid bottlenecks, e.g. in connection with Brexit and the coronavirus pandemic. Thanks to the Sto Group's consistent and proactive approach to inventory management and ongoing monitoring of materials with longer stock turnover periods, the targets were largely met during the year under review.

D. Events after the reporting period

With effect from 28 February 2021, Sto SE & Co. KGaA acquired the remaining 50.2 % of shares in JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany. This family-run company with 88 employees, in which Sto had already had a share of 49.8 % since 2018, is one of the most efficient and productive manufacturers of wall paints and other coating products, especially private-label paints. JONAS operates a highly modern manufacturing plant in Wülfrath/Germany.

Between the end of the fiscal year of 2020 and the point at which this report was signed off, there were no other events with a significant impact on the earnings, financial, and asset situation of the Sto Group.

E. Risks and opportunities report

Risks and opportunities

As a company with an international focus and business activities, Sto SE & Co. KGaA is regularly confronted with opportunities and risks. The goal-oriented management of these opportunities and risks, which are defined as possible deviations from the planned result, is one of the fundamental components of our management of the company and is essential for the long-term positive development of the Group. The **risk strategy** defined by the Executive Board of STO Management SE as the personally liable partner asks for opportunities that arise to be exploited with rigour, and risks to be undertaken only where a commensurate contribution to earnings can be expected and a threat to the company's existence can be largely excluded.

In the long term, we estimate that opportunities for Sto will outweigh the risks. The need to install energy efficiency measures within buildings in order to reduce CO_2 emissions is set to rise. Furthermore, decision-makers in the area of climate protection are now speaking with one voice. For example, as part of the European Green Deal presented at the end of 2019, the EU has set the goal of achieving complete climate neutrality by 2050.

To this end, the Commission has formulated a European Climate Protection Act that is intended to trigger investments in all sectors of the economy – including increasing energy efficiency in the important building sector.

Opportunities for Sto also arise from government subsidy programmes that support the sale of facade systems. This does, however, require these incentive measures to be designed in a transparent way that is tailored to the relevant target groups. Otherwise, the measures may not have the corresponding effect and facade product manufacturers may not be compensated for the advance expenses they have incurred.

As we also expect to see prices for key fossil fuels escalate in the medium term, we believe that facade systems will become increasingly appealing from a financial perspective as well. For Sto, as the leading manufacturer of external wall insulation systems, this means additional sales potential.

The general economic conditions that we are currently experiencing in our key markets are an opportunity to generate additional growth using our own resources. The fact that we are well positioned in terms of technology, have once again managed to improve our product range in comparison with the previous year, and our close proximity to customers and high customer retention level create favourable conditions for developing more strongly than the market as a whole.

Risk management system

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

The most important component of the RMS is a detailed **reporting system**, which records all operational activities in the Group both in terms of quantity and quality in accordance with a specified scheme. Through constant monitoring of clearly defined key figures, we are able to identify undesirable developments at an early stage and quickly initiate countermeasures. This system is supplemented by a **risk manual** defining various risk categories, guidelines for assessing risks, and procedural instructions for every Group company. This manual is binding throughout the Group. Once a year, an annual **risk inventory** is carried out in order to categorise and document all current risks on a timely basis. It has three categories of risk, based on a weighted value indicating the level of damage that could be sustained: 'low', 'medium', and 'high'. The weighted damage value is calculated on the basis of the likelihood of damage occurring and the potential consequences for earnings. The likelihood of damage occurring is categorised as follows: lower than 30 %, 30 % to 60 %, and higher than 60 %. The managing director of the respective business unit is required to notify the central investment controlling department immediately of any new risks which are identified in the course of the year.

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

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

The digitised accounting process is controlled using the ERP software SAP, which has been implemented at most Sto companies. It records and processes all issues and data relevant to accounting. Sto SE & Co. KGaA has an electronic workflow in place for centralised invoice processing and archiving, and this has been gradually rolled out to the majority of subsidiaries. Access to various types of data is clearly regulated and corresponding access restrictions are in place.

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

We ensure the correctness and reliability of our accounting processes by applying specific key figure analyses, and through the processing and control of complex business transactions by different persons. The separation of administrative, executing, accounting, and approval functions, and the performance of these functions usually by multiple persons (dual control principle), also reduces the attendant risks.

A meeting focusing on the annual financial statements takes place for each operationally active subsidiary between the local Management Board, representatives of Group accounting, and, in most cases, the Chief Financial Officer of STO Management SE as a representative of the Group's parent company. The local auditor is also present at this meeting. Additionally, the Group auditor, Internal Audit, Central Investment Controlling, or a national control committee – such as the Board of Directors – participate in the meeting if necessary. The rules of procedure for managing directors in the Sto Group include mandatory rules for correct conduct of different business processes, which must be adhered to throughout the Group.

The Internal Audit department ensures the transparency required for the increasingly complex corporate processes and the implementation of the growing compliance requirements. As an independent department, Internal Audit reports directly to the Executive Board of the personally liable partner and to the Chairperson of the Supervisory Board. The extensive company compliance system for monitoring adherence to legal requirements and internal corporate guidelines is part of our risk management strategy. The internal publication of the main features of our Compliance Management System are in accordance with the latest recommendations of the German Corporate Governance Code (2019 version). Since 2018, the Sto Group has had a Chief Compliance Officer and since 2019 it has had a Group-wide Code of Conduct.

A standardised whistle-blower system for compliance breaches is publicly accessible via our website, www.sto.de. This allows misconduct to be reported anonymously and to be comprehensively investigated around the clock, with whistle-blowers protected from sanctions. The system is open to employees, managers, customers, suppliers, and other stakeholders. It is administered by an independent operator and its data is stored on protected servers located in Germany. The contents of the reports are processed exclusively through Sto.

The effectiveness of the RMS and ICS is regularly examined in accordance with the relevant statutory requirements. With regard to the accounting process, the control is carried out externally by our Group auditor and mandates, among other things, that inventory observations are carried out and the disclosure and valuation of assets and liabilities are reviewed as part of the legally obligatory annual audit. Furthermore, the German Financial Reporting Enforcement Panel, Berlin/Germany, monitors the implementation of accounting standards, and the audit authorities monitor the compliance with tax regulations. Central Investment Controlling, Group Accounting and Internal Audit carry out internal audits. The Supervisory Board and, in particular, the Audit Committee receive regular information from the Executive Board of STO Management SE as well as the auditor and Internal Revision.

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

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

Risks in procuring raw materials and external products

To manufacture its products, the Sto Group uses raw materials such as lime, marble and quartz sands as well as pigments and binders such as cement or water-based dispersion agents. Risks could arise from concentration tendencies on the procurement markets or from a lack of capacity or plant availability on the part of suppliers, as well as from political unrest, increasing trade barriers or natural disasters. As well as this, a rise in demand for certain raw materials and goods could cause supply shortages.

Impairments in the supply of goods to Sto can also result from obstructions or disruptions in the logistics chain, for example from difficulties in border traffic or a lack of transport capacities or containers such as sea containers. Disruptions and interruptions in the supply of goods to Sto may also result in supply bottlenecks for Sto, or even in the suspension of deliveries of Sto products affected by such disruptions, with the corresponding consequences for the Sto Group's turnover. In addition, such bottlenecks may trigger recourse claims from our contractual partners. In extreme cases, this could cause effects that would result in a negative impact on earnings of up to EUR 45 million due to the extraordinary conditions in the 2021 fiscal year.

We confront the resulting risks through advance procurement as well as early contracts

with our partners and suppliers. Additionally, the Sto divisions involved in procurement, R&D, and production continually work to optimise the use of materials and make it more flexible in order to ensure a sustainable supply of the raw materials that are needed. To this end, alternative materials and suppliers are also taken into consideration.
We reduce logistics risks through the Sto logistics network, which relies on various service providers and includes anticipatory stockpiling.

There is a price dependency in products that we produce ourselves and external products that are made of raw materials based on crude oil. These include paints, renders, polystyrene insulation boards, and even plastic containers such as our Sto pails. In the past, trends relating to these basic raw materials were generally strongly correlated with the price of crude oil. In recent years, however, it has become increasingly clear that an independent, highly volatile trend is emerging – often influenced by global supply and demand. In our view, the demand for numerous speciality chemicals, for which there is a dwindling number of available suppliers around the world, is also set to increase further in the long run – particularly in emerging and developing countries. In the medium to long term, the price trend is expected to continue climbing sharply.

In the Sto Group, strong increases in procurement prices could trigger a significant rise in material costs. As it is not usually possible to pass price increases on to customers in the short term, this results in a rise in the cost of sales percentage. Based on our experience, increases by up to 3 percentage points are possible in extreme cases, which in turn can result in a decline in earnings of as much as EUR 45 million.

In view of the number of items we handle and our procurement volume, external products are becoming increasingly important to Sto. For this reason, we have established an independent group focusing on quality assurance for these products, and plan to expand it gradually. In addition to actually monitoring the quality of external products, we are also ramping up our efforts to conclude quality agreements with specific terms and carry out supplier audits.

In the 2020 fiscal year, risk management software was newly introduced for the Procurement division, which makes it possible to monitor the entire supply chain around the clock. If there are disruptions in the supply chain, the responsible strategic purchaser is informed and appropriate measures can be taken immediately. In addition, the software supports the analysis of certain risks. This has significantly improved the transparency of the supply chain and the effectiveness of risk management overall.

Dependence on weather conditions
A major proportion of Sto's products is used on the exterior. This means that their application is dependent on weather conditions, something that Sto is unable to influence. In particular, harsh and long winters at the beginning and/or end of a calendar year may result in turnover losses which may not be fully recovered due to limited processing capacity. The same applies to sustained periods of rainfall and hot spells. Conversely, favourable weather conditions can have a positive effect on business development. In most cases, weather-related fluctuations in turnover also have a significant impact on earnings. Measured in relation to the profit obtained in a year with average weather conditions, they may, in extreme cases, cause the EBIT operating result to increase or decrease by as much as EUR 35 million.

Risks arising from the coronavirus pandemic

By constantly internationalising our business activities, which is one of the company's key strategic aims, Sto is well differentiated in the regions in which it is present. We are hence able spread our business risk and compensate for fluctuations in individual countries to a certain extent.

In the 2020 fiscal year, the coronavirus pandemic gripped the countries in which Sto operates one by one. This is a constantly changing situation.

One risk resulting from it is that Sto's supply could be limited or interrupted by sub-suppliers' limited ability or complete inability to deliver. As raw materials, purchased goods, and packaging are diverted to other priority customers, such as those in the medical, hygiene, and food sectors, supplies may be disrupted. To counter this risk as much as we can, we operate on the basis of a multiple-supplier principle and international sourcing, as well as using formulations with alternative raw materials and adopting anticipatory stockpiling.

Shortages in Sto's supplies could also result from disruptions in transporting goods, something that in turn may be caused by a sickness-related lack of drivers at shipping companies, obstacles in the necessary border transits, and disruption in fuel supplies. These risks also pertain to the supply of goods to our customers, both in Germany and outside of Germany. At Sto we focus on using high-performance shipping companies and, in some cases, our own fleet of vehicles for distribution to the customers.

Another risk arises from the potential reduction in production capacity due to sicknesses or production ceasing entirely if employees are infected with the coronavirus. Sto's production is highly automated in many of its factories and relatively few employees are required for operation, meaning that a sufficient safety distance can usually be maintained between workers without impacting the production process. In addition, protective measures for the workforce were increased to reduce risks. These included, for example, setting up separate shifts that do not cross each other as well as staggered working hours. In addition, cleaning intervals were increased and employees were intensively trained.

The sale of our products is exposed to risks relating to several factors, including the availability of healthy workers at our customers' sites, a potential exodus of employees from other countries leaving our customers to return to their home countries, our customers' ability to access their building sites without restriction, our trade customers' ability to carry out their work unimpeded, and our customers' orders potentially being cancelled by their own clients due to the crisis. The coronavirus pandemic has caused widespread uncertainty across the population, which may cause an increase in money-saving behaviour and therefore lead investors to delay planned new buildings or renovation projects. Even after the coronavirus pandemic has ended, investors may still be reluctant to part with their money due to sustained uncertainty and this may lead to a recession in the construction industry. Sto's broad customer base and low dependency on individual customers and projects counteract these risks, as does the ability of the Sto sales team to win new customers.

The disruption to cash flow caused by corona-related liquidity problems of our customers may mean that Sto increasingly needs to draw on its own liquidity, or it may lead to an increase in defaults on receivables. We are in constant dialogue with our customers, who are subject to ongoing credit monitoring and in some cases are covered by credit insurance policies.

Financial investments with commercial banks and in corporate bonds will also be at risk if commercial banks and issuers are no longer in the position to honour their repayment obligations at the point of maturity. By and large, the Sto Group's financial investments are with banks that have good credit ratings, and in corporate bonds with first-class ratings. Financial investments with banks are partially covered by existing deposit protection.

As the coronavirus pandemic continues to progress, it is possible that temporary closures will be mandated again in the countries where our companies are active. This will pose a risk for the liquidity of Sto SE & Co. KGaA, even if it can continue its normal operation, since subsidiaries will have to be provided with sufficient liquidity. We are counteracting this risk through ongoing liquidity monitoring, earnings-securing measure, cutbacks and postponements of pending investment measures, as well as investigations and use of government financial aid.

The syndicated loan agreement between Sto SE & Co. KGaA and a banking consortium includes financial covenants that are in line with standard market terms and are subject to target figures. If these target figures are not met, the banks ultimately have the option of terminating the credit agreement. This poses the risk that credit drawn will be declared due within the terms of the syndicated loan agreement. This risk is being mediated through ongoing key figure monitoring and simulation based on the current earnings projection, and through earnings-securing measures resulting from this.

Another risk is posed by a significant change in currency parities with the euro and the US dollar. The manufacturing Sto companies generally sell their products on their domestic market. In addition, a proportion of the products are exported to countries outside the eurozone and US dollar zone. A material change in the relevant currency parities with the euro or US dollar could mean that supplying goods to other countries becomes more expensive, negatively impacting the turnover generated from export business. A large part of the currency risks from planned export transactions for the year 2021 was already hedged at the end of 2020 by currency forwards.

The plans for securing earnings, which had already been developed as part of the annual planning for 2021, have been put into action in selected Sto companies in order to counteract potential losses from declining earnings. We have established a specific taskforce that is dedicated to assessing the situation and taking measures to minimise risks. We currently believe that the risk in relation to the operating result EBIT, with conceivable losses of up to EUR 60 million, is estimated at EUR 15 million, taking into account the relatively low probability of occurrence.

As at the reference date of 31 December 2020, Sto is in a strong financial position and has a significantly positive net debt as well as an agreed syndicated loan in the amount of EUR 100 million.

The situation would need to be regarded as critical if, over the longer term, legal measures put a stop to production and sales in the key markets, if raw material supply and logistics chains collapsed, or if health authorities mandated a continuing shutdown.

Sales risks

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

The Munich-based Qualitätsgedämmt e.V., an association which was founded by German family-owned businesses and of which Sto is also a member, holds the belief that it is possible to bolster the confidence of users and investors in the long term by providing them with objective information and clear explanations of the product properties that facade systems offer. Additionally, this sales risk is mitigated by Sto's success in regional diversification and the probable long-term upward trend in energy prices, which has made facade insulation an appealing prospect from a financial perspective. Political decision-makers have committed themselves to pursuing aims relating to energy savings and CO_2 reductions more vigorously, and this, coupled with tax incentives for energy-related building refurbishments, is increasing the likelihood of favourable general conditions being achieved.

Sto responds to the conflicting and, in some cases, highly exaggerated media reports with objective, fact-based communication, additional quality measures, plus a quality management system that is tailored to the specific requirements of the insulants that are supplied.

Delays in political decision-making processes with regard to state subsidy measures can pose a risk if potential developers are reluctant to invest, which would result in a temporary drop in demand. Sto is addressing this risk through steps such as an objective line of reasoning intended to raise awareness among bodies and decision-makers involved in the process.

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

New technological and social trends, in particular the advancing digitisation in all areas of life, offer Sto opportunities for growth on the one hand by opening up new areas of business or improving process efficiency, but are also associated with risks. For example, Sto could be excluded from projects if digital requirements on the part of customers are not met or technological advances are not implemented. Sto has already drawn up a comprehensive digitisation programme in 2019, which includes almost all processes in the company and encompasses a wide range of projects. The aim is to exploit the opportunities arising from digitisation even more consistently for Sto and to integrate new digital products and services into the product range.

Warranty-related and legal risks

The general risks to which we are potentially exposed include the areas of product liability, anti-corruption law, antitrust law, patent law, tax law, competition law, data protection, and environmental protection. These risks can damage our reputation and adversely affect our business success. To ensure compliance with laws and regulations, we have established a compliance management system.

Ongoing research and development activities, and the introduction of innovations, are of strategic importance for the Sto Group. These open up opportunities to develop additional markets and buyer groups, and to reinforce the loyalty of existing customers. In addition, the analysis of product life cycles contributes to a higher risk transparency.

At the same time, however, innovations can involve risks. While new Sto products or product versions are only ever launched on the market once they have undergone extensive testing, it is not possible to completely rule out the possibility of warranty claims being made against Group companies. We reserve the right to react appropriately to recognised risks through adequate innovations, modification of mature products, or the adjustment of relevant processes.

The European Commission decided to classify the raw material titanium dioxide – a white pigment contained in various Sto products – as hazardous, despite the fact that there is no case worldwide of any health damage due to inhalation of titanium dioxide. We, along with the affected industry associations and recognised experts, have severe doubts about whether this decision is reasonable. Nevertheless, affected products will have to be labelled with additional warnings in future, which may lead to questions and concerns for all involved in the supply chain, and ultimately result in declines in demand. For this reason, Sto is testing possible substitutes for titanium dioxide. However, there are doubts about the legality of the Commission's decision due to various infringements of existing EU law, so that the dispute over the classification of titanium dioxide 2020 was continued at the European Court.

The US insurance industry currently does not offer any sufficiently comprehensive and economically viable insurance coverage for product risks of facade systems and coatings. The effects of potential damages or liability claims in the USA on the financial and income situation of the Sto Group cannot be assessed reliably on account of the country's legal system. In order to further limit the risks of liability in our activities outside of Germany, we engage the services of external consultants during decision-making procedures where necessary, including in relation to technical aspects.

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

For the Sto Group, protecting the personal rights of customers, employees, shareholders, business partners, and suppliers is an important and self-evident objective. When the General Data Protection Regulation (GDPR) came into force on 25 May 2018, data protection became a much more pressing topic. All Sto companies subject to the scope of the GDPR have adapted to the new requirements and implemented governance structures and processes accordingly. The data protection organisation has been strengthened: for example, data protection officers have been nominated by the respective managing directors in order to identify and manage potential risks arising from the increased requirements. In addition, these officers are responsible for implementing the Group directive on data protection within their companies, and are in close, regular contact with the Sto Group's data protection officer.

Risks can arise due to changes in general legal conditions, such as new classification and labelling obligations. One of the ways in which we counter these risks is by qualifying alternative raw materials.

Overall economic and industry-specific risks

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

On top of that, difficulties in the recruitment of craftsmen could potentially restrict the capacity of trade enterprises. We are doing everything we can to counter these risks through the varied activities of the Sto Foundation and the Group, which are aimed at arming Sto customers with the qualifications they need.

Financial risks

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

As a result of the internationalisation of its business activities, Sto is exposed to currency risks. We control these risks by means of currency hedges. Throughout the Group, relevant risks from foreign currency cash flows are analysed, recorded, and, where possible, reduced by applying suitable hedging measures at the budget creation stage. Our main focusis on the currencies of countries where we do not have production equipment, i.e. where regular supply and cash flows are necessary to maintain business operations. In 2020, this applied to Switzerland, Poland, and Sweden, among others. In specific cases and where necessary, we perform additional hedging.

As a result of seasonal variability, the demand for liquidity to finance current business at Sto is subject to significant fluctuations. There is a particular need for cash in the first few months of a calendar year, whereas cash inflows dominate during the second half of the year. Risks arising from these fluctuations in payment flows are limited at Sto by the available liquid funds. In addition, Sto has at its disposal an adequate and contractually guaranteed variable credit facility as part of a syndicated loan agreement, amounting to EUR 100 million.

In order to reduce our exposure to liquidity risks, we also maintain intensive communication with our banks and operate an active financial management system. This includes the use of derivatives in the form of interest swaps as a means of reducing the risk of changes in interest rates in the case of long-term, interest-bearing liabilities to banks. In the year under review, we did not make use of interest rate swaps.

Sto's treasury activities have been pooled and are handled in an independent department. This measure secures the recognition and control of financial resources for internal and external financing, and supports financial risk management. Consistent hedging strategies and clear rules for financial investments, foreign exchange transactions, and internal and external financing are in place across the Group worldwide. In the year under review, the structures and processes underwent further improvement and the financing costs were optimised. The Group-wide implementation of a central treasury management system and a payment transaction system integrated into SAP was continued in the course of a rollout project spanning several years.
The aim here is to further improve transparency and security. The key features of a treasury guideline with a modular structure have been sketched out, with step-by-step expansion and implementation of the guideline set to take place.

IT risks

A substantial proportion of all business processes as well as interactions with customers and business partners at Sto relies on IT systems and components. The core systems of the Sto Group are SAP, Salesforce and Microsoft. Malfunctions like system failures, attacks on networks, and the loss or manipulation of data have the potential to endanger Sto's process of 'The customer places an order, the customer receives their order'. This could result in declines in turnover. The risks are detected through an active information security management system (ISMS). This is used to develop and monitor measures. These are implemented by a team of IT security experts and are subject to regular internal audits. In 2019, several measures were identified, initiated and started to be implemented, some of which will continue into 2021.

Sto has adopted a consistent 'cloud-first' strategy. This means that IT systems are preferably sourced from cloud service providers, provided that this makes economic and technical sense. These systems must be able to demonstrate GDPR compliance and have an information security certificate that is recognised by the German Federal Office for Information Security (Bundesamt für Sicherheit). This means that Sto will benefit from the very high IT security standards in place at the cloud service providers.

The implemented and planned measures address the following main priorities:

Continuity:
The core systems necessary to the company's operating business, such as SAP, for example, are deployed in redundant and fully virtualised form. This ensures maximum continuity of the systems and the appurtenant services. In 2016, a new, state-of-the-art, in-house data centre was put into operation. Operationally relevant IT services are thus available in two independent and spatially separated data centres. Data critical to the company is backed up daily and stored separately. In the subsidiaries, only country-specific IT systems are operated for strategic reasons. Terminal devices such as laptops, desktops, tablets, and smartphones are continually updated as part of a lifecycle approach.

Integrity:
To prevent unauthorised access to the information systems of Sto SE & Co. KGaA and its fully integrated subsidiaries, we use state-of-the-art IT security solutions that are available on the market. They serve to protect data, terminal devices, local networks, wide-area networks and data centres. The IT policy defines our restrictive approach to issuing access authorisation, which

is based on the principle of least privilege.
The cloud-first strategy ensures that company-related data is stored, processed, and secured in compliance with GDPR rules. Users of IT systems are authenticated largely via a centralised and standardised identity and access service, which provides security functions such as multi-factor authentication, plausibility checks, application level protection, and monitoring. The significant increase in threats from phishing, ransomware, and trojans has made it necessary to intensify our training measures for employees. Within Sto's internal communication channels, warnings and recommended courses of action in such cases are published on a regular basis.

Availability:
The redundant configuration of all core systems and network connections ensures maximum availability for all key business processes.
An automated monitoring system serves to continuously monitor system availability. Risks from hardware failures or an inability to update software components are being minimised by a gradual modernisation of all the relevant components. As part of the Retrofit project in our production environment and as part of a still ongoing roll-out, we are ensuring that IT systems meet the requirements of Industry 4.0. In particular, protected networks are being operated, procured, and deployed in a way that is technologically fit for the future.

Human resources risks
The expertise and enormous dedication of Sto employees are amongst the key building blocks of our corporate success. If, in the light of competition for skilled specialists and managers, we do not succeed in recruiting appropriate personnel, this may have a negative impact on our future corporate development. This risk may become even more serious in the medium to long term due to demographic trends, particularly in western industrialised countries. This makes it more difficult to find talented young professionals, and the number of people leaving the company for reasons of age will increase, resulting in loss of knowledge.

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

Environmental risks
Production at Sto takes place in modern, largely automated plants. This means that manufacturing processes pose only minor environmental risks. We have also implemented an environmental management system in various Group companies, with certification in line with international standards. More information about our environmental protection measures can be found in the section entitled 'Production and procurement'.

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

Tax-related risks
As a company operating worldwide, Sto is subject to different tax legislations and regulations in various countries. Any changes to these

tax rules may lead to higher tax expenses. In addition, changes to laws and regulations can have a significant impact on tax demands and liabilities, as well as on deferred tax assets and liabilities of the company. Moreover, uncertainty in terms of tax in some regions can restrict the company's ability to exercise its own rights.

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

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

Opportunities and risks for business development in 2021

Predictions on future business development are generally subject to major uncertainty. At Sto, one of the major factors to account for is the set of highly volatile general conditions to which the international construction industry is exposed. Furthermore, our planning is based both on our own forecasts concerning trends in currencies that are relevant to Sto, which may also be subject to significant fluctuations, and on the assumption that a largely stable political environment will prevail. Should these premises prove incorrect, however, then expectations for 2021 may deviate from the actual situation.

Additionally, the risks presented may bring about some short-term influencing factors that may have a positive and/or negative effect on Sto's development. With this in mind, it is not possible to make a reliable prediction of how EWIS sales in particular will develop. If there are declines, Sto will be particularly heavily affected given its position as a market-leading company.

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

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

If the global economy develops different in 2021 than research institutes have predicted, the supply and demand for raw materials and bought-in products may change and lead to sharp non-scheduled price increases. These higher costs could be offset by turnover effects resulting from higher demand for construction services and by passing on the costs in the form of higher sales prices, possibly at a later date. Additionally, opportunities could arise if raw materials prices develop more favourably than assumed in our forecasts.

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

The future development of the coronavirus pandemic is unclear and this has given rise to significant uncertainty about the future development of the business. The risks and opportunities report provides an in-depth look at the risks associated with this.

Provided that the economy performs better than expected in regions where we only make plans with a great degree of caution, 2021 will see opportunities for business development.

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

The climate package unveiled by the German government at the end of 2019 has made energy efficiency measures in buildings within Germany tax-deductible since 1 January 2020. According to our estimates, this stimulation should have a positive impact on the EWIS market in the medium term.

Overall risk exposure

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

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

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

F. Outlook report

Global economy

Given the unclear future development of the coronavirus pandemic, the macroeconomic prospects for 2021 remain extremely uncertain. At the time of compiling the management report, the future spread of COVID-19 and the resulting economic consequences can only be predicted with a limited amount of reliability.

In its January estimate, the International Monetary Fund assumes that the global economy will revive in the course of the year, not least because of the anticipated progress in the area of vaccinations. However, due to the rising infection rates that are re-emerging in many countries and the development of highly infectious virus mutations, it also identifies major risks. Increasing trade restrictions and geopolitical dislocations could also slow the recovery. By contrast, rapid success in relation to protective vaccinations against corona and treatment methods would have a positive effect.

Globally, the IMF is forecasting a 5.5 % increase in GDP in 2021 (as of January 2021), raising its estimate by 0.3 percentage points from October 2020. In the industrialised countries, an increase of 4.3 % is anticipated, with growth rates of 5.1 % and 4.2 % predicted for the USA and the eurozone respectively. In the case of the developing and emerging countries, the researchers are expecting economic output to increase by 6.3 % in total. This expansion will be underpinned by the Asian countries, particularly China, whose GDP is expected to grow by 8.1 %.

For Germany, the IMF experts predict a GDP rebound of 3.5 %, which is 0.7 percentage points less than was assumed in October. The key reasons for the unexpectedly slow recovery are the harsh and lengthy lockdown at the beginning of the year and delays in launching the vaccination programmes. According to the IMF, it is likely to take until the autumn of 2022 for German GDP to return to the level it was at in early 2020 before the country entered the coronavirus recession.

Trends for the international construction industry

With regard to the main construction sector in **Germany**, the HDB (General association for the German construction industry) and ZDB (German Construction Confederation) are predicting nominal stagnation of construction industry turnover this year, hence remaining at the same level as 2020. However, in the case of the residential construction sector, growth in turnover is expected to be only slightly lower than the previous year at a rate of 3 % (2020: 4 %). The main reason for the further increase is the sustained demand pressure on the housing markets in the metropolitan areas and the extremely low interest rate, which is also set to continue. In contrast, a decline of 2 % is expected in commercial as well as in public construction. In addition to the challenges and strains, the HDB and ZDB also see opportunities for the construction industry. The climate action targets set by the German government – which will only be met if the refurbishment rate increases significantly within the construction industry – and the associated support schemes should boost investment significantly, particularly in energy-efficient refurbishments. The ongoing digitisation of construction processes also offers potential for growth.

The Verband der deutschen Lack- und Druckfarbenindustrie e.V. (Association of the German Paint and Printing Ink Industry) expects the exceptional boom in the DIY market to peter out in 2021 and predicts that turnover within the architectural coatings sector as a whole will drop by 10 %. Within this context, the professional sector is also expected to suffer a slight decline. Within the EWIS market, the market research institute B+L Marktdaten GmbH is anticipating a slight increase in volume of 1.9 %.

According to EUROCONSTRUCT, the **European construction industry** is going to experience further growth in 2021. In its November 2020 forecast, the network predicted that construction activities in its 19 member states would increase by 4.1 %. Residential construction is expected to grow by 4.7 %. In July 2020, EUROCONSTRUCT estimated that the construction of new buildings would by 5.5 % and the work on existing buildings would increase by 7 %. In many countries, residential construction projects are supported by state subsidies and regulatory measures. Alongside this, the solid financing conditions and demographic developments such as the influx into metropolitan areas will exert a positive influence. In contrast, the economic consequences of the coronavirus pandemic are likely to lead to declining household incomes and a resulting reluctance to invest. In the European non-residential building construction sector, EUROCONSTRUCT expects to see growth of just 2.5 %.

In **China,** the construction sector regained considerable momentum in the course of 2020 and is expected to be one of the mainstays of the Chinese economy in 2021 as well. According to GTAI (Germany Trade & Invest), the construction sector stands to benefit primarily from the lack of alternatives for financial investment and from ongoing urbanisation. According to the Swiss banking group UBS, the prospects for the Chinese construction industry are also good. After noticeable declines in the first months of 2020, it reports significant increases for the rest of the year: by as early as July, real estate sales had increased by 9.5 % and new projects started by 11.7 % compared to the same month of the previous year.

However, in the view of market research company Dodge Data & Analytics, the construction industry in the **USA** suffered a deep, albeit brief, recession in 2020. The residential construction sector, in particular, is said to have already passed through the trough, with the civil engineering sector also having increasingly shown recovery trends in the course of 2020. However, according to the estimate by GTAI (Germany Trade & Invest), there is a risk of both sectors nosediving again in 2021 and there are many uncertainties surrounding their further development. These include, for example, the still unclear economic and trade policy of the new US government and the unforeseeable effects that the trade war with China could have on the US economy. Other important factors are whether the tensions in US-European relations can be resolved and how the global economy develops in 2021. According to GTAI, a federal bail-out package aimed at US states and municipalities will be absolutely vital for the revival of the construction industry due to the costs incurred as a result of countering the coronavirus pandemic and the lost tax revenues.

Projected performance of the Sto Group
Assuming normal weather conditions and without the impact of the coronavirus pandemic taken into account, Sto expects business development to remain positive in the 2021 fiscal year. Sto Group turnover is expected to rise by 4.5 % to approximately EUR 1,498 million. Within this context, it is anticipated that the segment of Western Europe will experience growth in turnover in the mid-single-digit percentage range, while the growth rates for the regions of Northern/Eastern Europe and America/Asia/Pacific are expected to be in the lower single-digit percentage range.

The weather conditions in January and February 2021 were normal for the time of year. As a result of the associated precipitation and low temperatures, the results for the beginning of the 2021 fiscal year were, on balance, in line with expectations and remained significantly below those of the same period the previous year when the weather had been extraordinarily good.

In contrast, the month of March showed a very positive development. This meant that, overall, consolidated turnover in the first three months of the year was up on the previous year and exceeded expectations.

Consolidated earnings before interest and taxes (EBIT) in 2021 are forecast to fall between EUR 98 million and EUR 113 million, with earnings before taxes likely to fall somewhere between EUR 95 million and EUR 110 million. Where the resulting return on sales is concerned, we are likely to see a value between 6.3 % and 7.3 %. After allowing for the application of IFRS 16, we expect the return on capital employed (ROCE) to be between 14.8 % and 17.1 %.

This forecast is based on the assumption that the economy will grow and that the volume of construction will increase globally as anticipated, thereby providing a solid foundation for the business development of the Sto Group. We are also working on the basis that the euro will remain largely stable.

It is still not possible to reliably predict what specific impact the coronavirus pandemic will have on the future business development of the Sto Group. As things stand, we believe that in our key markets, there will be no simultaneous complete lockdowns, considerable disruptions to supply chains, or a significant number of infected employees throughout the company units. However, it is not possible to forecast the future rate of new infections reliably and, in particular, the responses of the respective governments that could have a decisive effect on Sto's operational business activities around the world. Nor can we rule out the possibility of construction site closures in the future.

Regardless of the coronavirus pandemic, there are great opportunities for growth in the area of facade systems in the medium term. In light of the objective advantages offered by energy-efficient facade insulation, there is significant potential for sales of external wall insulation systems globally and Sto should also be involved here as one of the leading providers. A good building insulation, which can save a lot of energy and CO_2, is particularly important for climate protection. With a view to achieving the internationally defined environmental goals, it is therefore vital to strengthen this area. In addition to having an attractive portfolio, this also calls for political initiatives to accelerate demand.

In Germany, the first step has already been taken in this regard in the form of state subsidies for insulation measures: since 1 January 2020, the energy-efficient refurbishment of buildings for owner-occupied housing has been tax-deductible for private homeowners and apartment owners there. In the medium to long term, this increases the likelihood that the refurbishment rate and the demand for EWIS will increase markedly. However, the incentives are targeted at single-family and two-family home construction, meaning that the commercial and state-owned real estate sectors do not benefit from the support.

The EU has also pledged itself to climate protection as part of the European Green Deal that was unveiled at the end of 2019. In order to achieve the goal of making the EU completely climate-neutral by 2050, the Commission has drawn up a European Climate Law to encourage investment in all economic sectors – among other things, with a view to increasing energy efficiency in the very important building sector.

As far as **procurement** is concerned, we assume that we are going to see a higher price level overall compared to 2020. This area faces major challenges because of the coronavirus pandemic. The availability of raw materials and the development of prices are going to depend heavily on the measures implemented by the individual countries to contain the coronavirus pandemic, as these could potentially lead to considerable disruptions in the supply chain. To allow for potential supply shortages as a result of regional lockdowns, we have already increased our stockpiling of relevant products and raw materials significantly.

Surprisingly, the supply situation for certain raw materials has been extremely strained since the end of 2020 and has become more acute during the first quarter of 2021. A sharp increase in demand in Asia due to economic trends – and to an extent, also in Europe – and, in particular, plant shutdowns by several large manufacturers causing supply to run alarmingly short have led to significant price increases on the global market and to some supply bottlenecks that have so far continued into 2021. One example is epoxy resin, which is an important binder for various applications, including floor coatings. The ongoing development of the situation and its impact on future business development can currently only be estimated to a limited extent.

Due to the introduction of the German Fuel Emissions Trading Act on 1 January 2021, a price increase is also to be expected for all

CO_2-generating fuels, particularly diesel, natural gas, and coal. In the case of Sto, this will mainly affect the costs of procuring transport services as well as mineral binders and fillers. We also expect there to be an increase in sea freight rates because the shipping companies are bound to increase their prices as a result of lower capacities. This will simultaneously drive up air freight costs as more and more goods end up being transported overseas by air as a result.

We have planned a budget of around EUR 51 million for **investments** in property, plant, and equipment, and intangible assets in 2021. A substantial part of this is earmarked for the ongoing expansion of the production capacity at our site in Villach/Austria and the completion of the new logistics building at Südwest Lacke + Farben GmbH & Co. KG. Both capital investment projects are due to be completed in 2021. In addition, we are investing in the modernisation of a tunnel furnace at Ströher Produktions GmbH & Co. KG in Dillenburg/Germany and the associated automation of the upstream and downstream production stages.

The **number of employees** within the Sto Group is expected to increase in 2021. The size of the workforce is likely to grow moderately in countries with growth prospects. Meanwhile, targeted adjustments will be made in regions battling difficult general economic conditions if necessary. Sto intends to abide by its agreed HR strategy in principle, but may be forced to introduce measures for limiting staff costs if business development does not proceed as planned. In addition, the size of the workforce is set to increase with the acquisition of the remaining shares in JONAS Farbenwerke GmbH & Co. KG.

Turning to the area of **financing**, we do not currently have any extraordinary measures planned for 2021.

Strategic direction

To ensure that the Sto Group continues to be ideally positioned in the future within what is a constantly changing environment and so that it can make consistent use of available opportunities, we embarked on a thorough review of our strategic direction in 2019. The first phase of this process centred on analysing the external factors with a view to identifying additional potential for growth for Sto. At the same time, we focused on further improving profitability, which involved scrutinising all areas of the company to see where there was scope for optimisation. On the basis of these findings, we defined objectives for sustainable, profitable and capital-protecting growth, increased customer focus, utilisation of performance potential and committed employees. We intend to meet these objectives through a total of 14 core initiatives that focus specifically on improving growth, increasing profit, and expanding our core competence.

The coronavirus pandemic has delayed the schedule originally planned for the strategy review. As things currently stand, we therefore intend to start implementing the initial steps arising from the initiatives in mid-2021 once the strategic planning has been debated and finalised at the Supervisory Board meeting in April 2021.

General statement on future development

Sto is one of the leading providers of high-quality facade systems and coatings with an outstanding brand in the industry, an extensive, top-quality and perfectly matched range of products that takes account of a wide variety of requirements. Sto also has an excellent position on the international stage, and a strong capacity for innovation. We set the pace of technology in the industrial sector and want to further consolidate this position. The factors that reinforce the success we have had in our corporate development include our extensive sales base, our customer-focused approach to logistics, our well-qualified, dedicated workforce, and the revised strategy. In 2021, we are expecting turnover to grow by 4.5 % to around EUR 1,498 million, with EBIT likely to fall somewhere between EUR 98 million and EUR 113 million.

As stated in the risks and opportunities report, it is not possible to make a reliable prediction of the overall impact that the coronavirus pandemic will have on the 2021 fiscal year, with the result that there are many uncertainties surrounding the forecast.

Stühlingen/Germany, April 2021

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

Sustainability and Corporate Social Responsibility

This report presents the combined non-financial declaration of the Sto Group and Sto SE & Co. KGaA in accordance with Sections 289b and 315b of the German Commercial Code (HGB). It complements the Group management report and the management report of Sto SE & Co. KGaA for 2020, which is part of this Annual Report and is available under 'Investor Relations' on the website www.sto.de.

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

Part A
Business model and sustainability management at Sto

The Sto Group

Sto SE & Co. KGaA specialises in products and systems for building coatings and is one of the most important global manufacturers in this industrial sector. In the 2020 fiscal year, the Group, which is listed on the regulated market of the German stock exchange, had 5,545 employees in 50 operating companies as well as its places of operation worldwide and achieved a consolidated turnover of EUR 1,433.0 million.

The product range of the Sto Group is divided into four product groups: the core business of **facade systems** combines external wall insulation systems (EWIS), a segment in which our company occupies a leading position, and rainscreen cladding facade systems (RSC). The product group of **facade coatings** includes render and paint systems. **Products for interiors** encompass plaster and paint systems for home and office interiors, decorative coatings, interior claddings, and acoustic systems for regulating sound. Furthermore, Sto produces and sells high-quality floor coatings and products for concrete repair which are allocated to **Other product groups**.

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

The Sto business model is oriented towards long-term success. The essential foundations for this are sustainable, solid business management, constant progress, and a financially strong basis. The corporate vision is to be the worldwide technology leader in the sustainable design of living space tailored to human needs.

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

Assuming responsibility

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

A major part of Sto's business model is the contribution that our products make to sustainability in the construction sector, especially to climate protection. We have been developing and selling facade insulation systems for more than 50 years now, and thanks to their efficient building insulation capacity, we have been able to help achieve significant savings in energy through both the refurbishment of existing buildings and the construction of new buildings. Since 1965, Sto insulation

Thermal insulation helps to protect the environment

The energy savings from the use of Sto facade insulation systems correspond to around **115 billion litres of heating oil.**

Between 1965 and 2020, facade insulation systems from Sto played a direct role in saving the barely conceivable volume of 115 billion litres of heating oil. With this, Sto has made a notable contribution to global climate protection: the facade insulation systems from the southern Black Forest have managed to avoid around 370 million tonnes of CO_2 emissions. In 2020 alone, Sto products reduced emissions of this combustion gas by around 20 million tonnes.

systems have been installed on around 650 million m² of buildings worldwide, saving an estimated 115 billion litres of heating oil up to and including 2020, with the year under review accounting for around 5 billion litres of this figure alone. The resulting reduction in CO_2 emissions totalled more than 370 million tonnes, including approx. 20 million tonnes in 2020. In this way, Sto makes a significant continuous contribution to climate and environmental protection. This also improves the living comfort and quality of the relevant buildings.

Furthermore, our high-quality facade and coating systems protect the building fabric and thus ensure the conservation of value, longevity and resource efficiency of buildings. In the interior, our positive contribution lies above all in health protection and well-being through a wide range of low-emission products and products that are free from harmful substances. Apart from that, we are also addressing new product requirements that arise due to sustainable building concepts and, for example, are intensively working on the subject of a recycling economy as a strategic focal point of our product-related sustainability activities.

Sustainability strategy

In order to strengthen the topic of sustainability in the strategic orientation, to professionalise activities and bundle measures, we established the Sustainability department at Group level in 2012. This function reports directly to the Chief Technology Officer. In addition to our self-imposed claim, which is anchored in our Guiding Principles, we are thus meeting the increased demands of our stakeholders, especially shareholders, the state as the legislator, our customers, suppliers, the interested public, and our employees.

In 2020, we undertook a comprehensive revision of our sustainability strategy as part of the Group-wide strategy review. In addition to identifying key issues and fields of action, this also focused – in particular – on setting sustainability targets for the Sto Group to achieve by 2025. These targets were defined at the end of 2020. In 2021, they are to be officially adopted – along with a corresponding package of measures and budget plans – before being subsequently implemented and incorporated into the reporting. Fundamentally, we are adopting a holistic approach summarised by the maxim 'Product, People, Planet'. This expresses the idea that our goals and actions extend to every area within the company's sphere of influence and are being implemented at every value-added step: from product development, procurement, production, sales and marketing right through to HR and communications. The aim is to identify and address demands and needs in order to create a stable basis for profitable growth that protects capital and also to make a positive, social and important environmental contribution.

To ensure that we are ready to face future challenges, we are following the development of megatrends, changes in the market, as well as regulations and laws that are relevant to Sto. In 2020, we focused our efforts primarily on areas including:

- The European Green Deal, particularly the climate action target of becoming climate-neutral by 2050, and the planned 'surge in renovation'
- Energy efficiency as a cornerstone of the move towards renewable sources of energy and climate protection plans
- Support schemes, such as the tax incentives for energy-efficient refurbishment of buildings in Germany or the Federal Funding for Energy-Efficient Buildings (Bundesförderung für effiziente Gebäude, BEG)
- The German Buildings Energy Act (Gebäudeenergiegesetz,GEG)
- The recycling economy and resource efficiency as elements of resource, climate, and environmental protection
- Operational and product-related environmental protection as a means of conserving ecosystems
- Compliance with strict requirements regarding the use of ingredients which are suspected of being damaging to human health and the environment
- The European chemicals strategy
- The National Action Plan for Business and Human Rights (NAP) adopted by the German government for the observance of human rights along global supply and value chains, and the development of an act to cover supply chains
- The health and well-being of employees, applicators, and users
- Qualification and training in order to combat a shortage in young talent, and skills
- Commitment to social issues, signalling solidarity and individual support.

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

Structures and regulations for sustainability

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

Since the 2017 fiscal year, in Germany, capital-market-oriented companies above a certain size have been required to disclose non-financial information. Due to this so-called CSR disclosure rule, we have modified our disclosure structure accordingly by providing more direct and detailed information on the specific aspects that must be covered as part of non-financial reporting (see Part B). We use the UN Global Compact as the basis, which is named in the European CSR Directive as one of the international frameworks.

Furthermore, we align our sustainability activities with the **United Nations' 17 Sustainable Development Goals** (SDGs) adopted in 2015. These are primarily aimed at the states in the international community. But industrial companies are also expected to adopt them in their corporate strategy. In this way we want to show our contribution to sustainable development for society as a whole and prioritise our own fields of action.

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

Goal 3: Ensure healthy lives and promote well-being for all at all ages.

Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12: Ensure sustainable consumption and production patterns.

Goal 13: Take urgent action to combat climate change and its impacts.

THE GLOBAL COMPACT

WE SUPPORT

Since 2010 we have been conducting annual surveys among all Sto companies on selected CSR topics. This survey covers the relevant training and responsibilities for the individual issues within a company, compliance with social standards, such as the prohibition of child and forced labour, equal treatment of men and women, measures for occupational safety, environmental and resource protection matters, donation activities, social commitment, as well as rules on preventing corruption and violations of the law. If standards are not complied with and deviations are reported, the measures to be taken are to be described. The information is recorded centrally at Sto and then evaluated. Based on five key priority areas that we have defined as part of our sustainability strategy review, our questionnaire has been revised and integrated into a new data management software solution. The software can be used to create, document, and evaluate sustainability indicators for the entire Sto Group. In this way, an advanced reporting system for sustainability and CSR has been implemented within the Sto Group, the process of gathering relevant measures and key figures for the respective reporting period has been optimised, and the foundations have been laid for the centralised collection and analysis of data using IT-based systems. As of fiscal year 2021, we plan to report our activities more comprehensively by using corresponding key figures and dividing them into five key areas of sustainability: climate protection (energy and CO_2), environmental protection (waste, harmful substances, water), the recycling economy (disposal, recycling), health and well-being (health protection, emissions), and social responsibility (sustainability in the supply chain, compliance, donations).

As part of their sustainability initiative 'Sto-Climate', our Austrian company Sto Ges.m.b.H. also published a comprehensive sustainability report about their CSR activities in 2018. This was generated in accordance with the Global Reporting Initiative guidelines (GRI-4 core and extended requirements) and particularly refers to fiscal years 2016 and 2017 in the Austrian market. An updated report for the fiscal years from 2018 to 2020 will be published in 2021. In addition, our Scandinavian subsidiary Sto Scandinavia AB has been producing an annual sustainability report since 2019 ('Hållbarhets-rapport'), in which the subsidiary presents information on the main sustainability activities in Norway, Sweden, Finland, and Denmark using a format of its own choice.

In view of this comprehensive documentation, we have chosen to focus on a few examples of activities in this area in this report and refer to the sustainability reports of Sto Ges.m.b.H and Sto Scandinavia AB for more detailed information.

Since 2014, Sto has participated in the sustainability initiative **Chemie**^{3} in Germany, which was initiated jointly by the German Chemical Industry Association (VCI), the Mining, Chemical and Energy Industrial Union (IG BCE), and the German Federation of Chemical Employers' Associations (BAVC). It encompasses important guidelines for sustainable development in Germany's chemical industry and provides various tools for implementing these in practice. In 2020, we participated – in particular – in online seminars and activities linked to the initiative aimed at implementing the 17 SDGs in companies, as well as others associated with implementing a climate protection strategy and with the topic of sustainability in the supply chain.

The individual companies of the Sto Group also participate in various regional sustainability initiatives in their respective countries. For ex-

CHEMIE^3
DIE NACHHALTIGKEITSINITIATIVE
DER DEUTSCHEN CHEMIE

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

respACT
austrian business council
for sustainable development

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

Key sustainability factors

In addition to the Chemie³ sustainability check we use our **Sustainability Compass** in order to perform a concrete evaluation of single sustainability activities at company and product level. Not only does this tool ensure that all aspects of sustainability are taken into consideration, it also provides a source of support during decision-making processes in accordance with our corporate mission of 'Building with conscience'. As different criteria often have to be weighed up, the Sustainability Compass helps us create a four-dimensional mindset encompassing ecology, economy, social aspects, and well-being in order to arrive at the best possible solution.

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

Dialogue with stakeholders

Maintaining dialogue with our stakeholders is an exceptionally important part of our sustainability efforts. We do this in a variety of formats in order to accommodate the many different subjects that are raised, often in specialist and/or product-specific areas. These include our own colloquiums involving architects, planners, tradesmen, and energy consultants, as well as events held by and with market partners, and a range of trade fairs – another area in which sustainability is becoming an increasingly pressing issue. Due to the contact restrictions for containing the coronavirus pandemic, interactions and exchange could only take place in 2020 to a limited extent. Nevertheless, many events were still hosted online, tackling key issues such as the recycling of building materials, the safe use or avoidance of specific ingredients, healthy living spaces, and sustainable construction with suitable building products.

Among other things, we consider the **awards** that Sto wins every year to be acknowledgement of this commitment. These included being named as one of 'Germany's most valuable companies' by DEUTSCHLAND TEST, a brand of Focus Money magazine, in 2020. The study assesses which companies in Germany are committed to the topic of sustainability and thus make a valuable contribution to the future. Valuable in this context means assuming ecological, economic and social responsibility and living up to this responsibility in day-to-day business.

In Austria, Sto Ges.m.b.H. managed to qualify as a finalist for the 'State Prize for Corporate Quality' and, in 2020, was awarded the jury prize for 'Best Newcomer'. The Austrian Federal Ministry for Digital and Economic Affairs (BMDW) and Quality Austria have been awarding the State Prize for Corporate Quality to Austria's most successful top companies since 1996. To compete for the State Prize, Sto had to undergo an intensive evaluation by experts from the practical field. After achieving a superb result, Sto can now count itself among the top companies in Austria rated as excellent in 2020 and can wear its 'Exzellentes Unternehmen Österreichs 2020' badge with pride. This mark of excellence testifies to Sto's economic stability and balance, its environmental consciousness and social responsibility, as well as its capacity for innovation.

Walter Wiedenbauer, Managing Director of Sto Ges.m.b.H., and Florian Fleischhacker, Head of HR, accepted the 'Best Newcomer' award at the ceremony for the State Prize for Corporate Quality.

Based on an analysis we conducted in 2017, we identified the following as **relevant stakeholder groups** for Sto: shareholders, authorities/state, customers/consumers, service providers/suppliers, society/the public, representatives, employees, press/media, and the competition. Their respective requirements and the resulting derivation of obligations are determined and documented in the 'Stakeholder Analysis – Sustainability Check' process. At the same time, we are meeting the new requirements relating to the recertification of our quality management in accordance with ISO 9001:2015, our environment management system in accordance with ISO 14001:2015, and our energy management system in accordance with ISO 50001:2018. In accordance with the revised standards, organisations need to develop an understanding for their own context, must evaluate opportunities and risks, while paying special attention to including everyone involved in the planning of the management systems. The frequency with which the requirements of interested parties are stated is incorporated into the evaluation of the environmental aspects. In 2020, another stakeholder analysis was carried out as part of the strategy review to identify the stakeholders of particular relevance to Sto and adjust the actions being taken accordingly. For example, rating agencies and analysts in the financial sector are taking on an increasingly important role, demanding company information and non-financial key figures according to internationally valid standards as part of ESG ratings.

We participate in both national and international **associations and trade associations** to discuss important issues that affect different companies, such as new legislation and sustainability criteria for building products, the harmonisation of product directives, or the grading of hazardous materials. For example, Sto has been a member of the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen – DGNB e.V.) since 2008 and has served

In 2020, the 'In a dialogue with the Executive Board' event series was hosted via the Microsoft Teams digital communication platform.

on its advisory board for building products since 2016. At association level, Sto takes part in the 'Sustainable Building' working group of Deutsche Bauchemie e.V. (German Association for Manufacturers of Construction-chemical Products), the 'Sustainability' working group of the Verband der deutschen Lack- und Druckfarbenindustrie e.V. (German Paint and Printing Ink Industry Association, VdL), the Verband für Dämmsysteme, Putz und Mörtel e.V. (Association for Insulation Systems, Renders, and Mortars, VDPM), as well as the respective European umbrella associations in each area (such as FEICA, CEPE, EMO, and EAE). Furthermore, Sto has been an active member of the Bundesverband energieeffiziente Gebäudehülle (Federal Association for Energy-efficient Building Envelopes, BuVEG) since 2017. This association represents the combined interests of the industry sector and highlights the potential for climate protection and energy efficiency that lies in building envelopes. In Austria, Sto is a partner of the Austrian Sustainable Building Council (ASBC).

Sto also maintains a direct dialogue with non-governmental organisations (NGOs), experts, media representatives, and research institutions. We exchange views on the latest sustainability issues in the construction industry and the specific development and expectations being expressed by society, politics, and our market partners. The Österreichisches Institut für Baubiologie und Bauökologie (Austrian Institute for Building Biology and Building Ecology, IBO) in Vienna and the IG Passivhaus Tirol (Tyrolean Passive House Union), which connects experts from the building industry and would like to establish the passive house concept as a standard, are doing important scientific and practical work. Additional key sources of momentum and opinions are provided at and by events held as part of the Chemie³ sustainability initiative as well as those held by the initiating associations VCI, IG BCE, and BAVC, the national networks of the Global Compact, and the regional meetings of the Wirtschaftsinitiative Nachhaltigkeit (Economic initiative for sustainability) in the German state of Baden-Württemberg.

Exchange with Sto employees and intensive internal communication are also of great importance and are specifically promoted at all levels. Among other things, the event series 'In a dialogue with the Executive Board' has been offered at the headquarters in Stühlingen and other decentralised locations in Germany since mid-2018. Every three months, the Sto Executive Board invites a group of employees from all areas of the company to take part in discussions and ask questions in a relaxed atmosphere. The Executive Board is there to answer these questions and gather valuable suggestions from the participants. In 2020, these conversations were conducted online.

Product Information

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

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

Labels & certificates

Environmental labels and certificates such as Der Blaue Engel, TÜV, and natureplus® are primarily aimed at end consumers, private consumers, and public procurers. For building certification systems such as the one provided by the DGNB, environmental certificates are often used as proof of a particularly high ecological standard. Products are evaluated based on various criteria defined by the relevant issuing authority.

Sto has been using external monitoring by recognised testing institutes for more than 30 years, and has had a large number of products certified in the areas of thermal insulation, facade coating, and interiors; recertification is carried out where a certification has expired. The natureplus® eco-label for EWIS confirms not only that the products efficiently save energy, but also that stricter energy efficiency requirements are fulfilled in the product's production, environmental properties, and substances in the system components. The Blue Angel (Der Blaue Engel) for EWIS certifies the use of materials which result in less of an impact on the environment compared with other products within their product group, and which contain no harmful substances requiring disposal, demonstrate excellent durability, and are installed in accordance with statutory regulations.

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

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

Since 2019, we have been using our own seal of quality for the labelling of preservative-free products. In this way, we meet the growing need for building products that do not have any health risks, and offer quick orientation, especially for people who are sensitive even to small amounts of preservatives and who could have an allergic reaction. If we protect products with preservatives from premature deterioration, we only use them to the extent that is technically necessary, provide transparency on the substances used in data sheets, and label them with a seal of quality indicating that these products are also low in emissions, solvent- and plasticiser-free and have been tested for harmful substances by an accredited institute.

The numerous eco-labels available in the form of private and public product labels are posing an increasing challenge. In most cases, they are only recognised at national level and can therefore only offer added value in single markets. Products that have already been labelled would then have to be given different eco-labels for different regions, or their certificates would require additional declarations. To avoid this, we have increased the scope of our external monitoring arrangements and now ensure that the TÜV SÜD reports on the emission behaviour of our products also include details of compliance with other national and international standards.

Sustainability Data Sheets

The voluntary self-declaration – in the form of Sustainability Data Sheets that we have developed ourselves – supplements the product information on environmental labels, and meets the increasing demand for concrete, product-specific data on ecological and health-related criteria. Spanning around four pages, Sustainability Data Sheets provide all the key information on the DGNB and LEED building certification systems, as well as substances, emissions, and other environmental aspects. Like our Technical Data Sheets and Safety Data Sheets, they are available to download free of charge or can be sent directly upon request. Sustainability Data Sheets in 20 different languages were available for around 500 Sto products as at the end of 2020. Moreover, the data sheets are revised on a continuing basis, because various criteria and standards referred to in our information are revised or supplemented at regular intervals.

Environmental Product Declarations (EPDs)

Environmental Product Declarations (EPD) in accordance with EN 15804 represent a third building block in our efforts to provide information about the sustainability of Sto products. Central to these declarations is a Life Cycle Assessment (LCA) as well as additional information, e.g. about aspects such as the production process, service life, and provisions for recycling of a product over its entire life cycle. EPDs are purely informative and do not assess a product but require verification from an independent third party. This internationally valid document explains numerous building product properties from an environmental perspective and provides useful data for determining a building's sustainability, a factor that primarily depends on the building material used. There is a particular demand for EPDs for building certifications on the Scandinavian market as well as for building projects certified in accordance with BREAM, LEED, and DGNB.

We use so-called model EPDs for the majority of our products. These are developed in collaboration with various associations on the basis of framework formulations, with each representing a product group. This removes the need for the time-consuming process of calculating and producing individual, product-specific EPDs for every single manufacturer. Due to the standardised validity period of five years, numerous EPDs of the national associations expired in 2019. For the most part, these will be successively replaced by model EPDs of the European umbrella organisations to ensure pan-European deployment. In 2020, we overhauled the allocation of our products to currently valid EPDs and conducted a gap analysis to determine the EPD coverage rate of our products. From this we will derive the need for further measures to prepare EPDs and life cycle assessments.

As part of its consumer protection efforts, the European Union wishes to promote the provision of individual, product-specific, ecological parameters and launch a standardised eco-label on the European market that is based on a life cycle assessment. To this end, the European Commission initiated the Product Environmental Footprint (PEF) project and various pilot projects from 2013 to 2017, including some on paints and insulation materials that Sto was informed about and some of which Sto was involved in. The EU started a consultation process in 2018 to obtain feedback on the use of existing environmental labels and methods of ecological evaluation of products to allow them to make a decision on the further development of PEF after the pilot phase. At the same time, the European Commission revised the criteria for life cycle assessments in accordance with the European standard EN 15804 and verified their compliance with the PEF methodology.

This development is relevant with regard to the comparison of the environmental performance of individual construction products, in particular the so-called 'grey energy' and the CO_2 balance, as envisaged, for example, by the European Commission or the DGNB. In future, planners, architects, investors and consumers are to select building products not only according to technical, economic, and aesthetic parameters, but also on the basis of concrete environmental information that reflects the complete life cycle of a building product. Sto caters to this development by providing EPDs and by keeping a close eye on and participating in the PEF programme. At the same time, we believe this poses methodical risks and additional costs for our company. In principle, we prefer the comparison of building products at the building level in relation with a specific building project, since building products are intermediate products whose performance and environmental impacts can only be assessed concretely and holistically on the building. Furthermore, a high data quality and uniformity of databases must be guaranteed in order to exclude uncertainties in the calculation and to not distort the direct comparison of construction products. The provision of life cycle assessments on the basis of individual products – model EPDs would no longer be usable according to the philosophy of direct comparison of individual construction products – involves a great deal of effort, which we would have to take into account and plan for accordingly in a timely manner in terms of personnel and within our organisation. Together with the associations, we continue to lobby for the creation and general acceptance of model EPDs which, in our view, show a good balance between life cycle assessment accuracy and economic expenditure.

In parallel with this, we are preparing to purchase software that will allow us to calculate life cycle assessments for our products independently, and ´that will provide a solid basis for optimising ecological aspects and creating our own product-specific Environmental Product Declarations.

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

The 10 principles of the UN Global Compact

Human rights

01 Businesses should support and respect the protection of internationally proclaimed human rights.

02 Businesses should make sure that they are not complicit in human rights abuses.

Labour

03 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

04 Businesses should uphold the elimination of all forms of forced and compulsory labour.

05 Businesses should uphold the effective abolition of child labour.

06 Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Environment

07 Businesses should support a precautionary approach to environmental challenges.

08 Businesses should undertake initiatives to promote greater environmental responsibility.

09 Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10 Businesses should work against corruption in all its forms, including extortion and bribery.

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

At the end of 2016, the Federal Cabinet adopted the National Action Plan for Business and Human Rights 2016-2020 (NAP), thus implementing the corresponding guiding principles of the United Nations. The aim is to enforce compliance with human rights in global supply chains. In addition to the state's duty to protect, the responsibility of companies is also addressed. The Federal Government expects all companies to integrate the following five core elements of due diligence in the field of human rights in the supply chain into their business processes in a manner appropriate to their size, industrial sector, and position:

1) A human rights policy statement
2) Procedures for the identification of actual or potential adverse impact on human rights
3) Measures to ward off potentially adverse impacts and review of the effectiveness of these measures
4) Reporting
5) A grievance mechanism

As a concrete goal, the NAP stipulated that at least half of all companies in Germany with more than 500 employees were to have sufficiently integrated the core elements of due diligence in the field of human rights into their business processes by 2020. To this end, the German government has developed a monitoring procedure that monitors the progress of companies according to scientific standards. The NAP monitoring process completed by the German Federal Foreign Office in mid-2020 revealed that the set target of 50 % had not been met. Consequently, duty of care all along the supply chain is to become a legal requirement and subject to checks under a piece of legislation referred to as the 'Supply Chain Act'.

This trend towards statutory regulations also continues to develop at a European level in the form of the debate around a European supply chain law, and in other countries as well. For example, a Dutch act on the duty of care against child labour has been adopted and will come into force in 2022. This act will require all companies doing business with the Netherlands to identify child labour in their supply chains and implement remediation plans.

It is important to us that all actors along the value chain are guided by the principle of sustainability, including in particular the observance of international human rights, and labour standards.

In the Sto Group, we combine economic success with social responsibility and environmental protection. The group is oriented towards quality and operates internationally. This is why our standards of conduct are the same worldwide.

Compliance with legal and ethical standards is integral to our understanding of good corporate governance. The principles laid down in our mission statement and in the UN Global Compact, our 'Principles of Cooperation and Management within the Sto Group', the strategic Group goals as well as the general obligation to comply with the law apply to our own sites and companies.

Ensuring compliance is an essential part of our daily work. We foster a culture of honesty and personal responsibility, which is supported by the legally compliant conduct of all employees. Since 2018, the Sto Group has had a Chief Compliance Officer.

A Code of Conduct was introduced for the Sto Group in 2019, which serves as a binding guideline for acting with integrity. It is binding for all employees, available in 17 languages, and valid worldwide. The Code of Conduct summarises important laws and internal company rules governing conduct in business dealings with third parties, in dealings with the public, and also for day-to-day interaction within the Group. It is intended to assist in making the right decision but cannot conclusively describe the wide variety of business activities of the employees of the Sto Group. We therefore offer further information and topic-specific support, for example in the form of trainings. In order to identify and avoid human rights violations, appropriate data and information are required. With the introduction of a whistle-blower system for compliance infringements, we have been offering such a standardised complaints mechanism since 2017. The system is easily accessible to those potentially affected. It is described in more detail under Principle 10 'Anti-Corruption'. We obtain information on deviations and corresponding countermeasures regarding the ten principles of the UN Global Compact via our annual 'CSR inquiry'.

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

We also require our suppliers to accept the Global Compact principles and thus assume certain minimum obligations. We procure the majority of our raw materials from countries that have implemented high social standards which they also monitor. Through our 'Supplier Code of Conduct' we generally demand voluntary self-commitment to the above standards and principles, and use a questionnaire to obtain information on the compliance with them.

With a view to meeting the more extensive requirements concerning risk management within the supply chain, we implemented a digital process in the area of materials management in 2020 so that we could monitor the entire process. This application – known as a supply chain risk management solution – is helping our purchasing department to identify risks in the supply chain, to evaluate the extent of loss/damage, and to introduce suitable measures. Risk potential is identified at an early stage so that the ability to deliver and compliance are ensured. As soon as a potential risk is identified, the strategic purchaser is informed and measures for averting the risk can be immediately put in place. In 2021, the software is to be rolled out comprehensively to all Sto subsidiaries. We are also evaluating the participation in a suitable industry-specific initiative, such as the chemical industry's 'Together for Sustainability' initiative, to further promote 'Sustainability in the supply chain'.

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

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

Information on the Principles 7 to 9: Environment

Environmental protection is an essential aspect of our sustainability activities. Our products contribute to minimising the environmental impact of buildings, e.g. through energy-saving insulation measures, the protection of the building envelope, and measures to maintain the building fabric. We are also actively working to minimise the environmental impact of our products, our production and our corporate activities, for example by using renewable energy, using resources sparingly and avoiding waste. We strive for the responsible use and procurement of natural resources (water, energy, materials, and land) in the manufacture and sale of our products and services. Each individual employee is to contribute to the protection of the environment within his or her sphere of responsibility and influence. We also go beyond legal standards and commit ourselves to voluntary environmental and energy management standards such as ISO 14001 and 50001.

Climate protection

The Fridays for Future movement, the UN Climate Conferences, the climate package of the German government and the EU Green Deal demonstrate that the issue of climate protection, which has always been a focal point of Sto's activities, has become a central concern of society and a dominant topic in national and international politics.

The **German government's climate package** is a bundle of various measures, which for the first time, sets binding climate protection targets and a mechanism for annual review. It underlines the efforts to achieve climate neutrality for Germany by 2050. Alongside the introduction of a CO_2 pricing system, a separate climate protection law has also been passed. Buildings play a central role in achieving Germany's energy and climate targets, as they are responsible for about 35 % of final energy consumption and for about a quarter of CO_2 emissions in Germany across various sectors. The tax incentives for energy-efficient building refurbishment introduced on 1 January 2020 are expected to increase demand for energy-efficient refurbishment to put the building stock on a sustainable path and achieve the climate targets.

The European Commission presented the **EU Green Deal** on 11 December 2019. With this package of measures for ecological change, Europe is to become climate-neutral by 2050. It includes initiatives in the political areas of clean energy, buildings and renovation, sustainable industry and mobility, biodiversity, de-pollution and sustainable food chain. The entire industry is to be mobilised to create a climate-neutral and cycle-oriented economy, with a particular focus on the construction sector. Among other things, this is reflected in the 'Circular Economy' action plan, which includes a strategy for sustainable, recyclable products. In addition, the EU Commission wants to initiate a surge in renovation together with the member states. This is to be achieved by enforcing legislation on the overall energy efficiency of buildings. The strategy for the surge in renovation also highlights the potential for renovating around 35 million buildings by 2030 and for creating an extra 160,000 jobs in the building industry.

At the **UN Climate Change Conference** at the end of 2019, the almost 200 countries agreed on a joint political final declaration and pledged to intensify their climate protection targets for 2030 wherever possible. However, it was not possible to adopt rules for the international trade in carbon credits. These are intended to offer industrialised countries an opportunity to also support climate protection in other countries by generating climate protection certificates through green projects in developing countries. Sto welcomes this approach and has been supporting the 'Allianz für Entwicklung und Klima' (Development and Climate Alliance) since 2019. This alliance, founded by the German Federal Ministry for Economic Cooperation and Development (BMZ) in 2018, aims to simultaneously promote development and climate protection. It explicitly encourages non-governmental commitment, especially from the private sector. The activities of all supporters are always voluntary, go beyond existing legal CO_2 reduction obligations and are carried out through participation in high-quality development and climate protection projects. In the future, the projects supported within the framework of the alliance – as well as avoidance and reduction measures – will contribute to achieving climate neutrality.

The manifold national and international climate protection efforts motivate us to continue to treat climate protection as a key focus of our sustainability activities and to intensify our measures in five strategic fields of action:

1) Climate protection in the buildings sector through the use of Sto products
2) Increase in energy efficiency in our own operations (especially via ISO 50001)
3) Generation of regenerative energy at our own locations
4) Sourcing of certified green electricity
5) Compensation measures through the purchase of climate protection certificates.

In 2016, we introduced an **energy management system** in line with the global ISO 50001 standard in order to provide a methodical tool for recording, implementing, and tracking all the climate protection activities taking place in the Sto Group. In doing so, we have laid the foundations for a continuous improvement process relating to energy efficiency. At the same we are meeting the legal requirements for performing energy audits in accordance with EN 16247-1. As at the end of 2020, the headquarters of Sto SE & Co. KGaA in Stühlingen/Germany, all production locations and SalesCentres in Germany as well as five subsidiaries had a certification in accordance with ISO 50001.

The systems that have been implemented ensure that the use and purchase of renewable sources of energy are constantly monitored, and that energy consumption and the CO_2 emissions of our fleet of vehicles are permanently reduced. Energy efficiency measures implemented in buildings and investments are also monitored, and we encourage employees to play an active role in all our initiatives for saving energy. In the context of replacement and new investments in operating resources, machinery and equipment, an examination of energy efficiency in accordance with the state of the art as well as technical and economic aspects are also taken into account. Our medium-term goal is to identify verifiable changes via our energy management system.

We have defined the optimisation of energy-related services as an important goal in the Sto Group. To achieve these values, individual projects were defined and action plans were drawn up. Yearly consumption values that are recorded and analysed monthly, form the basis for the determined key figures. Measured by the units audited, we have been able to achieve total energy savings of around 1 % per year since 2014.

Due to a very high level of efficiency of around 95 % in the production facilities assessed so far, it is difficult to identify and implement further measures to increase energy efficiency in the immediate business operations. Nevertheless, further progress was achieved in 2020. This included making savings by implementing technical measures within production and logistics, and introducing energy-efficiency measures in buildings, e.g. by replacing heating systems and windows or installing rapid action doors.

With a view to generating more savings, strategic actions were also decided for the years 2020 to 2022, such as carrying out the energy-efficient refurbishment of existing buildings or partially switching from diesel to electric vehicles within the car fleet. In total, the package includes an investment volume of around EUR 500,000 and, by 2022, is expected result in roughly the same amount being permanently saved in terms of energy (measured in kWh). As things currently stand, this means that approximately one EUR has to be invested to reduce energy consumption by one kWh. Therefore, in addition to the aforementioned technical measures and associated investments, we are increasingly looking at how efficiency and cost-saving measures can be achieved by making changes and optimising processes and production sequences. An important element of our energy management system is the network 'Energieeffizient bei Sto' (Energy Efficiency at Sto). This network was founded in 2016 and, via the Verband der Chemischen Industrie e.V. (German Chemical Industry Association), is registered as the official energy efficiency network of the German federal government and representatives of the German economy. If offers an open exchange of experience and ideas between company units and locations in order to increase energy efficiency. The network members meet twice a year. Measures that have been implemented are presented and discussed as to whether they can be transferred to other locations as well. At the meetings held in 2020, the technical, strategic, and organisational measures were presented and discussed in depth in the context of the energy management action plan. In the course of this, it became clear – just as in the preceding years – that additional savings are mainly to be achieved through strategic and organisational measures and that, by contrast, the technical possibilities have largely been exhausted in many areas. The meetings were also used as an opportunity for sharing experiences of collecting data via energy management software and discussing how this data could be used for further energy-saving initiatives.

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A deliberate extension of our climate protection measures is the compensation of unavoidable greenhouse gas emissions through the purchase of certificates. The Austrian Sto Ges.m.b.H. has taken this path in the implementation of climate protection measures already since 2018. It records its CO_2 emissions which cannot be avoided through procurement, production, administration and logistics, throughout the entire company, and compensates for them by purchasing CO_2 certificates. By acquiring certificates for the emission of 10,000 tonnes of CO_2, Sto Ges.m.b.H has become climate-neutral from 2018 to 2021. This means that its unavoidable greenhouse gas emissions are fully offset by supporting a hydroelectric project in Uganda and a solar and wind energy project in India.

Since 2018, the Scandinavian subsidiaries Sto Denmark A/S, Sto Finexter OY, Sto Norway A/S, and Sto Scandinavia AB have also managed to make their operational activities climate-neutral. The CO_2 emissions generated annually in Denmark, Norway, Sweden, and Finland are balanced and offset. In 2020, corresponding certificates were obtained to compensate for the 3,257 tons of CO_2 emissions generated in 2019, thereby helping to support selected projects according to the international 'Gold Standard'. Furthermore, the process of preparing a CO_2 balance sheet for all ISO 50001-certified locations in Germany was completed in 2020. For reasons of data availability, this balance sheet relates to the 2018 year under review and shows the total emissions of approximately 20,000 tons of CO_2 equivalents. In 2021, these emissions are likewise to be compensated by purchasing climate protection certificates and the relevant business units rendered climate-neutral. The aim is for the entire Group to become climate-neutral by 2025.

Indirect Procurement is another area where a sustainable approach is constantly being adopted as part of our day-to-day business activities and project work, as can be seen from our paper consumption. Over recent years, we have managed to reduce our internal paper consumption significantly across the whole of Sto. The remaining minimum need for paper that must be met is covered in as environmentally friendly a way as possible by using certified products; at the Stühlingen site, this is going to be achieved in a climate-neutral manner from 2021. The supplier compensates for the unavoidable carbon dioxide emissions by investing in an internationally recognised climate protection project. In addition, the number of deliveries is kept to a minimum.

The 'Forum Bausanierung' (building renovation forum) – a major event that took place in Stuttgart/Germany in February 2020 – was also climate-neutral, with four tons of CO_2 equivalents being offset by climate protection projects in Brazil, Ghana, and India.

Climate protection on product level

We also compensate for CO_2 emissions at product level by purchasing certificates and thus make them climate-neutral. In 2020, this applied to the products StoCryl BF 700 and StoCryl V 700 from the portfolio of StoCretec GmbH. Among other things, the relevant certificates are used to support a hydropower project in Madagascar, which contributes to avoiding more than 300 tonnes of CO_2. In Austria, we made eleven more products climate-neutral and were able to compensate for around 1,250 tons of CO_2 by purchasing corresponding certificates. In Scandinavia, we compensate for the CO_2 emissions associated with our StoColor Lotusan product through appropriate certificates as well. In this way, 666 tons of CO_2 were eliminated in 2020 thanks to a water treatment project in Kenya that carries out water purification with water filters rather than firewood so as to conserve forests.

Mobility, logistics, and procurement
Mobility represents a key area of climate protection in terms of reducing kilometres, fuel and CO_2. With the help of modern monitoring systems, we optimise truck and transport routes, ensure a solid degree of utilisation, use DHL GoGreen, and promote economical and environmentally conscious driving. By producing building products regionally, we avoid many transport kilometres. In Villach/Austria, for example, local production compared with imports from Germany means that 315,000 truck kilometres are avoided at an annual production volume of 8,000 tonnes of material, which corresponds to savings of over 94,000 litres of diesel and a reduction in CO_2 emissions of around 550 tonnes per year. One particularly ambitious project undertaken in 2020 involved changing the way products get transported to our subsidiary in Sweden from the Verotec GmbH plant in the Bavarian town of Lauingen.

By switching from road transport to rail, we managed to reduce the transport-related CO_2 emissions by approx. 65 %.

Another way to reduce emissions in the Sto Group is the composition of the car fleet. Fuel consumption accounts for around one third of the total energy consumption of the business units that are within the scope of the ISO 50001 certification. This is why we attach particular importance to the appropriate selection of company cars, efficient travel and route planning as well as training for sales representatives on fuel-efficient driving. Due to the contact and travel restrictions resulting from the coronavirus pandemic, the amount of fuel consumed by the Sto SE & Co. KGaA car fleet fell by around 20 % in 2020. The average value of CO_2 emissions of cars available for new orders fell by around 10 % from 127 g/km in 2014 to 114 g/km in 2020, while fuel consumption for the passenger car fleet was reduced by approx. 10 % from an average of 6.9 l/100 km to approx. 6.2 l/100 km over the same period. Furthermore, in 2020, we ordered five electric vehicles for Sto SE & Co. KGaA.

2020 also saw the finalisation of plans to install five more car charging stations at the Stühlingen site. This will double the amount of charging capacity from 2021 and will enable employees with an electric vehicle to access charging facilities much more easily.

To avoid travel-related emissions and costs, we also use video conference rooms in our locations worldwide as well as software solutions for location-independent online meetings. These solutions particularly proved their worth in 2020 due to the contact and travel restrictions imposed as a result of the coronavirus pandemic, ensuring that business activities could continue efficiently while at the same time significantly reducing travel-related emissions and costs.

With respect to procurement within the Sto Group, regional products – wherever this is possible and economically feasible – are given preference in order to keep the transport routes short and the resource consumption low. In Germany, around 72 % of the purchasing volume of the main raw materials, such as mineral extenders, and packaging are procured within a maximum radius of 350 km and insulation boards usually within a maximum radius of 250 to 300 km.

Our climate protection activities are also attributable to procurement through the consistent sourcing of certified green electricity from 100 % hydropower. This made it possible to save more than 4,500 tonnes of CO_2 in 2020 when compared to the German electricity mix.

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

In 2020, Sto SE & Co. KGaA drew up plans for five further charging stations that will allow employees and guests to charge their electric vehicles from 2021.

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

An important element of corporate environmental protection are our established environmental management systems. As at the end of 2020, half (17 out of 34) of our production sites worldwide had been externally certified in accordance with international standard ISO 14001. The implemented systems ensure a methodical and verifiable group-wide approach and allow the continuous identification of improvement measures, which is an essential requirement for optimum control of business operations.

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

Within the scope of the certificates 9001:2015 and 14001:2015, which cover a total of 27 (ISO 9001:2015) and 17 (ISO 14001:2015) production sites, no deviations from legal requirements were identified by internal audits in 2020. The operators have not reported any deviations at present. Compliance with the contents of the quality and environmental management systems at the relevant locations, that include occupational health and safety, infrastructure and buildings, security, environmental protection and obligations, has been substantiated through safety-related supervision.

Environmental and resource protection on product level

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

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

To avoid biocides as film protection agent, Sto offers various solutions, in particular our facade paints StoColor Dryonic and StoColor Lotusan, which use a biomimetic active principle to ensure dry facades that are protected against algae and fungi. The avoidance of biocides is also the topic of 'preservative-free products'. In 2020, this played a major role in the area of in-can preservation of indoor products. With the use of in-can preservatives, the industry has succeeded in ensuring that the majority of paints, varnishes, and other organic coatings are now water-based and solvent-free as these products are not attacked by bacteria and fungi. In-can preservatives are covered by the Biocidal Products Ordinance and are subject to the two-stage authorisation procedure described therein. At the same time, the demand has risen for preservative-free products without compromising the functionality and shelf life of the products. In order to meet these demands, we have adapted the product property 'preservative-free' for dispersion silicate products. Through our activities in associations, we are at the same time committed to reaching a standardised definition of the term 'free of preservatives', and appropriate handling of preservatives in technically demanding product groups. The political discussion on the potential health risks posed by the white pigment titanium dioxide continued in depth in 2020. Despite considerable resistance, on 4 October 2019, the European Commission decided to classify and label titanium dioxide in powder form as 'probably carcinogenic by inhalation' (category 2). This classification also applies to titanium dioxide that forms part of a powder-form mix. The Commission has also adopted mandatory warning messages for liquid and solid mixtures containing titanium dioxide. This means that almost all liquid paints and varnishes must be labelled, regardless of whether they are suitable for spray applications at all.

In our view, this decision neither seems to make sense nor does it seem to be justified, as titanium dioxide is not released in powder or dust form by Sto products. While recognised experts say that there is no case worldwide of any health hazard from inhaling titanium dioxide, the EU Commission saw an urgent need for action, giving the impression that the industry is using titanium dioxide unnecessarily or irresponsibly. Since the potential hazard of inhaling large quantities of titanium dioxide is a pure particle effect and has nothing to do with the properties of titanium dioxide as a substance, the German government also advocated addressing possible health hazards from dusts on occupational health and safety within the framework of European regulations instead of the classification of titanium dioxide as a hazardous substance. Exposure of consumers to dust-form titanium dioxide is practically excluded and we continue to consider the use of titanium dioxide in our products to be safe.

Nevertheless, labelling causes uncertainty for users and consumers, the exclusion of eco-labels for products containing titanium dioxide and open questions on the classification of waste and the treatment of dust-form construction waste containing more than one percent powdered titanium dioxide (e.g. building rubble) under waste regulations. However, there are doubts about the legality of the Commission's decision due to various infringements of existing EU law, so that the dispute over the classification of titanium dioxide 2020 was continued at the European Court.

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

Our activities to make our products easier and better to dismantle and recycle have again formed a focal point in 2020. We regard this as a major strategic development task in the construction industry.

Approaches for increased resource protection and recycling are the use of recyclates, such as waste glass in StoVentec Carrier Boards and PET in Sto acoustic panels, as well as the selection of raw materials and components that can be recycled as easily as possible and fed back into existing circuits. These include, for example, stainless steel and aluminium in RSC sub-constructions. In addition, packaging materials and uncontaminated, HBCD-free EPS insulation boards are recycled via certified return systems. At the Austrian location in Villach, unused paints, plasters, renders, and adhesives from Austria and other countries are returned to the cycle for recycling production and processed into our own highly recyclable products – at a consistently high quality and to the benefit of the environment.

In 2019, the European Union adopted a directive that, among other things, will ban certain disposable plastic products by 2021. Waste avoidance, recycling and circular economy are also the focus of political discussions at a national level: The Federal Ministry for the Environment wants to introduce a duty of care for goods in the Circular Economy Act. This means that in the future, returned goods or goods that are still usable should only be destroyed if this is necessary for safety or health reasons. In 2019, we set up a group working on 'Sustainable Packaging Management'. The group devotes a considerable amount of effort to these issues and, in 2020, has developed approaches to reduce, recycle or replace packaging with more ecological materials. We attach special importance to developments in dismantling and recycling methods in the area of external wall insulation systems with polystyrene. In 2020, the implementation of the solvent-based Solvolyse process (CreaSolv® process) for the recycling of EPS insulation materials and other polystyrene products was continued. As part of the 'PolyStyreneLoop Cooperative', work started in the Netherlands on the construction of the first facility to offer an annual EPS waste handling capacity of 3,000 tons. In 2020, we also successfully completed practical testing of an internal development project focusing on the recycling of EPS waste at Innolation GmbH in Lauingen/Germany. In addition to considering the technical feasibility, we also checked and confirmed that the necessary permits could be obtained in accordance with the waste and emissions legislation. The facility produces high-quality gas, which can be used on site for energy processes and potentially also for material processes as well. Thanks to these two developments, not only will thermal recycling at waste incineration plants be possible in the future, but cost-effective material recycling options will also be available on a decentralised basis for EPS waste containing the flame retardant HBCD.

Two research projects that were being actively supported by Sto and focused intensively on the recycling of building products were continued/completed in 2020. In cooperation with DECHEMA Gesellschaft für Chemische Technik und Biotechnologie e.V. (DECHEMA Association for Chemical Technology and Biotechnology), the pilot project 'KUBA – Nachhaltige Kunststoffwertschöpfungskette: Pilotfall Kunststoffe in Bauwirtschaft und Gebäuden' (KUBA – Sustainable plastics value chain: Pilot case – Plastics in the building industry and buildings) was carried out from 2018 to 2020. The aim of the project was to develop a concept for the sustainable use of plastics from the building sector and for the recycling of a considerable part of the carbon in building plastics. The results of the pilot project – which was funded by the Federal Ministry of Education and Research (BMBF) – will be published in 2021. Further research topics will continue to be addressed in follow-up projects, including how to optimise the treatment of mineral and mixed construction waste, as well as chemical recycling technologies, particularly pyrolysis processes for processing organic waste from dismantling work.

The research project 'RESSOURCE.WDVS – Ressourceneffiziente Nutzung von qualitätsgesichertem Sekundär-EPS sowie der mineralischen Fraktionen aus WDVS' (RESSOURCE.WDVS – Resource-efficient use of quality-assured secondary EPS and mineral fractions from EWIS) was continued in cooperation with the Institute for Water, Resources and Environment at Münster University of Applied Sciences. The aim of this project is to develop a collection and recycling concept for EWIS waste which, in addition to developing a suitable processing technology for separating EWIS components, also includes optimised logistics and reliable separation of EPS qualities (free from HBCD/containing HBCD).

Information on Principle 10: Anti-Corruption

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

The transparency required for the increasingly complex business processes is ensured by the Compliance Officer together with the Internal Audit department, which also takes account of the growing compliance requirements. The Compliance Manager has produced a Compliance Management Manual, which has been used to formally document the Compliance Management System since 2018. Via the Compliance Management System, we convey the message that compliance is a constant and ever-present reality at Sto. The companies within the Sto Group wholeheartedly and unconditionally subscribe to the principle that sustainable economic success can only be achieved by complying with the legal requirements and dealing fairly with competitors, customers, and employees. An effective Compliance Management System does not just reduce liability and reputation risks; it also helps to secure the trust of our stakeholders, particularly our customers, thereby laying the foundation for achieving our corporate objectives. Breaches of the Compliance Programme will not be tolerated and always result in disciplinary sanctions, which are applied consistently. The Compliance Management System uses an integrated approach and is organised on a cross-departmental basis. The tools used to meet the compliance objectives include, among other things, the following: the identification and evaluation of compliance risks, the creation of directives to avoid or minimise the compliance risks identified, training programmes, a review of compliance with statutory provisions and internal directives, the identification of compliance infringements, and the receipt and clarification of tip-off information. In 2017, Sto introduced a reporting channel in case of compliance infringements. This reporting channel is publicly accessible via our website. Reliable reporting of compliance infringements and the protection of whistle-blowers against sanctions are indispensable for effective compliance, as they contribute to the reporting, comprehensive investigation and clarification of possible misconduct. The online compliance reporting system is a secure way of reporting possible infringements. This way, infringements can be recorded at any time any day from anywhere in the world. The whistle-blower system is open to employees, managers, customers, suppliers, and other stakeholders. It is administered by an independent, external operator and its data is stored on protected servers located in Germany. The contents of the reports are processed exclusively through Sto. Related information can be found on the reporting system landing page on our website at www.sto.de by selecting 'Unternehmen/Über uns – Compliance' (Company/About us – Compliance).

Since the end of 2019, a general works council agreement covering compliance has been in place between the Management Boards of Sto SE & Co. KGaA and StoCretec GmbH, on the one hand, and the General Works Councils of Sto SE & Co. KGaA and StoCretec GmbH, on the other. In this agreement, the management of each company and the General Works Council have laid down basic principles and aims to ensure responsible and legally correct conduct on the part of our employees. In particular, it is intended to create a reliable framework for dealing with business partners, employees, customers, suppliers, competitors, and other external parties with a view to preventing statutory violations and cases of corruption. A set of guidelines and the reporting system of the Sto Group's Compliance Management department are available for reporting compliance-related incidents.

Part C Assumption of responsibility through voluntary commitment

Social commitment, and donations

Sto attaches great importance to voluntary initiatives and measures that serve the good of society. They form part of our basic understanding of Corporate Social Responsibility and have a long tradition in the company. In 2020, again many activities took place. We will report on a few of them.

The Bright Hill Pre-School in Windhoek/Namibia is one of the international projects that Sto has supported for many years. With our financial support, training as well as construction measures have been successfully implemented in the past. Around 120 children are cared for in the pre-school in the mornings and learn English in particular in order to be able to attend a state school later. The institute also assists old people and those who need help who live in the slums of Windhoek. The currents grants are used primarily for extension buildings in order to improve the working conditions for teachers and to increase the burglar resistance of the facility.

Since 2017, we have been in a special socio-ecological commitment with the non-profit integration company AfB GmbH, which specialises in reprocessing discarded IT hardware and returning it into the use cycle. In 2020, 300 of Sto's decommissioned IT and mobile devices – mainly PCs, notebooks, and flat screens – were handed over to AfB, thereby making a contribution to environmental protection and inclusion. 297 (99 %) of these devices were suitable for remarketing. Just three had to be dismantled and recycled because they were defective. The total weight of the materials amounted to 1.3 t. As a result, the process of remarketing the devices managed to save the equivalent of 29,847 kg of iron, 39,085 kg of CO_2 equivalent, as well as 155,563 kWh of primary energy and 262,894 l of water. In addition, a job for a person with a disability was secured, as AfB (Work for People with a Disability) is an inclusion company.


AfB social & green IT

URKUNDE

für sozial-ökologische Wirkung mit IT-Hardware

Die AfB gemeinnützige GmbH dankt der

Im Rahmen unserer Partnerschaft wurde vom __________ bis __________
durch die an AfB übergebenen Geräte folgende Wirkung erzielt:

Arbeitsplätze für Menschen mit Behinderung – Anzahl

Geringere Treibhausgas-emissionen – kg CO_2-Äqu.

Reduzierter Primärenergie-aufwand – kWh

Weniger Wasser-verbrauch – Liter

Geringere Human-toxizität

Eingesparte Rohstoffe – kg Fe-Äqu.

Reduzierte Wasser-Ökotoxizität

2021

2020

The non-profit IT company was singled out for special recognition on 4 December 2020, winning the 'Society + Justice' category of the German Sustainability Award 2021 for 'its exemplary combination of environmental protection, social responsibility, and development and maintenance of long-term partnerships'.

Another way in which we fulfilled our social responsibility as a company in 2020 was by donating a total of 5,000 FFP2 face masks. The high-quality masks were divided equally between a total of five municipalities in Germany (i.e. 1,000 masks each), where they helped protect people against coronavirus infections in medical and social settings, such as children's facilities or the volunteer fire service.

Sto donated 5,000 FFP2 face masks to five municipalities in Germany. Pictured: Andreas Rauer, Head of Production in Tollwitz/Germany, handing over the masks to Christoph Schulze, Mayor of Bad Dürrenberg/Germany.

'Off Road Kids' is a foundation that helps young homeless people in Germany. Particularly in times of crisis, there is an increase in the number of young people who are forced – often because of domestic violence – to flee their homes and are then unable to find refuge. With its professional social workers and shelters in major cities, the foundation is the only support organisation in Germany that is specifically geared towards these young people. In 2020, Sto supported the charitable organisation by making a base donation of EUR 10,000. In addition, the company encouraged its employees to make their own private donations.

'Baden-Württemberg blüht auf' (which roughly translates as 'Get Baden-Württemberg blooming and blossoming') is the motto of a campaign (bwbluehtauf.de) aimed at encouraging biodiversity that was launched by the Federal State Farmers' Association of Baden-Württemberg in conjunction with its district branches. Sto is participating in this initiative as a sponsor: with our support, a farmer in the Stühlingen region has planted a wildflower patch covering a total of 7,000 square metres. This provides a vital habitat for bees and other insects, and encourages biodiversity.

'Baden-Württemberg blüht auf' (= Get Baden-Württemberg blooming and blossoming): Sto is sponsoring a wildflower meadow adjacent to the factory grounds.

The annual trainee project took place at the Sto location in Stühlingen in 2020. The 60 trainees carried out an ecological project benefitting the employees and took over the renovation of the pond on the factory premises. Among other things, an educational barefoot path was completed where Sto products can be experienced in a completely different way. In addition, the grounds adjacent to the sponsored wildflower patch are to be redesigned in 2021 by incorporating insect-friendly plants and native trees.

As part of the 2020 trainee project, the Sto trainees and its students from the Cooperative State University also redesigned the area around the barefoot path on the factory grounds.

Other Sto companies also place great emphasis on social commitment and embrace it in many different ways. Every year, numerous smaller fundraising events take place to support non-profit associations, social institutions, people in need, or environmental protection.

In Austria, for example, the helping-hands@sto team launched an initiative three years ago to support individuals, families or institutions in emergency situations and provide financial assistance.

The Sto Foundation – promoting education, safeguarding the future

For evidence of the extent to which greater solidarity and inventiveness can be engendered by a crisis, you need look no further than the work that was successfully undertaken by the Sto Foundation under the pandemic conditions of 2020. The managers of the foundation had to rethink all manner of things because many of the usual formats for face-to-face events and meetings were simply not feasible.

The new Council of the charitable Sto Foundation (from left to top right): Jochen Stotmeister (67), Chairperson of the Supervisory Board of STO Management SE and Deputy Chairperson of the Sto Foundatio, Till Stahlbusch (65), Treasurer and new Chairperson, Prof Ralf Pasel (50), Professor for Architectural Design and Construction at the Technical University of Berlin and the new member of the Foundation Council for Architecture, Gregor Botzet (53), teacher at the Ferdinand-Braun vocational school and the new member of the Foundation Council for the Trades, Carlo Stotmeister (33), new member of the Executive Board, and Anne Bambauer (33), new member of the Foundation Council for Communications.

Architecture and interior design students were particularly badly affected because their courses could not or could barely take place for months on end, and because large numbers of student jobs simply vanished. For this reason, students were primarily provided with financial support directly in the form of scholarships. Within this context, the Sto Foundation is able to draw on a network of renowned partners with whom joint programmes can be undertaken. These also include scholarships offered in conjunction with the Arch+ and AIT professional journals.

Thanks to the creativity of students and lecturers at the universities, it became increasingly possible to deliver teaching via digital formats as the year progressed. In London and Venice, lectures by architects were also able to take place via streaming as part of the 'November Series'.

In 2020, the Sto Foundation provided a total of EUR 900,000 in funding to support almost 60 (inter)national trade and architecture projects. Even though some projects are having to be postponed during the coronavirus crisis, the level of demand for support is as high as ever throughout the whole of Europe. This applies, in particular, to self-build projects undertaken by students at summer schools. In 2020, almost 12,000 visitors were able to witness the talent and diversity of these students by attending the 'DesignBuild – Experience in Action' exhibition in Munich.

In autumn 2020, the Architecture Museum of the Technical University of Munich (TUM) hosted a 'DesignBuild' exhibition at its Modern Gallery in Munich/Germany. Here, various self-build projects by students were exhibited under the title 'Experience in Action'. Several exhibits showcased Summerschool projects sponsored by the non-profit Sto Foundation. The plan is to take the exhibition to Berlin/Germany in 2021.

A group of trainees and experienced experts spent four intensive days at the Sto Foundation's first ever 'Denkmalcamp' in Fulda/Germany. The programme included lessons on historic painting techniques, as well as sightseeing trips and tours.

The multi-level 'educational pyramid' is the Sto Foundation's training model for young tradespeople starting out in the painting and plastering trades. At the basic training level, the Sto Foundation supports talented, hard-working, and deserving trainees by providing them with high-quality tools and technical literature. The green cases containing the tools have become something of a trademark in Germany and Austria, with more than 1,300 of them having been handed out since 2012. At training levels two and three, scholarships are made available so that students can undertake further training to become a paint and lacquer technician or study at university.

In 2020, at the first ever 'Denkmalcamp' in Fulda/Germany (a residential course for learning about the preservation of monuments and historic buildings), fourteen enthusiastic participants demonstrated just how attractive and varied a career in one of the trades can be. Instead of assisting with the restoration of a historic fortified church in Romania – which had to be postponed due to the pandemic – they were able to learn some traditional imitation techniques at the Propstei Johannesberg (a former monastery and provostry) under the instruction of a church painter and a master conservator.

The Sto Foundation has been supporting charitable projects on a national and international level ever since its foundation back in 2005. To date, almost EUR 6.5 million have been put into more than 500 projects and invested in training the specialists of tomorrow.

This work would not have been possible on such a large scale without the financial support of the Stotmeister family, who have reached deeper into their pockets on several occasions. At the beginning of 2021, the four Stotmeister family lines once again increased their donations to the Sto Foundation in equal measure – taking the total amount to EUR 400,000 per year. Together with the annual donation of EUR 600,000 from Sto SE & Co. KGaA, this means that the Foundation team now has a yearly budget of EUR 1 million to fund its initiatives. This move serves as yet more proof of how close and dedicated the Stotmeister families feel to the industry sector and the Sto Foundation alike.

Each and every action is now undergirded by the motto 'Supporting young professionals', which was changed from 'Wissen hilft' (Knowledge helps) in 2020 in light of the new corporate design. The aim of the update was to imbue the Sto Foundation brand with a contemporary, modern, and international feel, and to make it more recognisable. Alongside conventional press relations, the focus is increasingly on communication via the social media channels of Instagram, Facebook, YouTube, and Twitter.

On 1 January 2021, the Foundation Council was reconstituted for the next five years in accordance with the set cycle. Consequently, the cooperation with Uwe Koos, Konrad Richter, and Prof. Peter Cheret came to an end. The Foundation would like to thank the outgoing members for the fantastic commitment they have shown over many years.

The Sto share

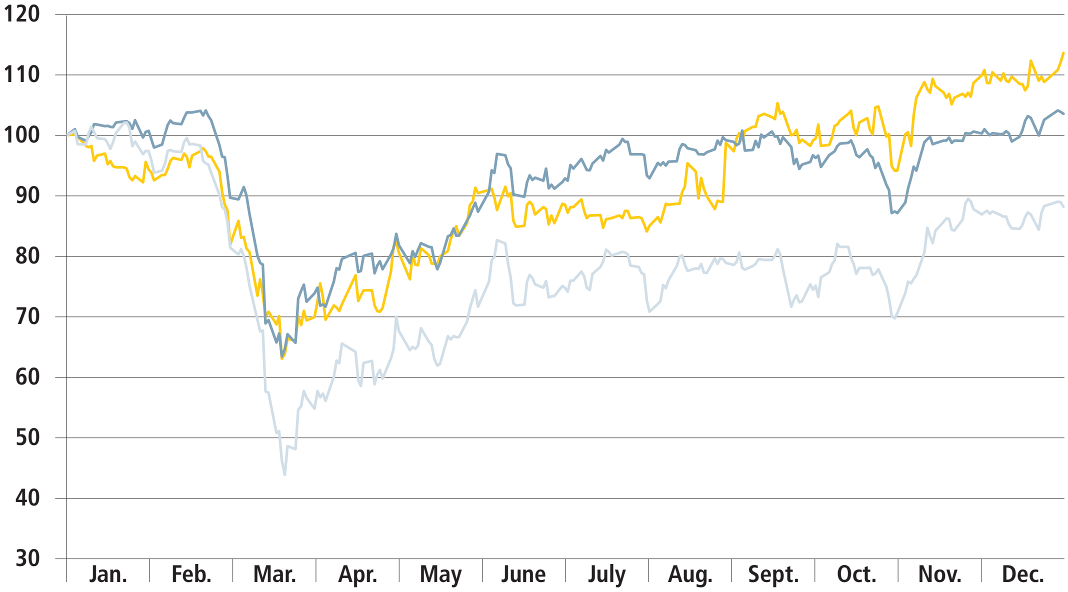
Sto limited preference share data

Ticker symbol	STO3
ISIN	DE0007274136
WKN	727413
Share category	Non-voting preference share
Market segment	Regulated market
Level of transparency	General Standard
Sector according to Deutsche Börse AG	Consumer
Subsector according to Deutsche Börse AG	Home Construction & Furnishings
Number of limited preference shares	2,538,000
Number of non-listed limited ordinary shares	4,320,000

2020 on the stock markets: Share markets remain strong despite the coronavirus pandemic

In 2020, share prices across the world were significantly affected by the coronavirus pandemic. In the first quarter of 2020, the worldwide spread of the virus caused a dramatic fall in key share indexes. Once the first wave of new infections had subsided – particularly in China and Europe – the markets recovered quickly from April onwards in spite of the poor fundamentals. This was facilitated by the confidence of investors as a result of the monetary policies and fiscal measures of many countries, the speed with which the pandemic was dealt with in China, and progress in the area of vaccine development. Although the emerging second wave and the fresh lockdowns dampened the mood again in the autumn, prices started to rise once more in November following reports of success from several vaccine

Share price trend for 2020
(indexed on 30 December 2019 = 100)



manufacturers and the US presidential election, with some even reaching record levels.

The DAX, Germany's leading index, gained 3.6 % in value in 2020 after a roller coaster year. Meanwhile, the MDAX finished a trading year that was dominated by the coronavirus pandemic and the associated countermeasures with an even more significant gain of 8.8 %. By contrast, there were considerable declines in the construction values in Germany, with the construction sector index on the Frankfurt Stock Exchange losing 11.7 % year-on-year.

Sto share with an overall positive development

Within this context, the Sto SE & Co. KGaA shares were able to hold their ground in 2020, and – after a major coronavirus-related dip in March – were up considerably in value by the end of the year, increasing by 13.5 % year-on-year compared to the 2019 year-end share price of EUR 114.00. The value of a Sto share reached its all-year low of EUR 72.20 as early as mid-March immediately following the outbreak of the coronavirus pandemic, but subsequently made a quick and sustained recovery. By the beginning of September, it had exceeded the level at the start of the year and then went on to achieve its highest price of EUR 129.40 on 30 December 2020.

The market capitalisation of around 2.538 million Sto limited preference shares increased from EUR 289.3 million on 30 December 2019 to EUR 328.4 million at the end of the year under review.

Significantly improved earnings

In 2020, the consolidated earnings of Sto SE & Co. KGaA improved considerably, thereby strengthening the company's financial basis appreciably: compared to the previous year, consolidated EBIT increased by 40.6 % to EUR 120.8 million, with turnover increasing by 2.5 %. Consolidated net profit for the year improved by 43.3 % to EUR 80.7 million. Diluted and basic earnings were EUR 12.60 per limited preference share and EUR 12.54 per limited ordinary share.

Sto limited preference share key figures

Values per share in EUR

	2020	2019
Earnings per preference share	12.60	9.09
Cash flow from current operating activities	27.58	18.21
Equity capital	82.70	75.71
Dividend payout per limited preference share		
Dividend	0.31	0.31
Special bonus*	+4.69	+3.78
Share price at year end**	129.40	114.00
Year high**	129.40	115.00
Year low**	72.20	78.20
PER (31 Dec)	10.27	12.54
PER (high)	10.27	12.65
PER (low)	5.73	8.60
Capitalisation of preference shares on 31 Dec (in EUR millions)	328.4	289.3

** 2020: proposal by the personally liable partner STO Management SE and the Supervisory Board*

***XETRA closing price*

Dividend

In 2020, the parent company Sto SE & Co. KGaA reported earnings before income taxes (German Commercial Code, HGB) of EUR 97.1 million (previous year: EUR 71.4 million) and a net profit for the year of EUR 71.2 million (previous year: EUR 51.8 million).

The Executive Board of the personally liable partner STO Management SE will propose a total dividend payout of EUR 31,896,720.00 to the Annual General

Meeting on 16 June 2021. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 as well as an increased bonus of EUR 4.69 per share. Limited ordinary shareholders are to be paid an ordinary dividend of EUR 0.25 as well as an increased bonus of EUR 4.69 per share. Based on the 2020 closing price of EUR 129.40, the proposal would result in a dividend yield of 3.9 % per limited preference share.

Trading volume in 2020

During the 2020 fiscal year, a total of 703,247 Sto SE & Co. KGaA limited preference shares were traded in the XETRA electronic system of the Frankfurt Stock Exchange, compared with 961,541 shares in the previous year.

Shareholder structure

As at 31 December 2020, the 2.538 million Sto limited preference shares were free float. The number of non-listed limited ordinary shares remained unaltered at 4.32 million. 90 % of these were held by the Stotmeister family via Stotmeister Beteiligungs GmbH. As at the reference date, the remaining 10 % were held by Sto SE & Co. KGaA.

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated annual financial statements of the Sto Group (IFRS)

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

Sto SE & Co. KGaA, Stühlingen
Consolidated statement of profit and loss for 2020

	Notes	**2020 EUR K**	2019 EUR K
1. Revenue	(1)	1,433,000	1,398,227
2. Changes in product inventories		–156	–1,618
3. Other internally generated assets capitalised	(2)	68	125
Total revenues		**1,432,912**	**1,396,734**
4. Other operating income	(3)	21,420	19,063
5. Cost of materials	(4)	–628,424	–631,646
6. Personnel expenditure	(5)	–384,337	–372,211
7. Other operating expenses	(6)	–252,465	–269,572
8. Impairment (net) of financial assets	(7)	–2,609	–4,159
EBITDA (earnings before interest, taxes, depreciation and amortisation)		**186,497**	**138,209**
9. Depreciation and amortisation of intangible assets as well as property, plant and equipment	(8)	–65,711	–52,325
EBIT (earnings before interest and taxes)		**120,786**	**85,884**
10. Earnings from financial assets accounted for using the equity method	(9)	605	–513
11. Interest and similar income	(10)	811	1,132
12. Interest and similar expenditure	(10)	–3,208	–3,405
EBT (earnings before taxes)		**118,994**	**83,098**
13. Taxes on income and earnings	(11)	–38,326	–26,756
EAT (earnings after taxes)		**80,668**	**56,342**
of which:			
Share of minority interests		–97	–1,845
Share attributable to the shareholders of Sto SE & Co. KGaA		80,765	58,187
Earnings per share basic/diluted in EUR			
Limited ordinary share	(12)	12.54	9.03
Limited preference share	(12)	12.60	9.09

Sto SE & Co. KGaA, Stühlingen
Consolidated statement of comprehensive income 2020

	2020 EUR K	2019 EUR K
EAT (earnings after taxes)	**80,668**	**56,342**
Currency translation:		
Currency translation differences	–7,587	1,190
Earnings to be reclassified in the statement of profit and loss in future periods	**–7,587**	**1,190**
Revaluation of post-employment benefit obligations		
Gains/losses from the revaluation of defined benefit plans	–5,942	–21,394
Deferred taxes	1,650	5,930
Earnings not to be reclassified in the statement of profit and loss in future periods*	**–4,292**	**–15,464**
Other earnings after taxes	**–11,879**	**–14,273**
Total comprehensive earnings after taxes	**68,789**	**42,069**
of which:		
Share of minority interests	–111	–1,801
Share attributable to the shareholders of Sto SE & Co. KGaA	68,900	43,869

*For further explanations concerning equity, see Note (22). For further explanations on the revaluation of post-employment benefit obligations, see Note (24).

Sto SE & Co. KGaA, Stühlingen
Consolidated statement of financial position as at 31 December 2020

Assets	Notes	31 Dec 2020 EUR K	31 Dec 2019 EUR K
A. Non-current assets			
I. Intangible assets	(13)	55,748	64,489
II. Property, Plant and Equipment	(14)	269,123	262,445
III. Rights of use	(15)	63,590	63,629
IV. Financial assets accounted for using the equity method	(16)	11,230	10,626
Fixed assets		**399,691**	**401,188**
V. Non-current trade receivables	(18)	1,685	1,236
VI. Non-current financial assets	(19)	26,308	5,184
VII. Other non-current assets	(20)	1,717	716
VIII. Deferred tax assets	(11)	33,291	29,807
Other non-current assets		**63,001**	**36,943**
Total non-current assets		**462,692**	**438,131**
B. Current assets			
I. Inventories	(17)	103,208	101,253
II. Current trade receivables	(18)	128,728	137,740
III. Current income tax receivables		1,917	1,887
IV. Current financial assets	(19)	119,413	57,580
V. Other current assets	(20)	27,792	30,895
VI. Cash and cash equivalents	(21)	130,043	128,607
Total current assets		**511,101**	**457,961**
Total assets		**973,793**	**896,091**

Equity and liabilities	Notes	31 Dec 2020 EUR K	31 Dec 2019 EUR K
A. Equity			
I. Subscribed capital	(22)	17,556	17,556
II. Capital reserves	(22)	57,804	57,804
III. Revenue reserves and other reserves	(22)	453,254	410,779
Share attributable to the shareholders of Sto SE & Co. KGaA		**528,614**	**486,139**
IV. Share of minority interests	(23)	2,755	393
Total equity		**531,369**	**486,532**
B. Non-current provisions and liabilities			
I. Provisions for post-employment benefits and similar liabilities	(24)	132,466	123,816
II. Other non-current provisions	(25)	19,198	17,941
III. Non-current borrowings	(26)	5,269	3,682
IV. Non-current lease liabilities	(27)	46,153	47,217
V. Non-current trade payables	(28)	0	151
VI. Non-current financial liabilities	(29)	225	269
VII. Other non-current liabilities	(30)	3	10
VIII. Deferred tax liabilities	(11)	1,140	1,893
Total non-current provisions and liabilities		**204,454**	**194,978**
C. Current provisions and liabilities			
I. Other current provisions	(25)	49,432	48,165
II. Current borrowings	(26)	7,654	5,142
III. Current lease liabilities	(27)	18,583	18,514
IV. Current trade payables	(28)	51,480	48,892
V. Current income tax liabilities		19,654	10,417
VI. Current financial liabilities	(29)	38,664	34,437
VII. Other current liabilities	(30)	52,503	49,015
Total current provisions and liabilities		**237,970**	**214,581**
Total debt capital		**442,424**	**409,559**
Total equity and liabilities		**973,793**	**896,091**

Sto SE & Co. KGaA, Stühlingen

Statement of changes in equity as at 31 December 2020

in EUR K	Equity attributable to the shares				
	Subscribed capital	Capital reserves	Revenue reserves	Currency translation reserve	Reserve for pensions
Notes	(22)	(22)	(22)	(22)	(22/24)
As at 31 December 2018	**17,556**	**57,804**	**441,499**	**3,880**	**–27,777**
Effects from the first-time application of IFRS 16 as of 1 January 2019	0	0	–1,770	0	0
Equity as at 1 January 2019 after first-time application effect	**17,556**	**57,804**	**439,728**	**3,880**	**–27,777**
As at 1 January 2019	**17,556**	**57,804**	**439,728**	**3,880**	**–27,777**
EAT (earnings after taxes)	0	0	58,187	0	0
Other earnings (after taxes)	0	0	0	1,103	–15,421
Total comprehensive earnings	**0**	**0**	**58,187**	**1,103**	**–15,421**
Dividend payout	0	0	–26,049	0	0
Transactions with owners	0	0	182	0	0
Minority shares from corporate acquisition	0	0	0	0	0
As at 31 December 2019	**17,556**	**57,804**	**472,048**	**4,983**	**–43,198**
As at 1 January 2020	**17,556**	**57,804**	**472,048**	**4,983**	**–43,198**
EAT (earnings after taxes)	0	0	80,765	0	0
Other earnings (after taxes)	0	0	0	–7,587	-4,278
Total comprehensive earnings	**0**	**0**	**80,765**	**–7,587**	**-4,278**
Dividend payout	0	0	–26,049	0	0
Changes to the companies consolidated	0	0	51	0	0
Transactions with owners	0	0	0	0	0
Minority shares from corporate acquisition	0	0	–428	0	0
As at 31 December 2020	**17,556**	**57,804**	**526,389**	**–2,604**	**-47,476**

For further details on equity, see appendix, Note (22) et seq.

of the parent company		Share of minority interests	Total Equity capital
Treasury stock	Total		
(22)		(23)	
–23,055	**469,907**	**7,639**	**477,545**
0	–1,770	–21	–1,791
–23,055	**468,136**	**7,618**	**475,754**
–23,055	**468,136**	**7,618**	**475,754**
0	58,187	–1,845	56,342
0	–14,318	45	–14,273
0	**43,869**	**–1,800**	**42,069**
0	–26,049	–41	–26,090
0	182	–6,483	–6,300
0	0	1,099	1,099
–23,055	**486,140**	**393**	**486,532**
–23,055	**486,140**	**393**	**486,532**
0	80,765	–97	80,668
0	-11,865	–14	-11,879
0	**68,900**	**–111**	**68,789**
0	–26,049	0	–26,049
0	51	0	51
0	0	0	0
0	–428	2,473	2,045
–23,055	**528,614**	**2,755**	**531,369**

Sto SE & Co. KGaA, Stühlingen
Consolidated cash flow statement for 2020

in EUR K	Notes	**2020**	2019
Cash flow from current operating activities			
EAT (earnings after taxes)		**80,668**	**56,342**
Reconciliation of EAT (earnings after taxes) and cash flow from operating activities			
Taxes on income and earnings	(11)	38,326	26,756
Net financial income/expense	(9/10)	1,792	2,786
EBIT (earnings before interest and taxes)		**120,786**	**85,884**
Depreciation of fixed assets	(8)	65,711	52,325
Earnings from disposal of fixed assets		35	1,824
Income taxes paid		–31,982	–24,537
Change in provisions		5,274	8,564
Change in net current assets		17,359	-7,104
Cash flow from current operating activities		**177,183**	**116,955**
Cash flow from investment activities			
Investments in Property, plant and equipment, and Intangible assets	(13/14)	–41,746	–35,349
Payments for the acquisition of consolidated companies and other business units (less acquired cash and cash equivalents)		–944	–18,880
Payments received from the disposal of Intangible assets and Property, plant and equipment		502	1,280
Interest payments received		534	601
Disbursements for financial investments		–121,592	–27,916
Deposits from financial investments		39,582	48,679
Cash flow from investment activities		**–123,664**	**–31,585**
Cash flow from financing activities			
Payments to minority shareholders		0	–6,300
Disbursements for the repayment portion of the lease liabilities	(27)	–21,096	–19,289
Deposits for non-current borrowings	(26/32)	2,494	–
Payments for non-current borrowings	(26/32)	–1,055	–8,798
Payments received for current borrowings	(26/32)	83,479	3,016
Payments for current borrowings	(26/32)	–85,198	–4,233
Dividend payout	(12)	–26,049	–26,090
Payments of interest		–1,761	–1,199
Cash flow from financing activities		**–49,186**	**–62,892**
Change in cash and cash equivalents from changes in exchange rates		–2,833	615
Changes in cash and cash equivalents due to expected losses on cash and cash equivalents in accordance with IFRS 9		–64	220
Cash and cash equivalents at beginning of period	**(21)**	**128,607**	**105,294**
Change in cash and cash equivalents		**1,436**	**23,313**
Cash and cash equivalents at the end of period*	**(21)**	**130,043**	**128,607**

The cash flow statement is explained in Note (32).

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

Sto SE & Co. KGaA, Stühlingen
Notes to the consolidated financial statements as at 31 December 2020

General information

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

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

Stotmeister Beteiligungs GmbH is the majority shareholder and ultimate parent company of Sto SE & Co. KGaA. The address of Sto SE & Co. KGaA's registered offices is Ehrenbachstraße 1, 79780 Stühlingen, Germany. It has been entered in the trade register of the district court of Freiburg under number HRB 711236.

Sto SE & Co. KGaA is a listed company. Its limited preference shares are listed in the 'Regulated Market' segment for official trading on the stock exchange operated by Deutsche Börse AG, Frankfurt am Main/Germany as well as Börse Stuttgart AG, Stuttgart/Germany. The other Group companies are engaged in the same business sector as Sto SE & Co. KGaA.

The consolidated annual financial statement and management report of Sto SE & Co. KGaA was drawn up by the personally liable partner STO Management SE on 12 April 2021 and will be forwarded to the Supervisory Board of Sto SE & Co. KGaA on 14 April 2021 for approval at the Supervisory Board meeting on 22 April 2021.

2. Basis of preparation
Sto SE & Co. KGaA has prepared its consolidated annual financial statement of the Sto Group for the year 2020 in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and the interpretations issued by the IFRS Interpretations Committee (IFRIC). The supplemental commercial regulations in accordance with Section 315e of the German Commercial Code (HGB) were also applied.

All standards and interpretations subject to compulsory application in fiscal 2020 were observed.

Effects of new accounting standards
The accounting principles applied remained largely unchanged from the previous year. The following standards and interpretations, which were applied for the first time in 2020, are an exception.

Standards/ Interpretations	Title	Applicable	Effects
	Amendments to the reference to the conceptual framework in IFRS standards	1 January 2020	Insignificant
Amendments to IAS 1 & IAS 8	Definition of Materiality	1 January 2020	Insignificant
Amendments to IFRS 3	Definition of a Business	1 January 2020	Insignificant
Amendments to IFRS 9, IAS 39 & IFRS 17 – Phase 1	Reforms of the benchmark interest rate	1 January 2020	Insignificant
Amendments to IFRS 16	COVID-19-Related Rent Concessions	1 June 2020	Insignificant

The amendments to the references in the conceptual framework affect the update of the cross references to the revised conceptual framework in the respective standards and interpretations.

The amendment standard 'Definition of Significant Amendments to IAS 1 and IAS 8' sharpens the definition of materiality in the IFRS and harmonises the various definitions in the conceptual framework and in the standards. Accordingly, information is material when it can reasonably be expected that its omission, misstatement or concealment affects the decisions of primary users of general-purpose financial statements.

The amendments to IFRS 3 'Definition of a business' have introduced an optional concentration test, which allows a simplified assessment of whether a business or only a group of assets was acquired. Furthermore, the definition of a business was revised.

A concentration test is to simplify the assessment of whether a transaction is a business operation. It is not a business operation if the test result is positive, i.e. if the entire fair value largely concentrates on a single, identifiable asset or a group of similarly identifiable assets. If the result is negative or if a company chooses not to apply the concentration test, the assessment must be based on the definition of a business operation. The decision whether to apply the concentration test can be made separately for each transaction.

The amendments to IFRS 9, IAS 39 & IFRS 17 created relief regarding the hedge accounting regulations, which must be applied to all hedge relationships affected by the reform of the benchmark interest rate. In addition, further information on this is planned.

The amendments to IFRS 16 contain relief regulations for the lessee when balancing rent concessions which were granted during the coronavirus pandemic. Instead of assessing whether a rent concession should be accounted for as a modification of the lease, the lessee may treat the changes in lease payments as if there were no modification.

The effects on the assets, financial and income situation of the Group are insignificant for all the explained standards.
A more detailed explanation of the effects on the consolidated annual financial statement due the amendments to the standards can be found under 6. Presentation of the major accounting and valuation policies.

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

Accounting standards not applied early
The IASB and IFRIC have issued additional standards and interpretations. These regulations were not applied in the reporting period because either recognition by the EU is still pending or the application was not yet mandatory.

The time of application in the Group is always the time when a regulation first becomes mandatory.

The amendments to IFRS 4 relate to the deferral of the first-time application of IFRS 9 for insurance companies.

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 affect the impact of amendments to the financial instruments due to the IBOR reform, regulations regarding hedge accounting as well as accompanying disclosure rules.

Standards/Interpretations	Title	Applicable	Effects
Amendments to IFRS 16	Rent concessions due to COVID-19 that go beyond 30 June 2021	1 April 2021	Insignificant
Amendments to IFRS 4	Insurance Contracts – Accruals IFRS 9	1 January 2021	Insignificant
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16 – Phrase 2	Reforms of the benchmark interest rate	1 January 2021	Insignificant
Amendments to IAS 16	Property, Plant and Equipment	1 January 2022	Insignificant
Amendments to IAS 37	Provisions, Contingent Liabilities and Contingent Receivables	1 January 2022	Insignificant
Amendments to IFRS 3	Business Combinations	1 January 2022	Insignificant
IFRS improvements 2018 – 2020	Amendments to various IFRS (IFRS 1, IFRS 9, IFRS 16, IAS 41)	1 January 2022	Insignificant
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023	Insignificant
Amendments to IAS 1 & IFRS Practice Statement	Presentation of Financial Statements & Making Materiality Judgements	1 January 2023	Insignificant
Amendments to IAS 8	Definition of Estimates	1 January 2023	Insignificant
IFRS 17	Insurance Contracts	1 January 2023	Insignificant

The amendments to IAS 16 prohibit a company from deducting from the acquisition or production costs of a a property, plant or equipment any revenue it earns from the sale of items produced during the period in which the asset was brought to its location and in a state that makes it available for use. The amendments also include a clarification of the definition of the costs for testing. Revenues and costs related to produced items that do not originate from the ordinary business activities of the company shall be reported separately. The disclosure shall be made in the item of the statement of comprehensive income in which the revenue is recognised.

The amendments to IAS 37 contain the clarification that the fulfillment costs of a contract include all costs directly attributable to the contract. These include the additional costs incurred to fulfil the contract (so-called incremental costs, such as direct labour and material costs) and an allocation of other costs that are directly attributable to the fulfilment of the contract. In addition, it is clarified that any priority impairment extends to the assets used to fulfil the contract (previously: associated with the contract).

The amendments to IFRS 3 relate to a reference to the revised conceptual framework of the IFRS and complement the regulation stipulating that an acquirer must apply the regulations of IAS 37 or IFRIC 21 instead of the conceptual framework when identifying the assumed liabilities that fall under the scope of IAS 37 or IFRIC 21. Furthermore, IFRS 3 is supplemented by an explicit prohibition of recognition for acquired contingent receivables.

The IFRS improvements 2018 to 2020 affect the targeted revision of IFRS 1, IFRS 9, IFRS 16, and IAS 41.

IFRS 17 will replace the regulations previously stipulated in IFRS 4. In particular, it addresses issues relating to the insurance risk resulting from a damage that has occurred, the determination of discount rates using a top-down approach, commissions and reinstatement premiums for reinsurance contracts issued, experience-based adjustments to premiums relating to current or past services, cash flows that are outside the contract limit at initial recognition, recovery of acquisition costs, premium waivers, group insurance, and industry pools managed by an association.

The effects on the assets, financial and income situation of the Group are insignificant for all the explained standards.

4. Companies consolidated

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

Due to the clear allocation, no significant assessments or assumptions were necessary when assessing the companies consolidated.

In the case of subsidiaries, Sto SE & Co. KGaA is able to exercise a controlling influence as defined in IFRS 10. Control as defined in IFRS 10 exists when an investor has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investee's returns. In the present consolidated annual financial statement, this is the case for shareholdings of more than 50 % without exception. In the case of fully consolidated companies where less than 50 % of capital shares are held, control was assured via further contractual agreements. This only applied to Sto Gulf Building Material LLC., Dubai/UAE.

Corporate acquisitions in the previous year

Via a subsidiary of Sto SE & Co. KGaA, 100 % of the limited partnership shares of Liaver GmbH & Co. KG, Ilmenau/Germany were acquired. 100 % of the shares and voting rights of Liaver Beteiligungen GmbH, Stühlingen/Germany, were acquired via a transfer of shares by the seller. Both came into economic effect as of 1 January 2019 which means that control was obtained in the sense of inclusion in the consolidated financial statements. All conditions precedent of the sales contract were met at that time.

Liaver is one of the few German manufacturers of expanded glass granulate made from recycled glass. Furthermore, the company has specialised in the use of this material in various areas of application. Highly sound-absorbing and non-combustible fibre-free acoustic products are marketed under the product name Reapor. Since 2018, the company has also been manufacturing shipbuilding boards. These boards are offered under the product name 'Liatec'. With this acquisition, the Group secures access to expanded glass granulate as a raw material and supplements its own product range with innovative products.

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

in EUR K	Fair value as at the time of acquisition
Intangible assets	424
Property, Plant and Equipment	7,916
Inventories	1,189
Trade receivables	414
Other receivables and financial assets	436
Cash and cash equivalents	88
Total assets	**10,467**

in EUR K	Fair value as at the time of acquisition
Provisions	275
Trade payables	1,097
Borrowings	4,410
Other liabilities	234
Deferred tax liabilities	0
Total liabilities	**6,016**
Total identifiable net assets at fair value	**4,451**
Minority shares evaluated at the value of the net assets	0
Acquired shares evaluated at the value of the identifiable net assets	**4,451**
Goodwill from corporate acquisition	1,437
Transferred consideration	**5,888**

The goodwill from the company acquisition is based on expected synergies, growth opportunities and the expertise of the employees.

In terms of taxes, goodwill also arose in the amount of EUR 1,437 K which will lead to deferred taxes in future periods due to tax depreciation.

The net amount of the receivables corresponds to the fair value thereof. This includes impairments amounting to EUR 206 K, which represent the total expected irrecoverable cash flow.

Turnover in the 2019 fiscal year, respectively since acquisition, amounted to EUR 7,411 K with earnings after taxes of EUR -587 K.

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	–166
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	88
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	–5,888
Actual cash outflow due to corporate acquisition	**–5,966**

Via a subsidiary, Sto SE & Co. KGaA acquired 50.15 % of equity shares and voting rights of Skyrise Prefab Building Solutions Inc., Pickering/Canada on 10 May 2019, thereby gaining control in the sense of inclusion in the consolidated annual financial statements.

Skyrise is a member of the independent Sto Panel Network, which has partners in North and South America. The members of this network produce and deliver industrially prefabricated, large-size facade panels that are based on the Sto Panel Technology. As the initiator of the network, Sto recognised the need for industrially prefabricated facade components at an early stage. In particular, the steel skeleton construction of industrial and multi-storey buildings in North America is predestined to be equipped with such components. Through this acquisition, the Group acquires extensive expertise in panel construction, particularly in its production, marketing, and installation, complements its surface and coating expertise and increases its competence as a solution provider.

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

in EUR K	Fair value as at the time of acquisition
Intangible assets	53
Property, Plant and Equipment	744
Inventories	197
Trade receivables	824
Other receivables and financial assets	87
Deferred tax assets	0
Cash and cash equivalents	2,675
Total assets	**4,580**
Provisions	0
Trade payables	1,057
Borrowings	125
Other liabilities	1,193
Deferred tax liabilities	0
Total liabilities	**2,375**
Total identifiable net assets at fair value	**2,205**
Minority shares evaluated at the value of the net assets	1,099
Acquired shares evaluated at the value of the identifiable net assets	**1,106**
Goodwill from corporate acquisition	5,553
Transferred consideration	**6,659**

The goodwill from the company acquisition is based on expected synergies, growth opportunities on the Canadian market as well as the expertise, experience and skills of the employees. It is not deductible for tax purposes.

The net amount of the receivables corresponds to the fair value thereof. This includes impairments amounting to EUR 66 K, which represent the total expected irrecoverable cash flow.

In the fiscal year beginning on 1 January 2019, a turnover of EUR 3,577 K with earnings after taxes of EUR -3,722 K was achieved. Since the acquisition, a turnover of EUR 2,620 K with earnings after taxes of EUR -2,820 K was achieved.

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	–121
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	2,920
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	–6,659
Actual cash outflow due to corporate acquisition	**–3,860**

On 1 August 2019, 100 % of the equity shares and voting rights of Unitex Australia Pty Ltd, Dandenong South/Australia were acquired, thereby gaining control in the sense of inclusion in the consolidated annual financial statements. Via a subsidiary, Sto SE & Co. KGaA first acquired 100 % of the business shares of Unitex Australia Pty Ltd, and, by means of an asset deal, the entire business operation of Unitex Granular Marble Pty Ltd, Dandenong South/Australia. All Unitex activities were then merged into the company Unitex Australia Pty Ltd.

The Unitex group of companies was founded in 1982 near Melbourne as an independent company. The product portfolio essentially comprises plasters, renders, reinforcing compounds and decorative profiles for interior and exterior applications in and on buildings. Production was mainly carried out at the site in Dandenong South. The acquisition gives the Group direct access to the Australian market, especially the conurbations of Melbourne, Sydney and Adelaide. The existing product range is to be successively supplemented and expanded in line with demand.

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

in EUR K	Fair value as at the time of acquisition
Intangible assets	7,480
Property, Plant and Equipment	295
Inventories	658
Trade receivables	1,405
Other receivables and financial assets	42
Deferred tax assets	112
Cash and cash equivalents	77
Total assets	**10,069**
Provisions	0
Trade payables	1,367
Borrowings	1,890
Other liabilities	879
Deferred tax liabilities	0
Total liabilities	**4,136**
Total identifiable net assets at fair value	**5,933**
Minority shares evaluated at the value of the net assets	0
Acquired shares evaluated at the value of the identifiable net assets	**5,933**
Goodwill from corporate acquisition	3,240
Transferred consideration	**9,173**

The goodwill from the company acquisition is based on expected synergies, growth opportunities on the Australian market as well as the expertise, experience and skills of the employees. It is not deductible for tax purposes.

The net amount of the receivables corresponds to the fair value thereof. This includes impairments amounting to EUR 29 K, which cover the entire expected irrecoverable cash flow.

In the fiscal year beginning on 1 July 2019 and ending on 31 December 2019, a turnover of EUR 6,445 K with earnings after taxes of EUR 102 K was achieved. Since acquisition, a turnover of EUR 6,292 K with earnings after taxes of EUR 80 K was achieved in the past fiscal year.

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	–320
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	77
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	–9,173
Actual cash outflow due to corporate acquisition	**–9,416**

Corporate acquisitions in the year under review

On 1 January 2020, Sto SE & Co. KGaA acquired 50.1 % of the equity shares and voting rights of VIACOR Polymer GmbH, Rottenburg am Neckar/Germany, thereby gaining control in the sense of inclusion in the consolidated annual financial statements. The total purchase price includes a capital increase accruing to the company as well as a payment to the seller. Furthermore, an agreement is in place that stipulates the payment of a supplementary purchase price of up to EUR 500 K which is dependent on the future development of earnings. The maximum amount is to be paid in case of average earnings before taxes of EUR 1 million relating to the years 2020 to 2022. On the basis of the development of earnings in 2020 as well as the planning results for 2021 and 2022, the supplementary purchase price was taken into consideration in the amount of EUR 0 K.

VIACOR is a manufacturer in the field of industrial floors and sports floor coatings under the Porplastic brand. The company impresses with its high level of development expertise and a varied portfolio of polyurethane-based products. The acquisition will expand the Group's product portfolio in the area of high-quality products for floor coatings, and will generate synergies through cooperation in the areas of development and production. The Sto and VIACOR product brands will continue to operate independently of each other in the market, covering partially different areas of application.

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

in EUR K	Fair value as at the time of acquisition
Intangible assets	1,893
Property, Plant and Equipment	2,177
Inventories	2,014
Trade receivables	2,634
Other receivables and financial assets	378
Deferred tax assets	0
Cash and cash equivalents	2,556
Total assets	**11,652**
Provisions	136
Trade payables	1,924
Borrowings	4,744
Other liabilities	543
Deferred tax liabilities	205
Total liabilities	**7,552**
Total identifiable net assets at fair value	**4,100**
Minority shares evaluated at the value of the net assets	2,045
Acquired shares evaluated at the value of the identifiable net assets	**2,055**
Goodwill from corporate acquisition	1,445
Transferred consideration	**3,500**

The goodwill from the company acquisition is based on expected synergies as well as growth opportunities through the expansion of the product portfolio. It is not deductible for tax purposes.

The fair value of the receivables amounts to EUR 2,634 K and corresponds to the net value thereof. This includes impairments amounting to EUR 928 K, which cover the entire expected irrecoverable cash flow. The gross amount of receivables hence amounts to EUR 3,562 K. Sales revenue amounted to EUR 16,505 K and earnings before tax to EUR 205 K.

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity in 2019)	–126
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity 2020)	2,556

in EUR K	Cash outflow due to corporate acquisition
Outflow of cash and cash equivalents (contained in the cash flows from investment activity 2020)	–3,500
Actual cash outflow due to corporate acquisition	**-1,070**

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

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

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

The German VeroStone GmbH was renamed Sto BTV GmbH in January 2020.

In March 2020, the subsidiary Hesselberg Sverige AB, Helsingborg/Sweden, was dissolved and deconsolidated.
In June 2020, the shareholding in Skyrise Prefab Building Solutions Inc., Pickering/Canada was increased to 100 % via a subsidiary of Sto SE & Co. KGaA.
With effect from 1 January 2020, Ströher Fliesen GmbH, Dillenburg/Germany was merged with Ströher GmbH, Dillenburg/Germany.

The companies consolidated are disclosed in Note (41) List of subsidiaries and investments. The following fully-consolidated German companies organised as limited-liability entities or as partnerships according to Section 264a of the German Commercial Code (HGB) have fulfilled the conditions of Section 264 (3) and/or Section 264b of the HGB in terms of preparation facilitation options and disclosure and make use of the exemption rules:

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

5. Consolidation principles

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

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

The shares in joint ventures or associated companies accounted for using the equity method are valuated in accordance with the same accounting and valuation policies which are also applied to the determination of the share of equity of fully consolidated companies.

6. Presentation of the major accounting and valuation policies

The current/non-current distinction was observed in the recognition of assets and liabilities. The statement of profit and loss was prepared using the total cost method. The fiscal year is identical to the calendar year. The consolidated financial statements were prepared in euros. Unless otherwise indicated, the values were rounded up or down in line with commercial rounding to the nearest thousand euros (EUR K). The consolidated financial statements were generally prepared according to the cost-of-acquisition principle, except for derivatives and assets measured at fair value.

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

Currency translation

Monetary items (cash and cash equivalents, receivables and liabilities, etc.) are first translated at the rate prevailing on the transaction date and then measured at fair value through profit and loss as at the reference date. Non-monetary items recognised at historical cost of acquisition or production are translated using the rate at the time of the transaction.

The financial statements of the consolidated companies prepared in a foreign currency were 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, and mainly in the currency of the respective country.

Assets and liabilities were translated at the closing rate, and expenses and income at annual average rates. Equity is translated at historic rates. Any resultant currency translation differences are recognised separately under equity and with no effect on profit and loss until such time as the subsidiary in question is deconsolidated.

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

		Closing rate on		Average annual rate	
EUR 1 =		**31 Dec 2020**	31 Dec 2019	**2020**	2019
AED	United Arab Emirates	4.4928	4.1209	4.1970	4.1085
AUD	Australia	1.5896	1.5995	1.6549	1.6109
BRL	Brazil	6.3735	4.5157	5.8943	4.4134
CAD	Canada	1.5633	1.4598	1.5300	1.4855
CHF	Switzerland	1.0802	1.0854	1.0705	1.1124
CLP	Chile	870.3068	843.6127	902.8294	792.4677

		Closing rate on		Average annual rate	
EUR 1 =		**31 Dec 2020**	31 Dec 2019	**2020**	2019
CNY	People's Republic of China	8.0225	7.8205	7.8747	7.7355
COP	Columbia	4,187.0135	3,681.5147	4,264.4541	3,686.6285
CZK	Czech Republic	26.2450	25.4100	26.4550	25.6700
DKK	Denmark	7.4409	7.4715	7.4542	7.4661
GBP	Great Britain	0.8990	0.8508	0.8897	0.8778
HUF	Hungary	363.8900	330.5300	351.2500	325.3000
MXN	Mexico	24.4160	21.2202	24.5194	21.5565
MYR	Malaysia	4.9340	4.5953	4.7959	4.6374
NOK	Norway	10.4703	9.8638	10.7228	9.8511
PAB	Panama	1.2232	1.1219	1.1672	1.1186
PLN	Poland	4.6148	4.2585	4.4430	4.2976
RUB	Russia	90.6824	69.3406	82.7248	72.4553
SEK	Sweden	10.0343	10.4468	10.4848	10.5891
SGD	Singapore	1.6218	1.5111	1.5742	1.5273
TRY	Turkey	9.1131	6.6843	8.0547	6.3578
USD	USA	1.2271	1.1234	1.1422	1.1195

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of acquisition of a company comprises the sum total of the consideration transferred, measured at fair value at the time of acquisition, and of the shares without a controlling influence (minority interests) on the company acquired. The purchaser valuates the shares of minority interests of the acquired company, either at fair value or at the corresponding share of the identifiable net assets of the company acquired.

Costs incurred within the scope of a business combination are recognised as expenses and reported as administrative costs. An agreed contingent consideration is recognised at fair value at the time of acquisition. Any subsequent changes to the fair value representing an asset or a liability are either recognised in the statement of profit and loss or in other earnings. A contingent consideration classified as equity is not remeasured, and its settlement at a later date is accounted for in equity.

When the Group acquires a company, the classification and designation of financial assets and liabilities in accordance with the contractual terms and conditions, and the economic circumstances and conditions are assessed.

Goodwill is measured at cost of acquisition on first-time recognition, calculated at the surplus of the consideration transferred and the shares without a controlling influence on the assets acquired and liabilities assumed. Such goodwill is submitted to testing once a year or as needed to determine any impairment in its value (impairment-only approach). If any impairment in the value of the goodwill is established, the corresponding impairment is recognised accordingly. If the consideration transferred is below the fair value of the net assets of the subsidiary acquired, then the difference is recognised in equity.

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

Leases

With the introduction of IFRS 16, since 1 January 2019, the Group has generally recognised assets for rights of use of leased assets and liabilities for all leases at present values for payment obligations entered into. The lease liabilities include the following lease payments:

- fixed payments, less lease incentives payable by the lessor,
- variable payments that are connected to an index or interest rate
- expected residual value payments from residual value guarantees,
- the exercise price of a call option if the exercise was classified as sufficiently certain.

Lease payments are discounted at the interest rate implicit in the lease if this can be determined. Otherwise, they are discounted at the incremental borrowing rate of interest. In determining the incremental borrowing rates of interest, reference interest rates for a period of up to 30 years from the yields of German and US government bonds were used. Countries that belong to neither the European nor the US currency area were allocated to the two currency zones approximately on the basis of the country-specific yields of government bonds. The reference interest rates were supplemented by a risk premium.

The interest expense is recognised through profit and loss in net financial income/expense over the term of the lease.

The practical expedient in the form of a waiver to review a rent concession for a change in tenancy has been applied to all matters under IFRS 16.46B. The resulting amount comes to EUR 111 K.

The rights of use are valued at acquisition costs and are composed as follows:

- lease liability,
- lease payments made on or before provision less lease incentives received, and
- initial direct costs.

Subsequent measurement is at amortised costs. The right of use is depreciated on a straight-line basis over the term of the lease or – if shorter – over the economic life of the leased asset.

In the case of leases with a term of no more than twelve months or leases with low-value assets of up to EUR 5 K, the Group applies the exemptions of IFRS 16.6 and recognises the lease payments of these contracts as expenses under other operating expenses.

In the case of contracts which include both lease and non-lease components, the Group has decided not to apply the practical expedient of IFRS 16.15 and separates the lease components from the non-lease components.

Intangible assets

Goodwill is only amortised on a non-scheduled basis as a result of a lack of recoverability based on an impairment test. For this, the carrying amount of the cash-generating unit (CGU – the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets), including the allocated goodwill, is compared with the recoverable amount of the CGU. The recoverable amount of a CGU is the higher value of fair value less cost of sale and the value in use. At the balance sheet date, the recoverable amount was determined on the basis of the value in use.

If the impairment from the determination of the value in use is greater than the value of the goodwill, the impairment exceeding goodwill is distributed across the remaining assets of the CGU up to the maximum of the carrying amount and the fair value.

A 5-year plan as at 31 December 2020 for the fiscal years of 2021 to 2025 of the respective CGUs taking into account the expectation of a positive development in demand for thermal insulation and the planning of maintenance investments is the starting point for the valuation, based on the best possible consideration of all information available internally and externally.

For the CGUs, growth rates of 1.0 % (previous year: between 1.0 % and 2.0 %) were assumed for the period beyond the planning horizon, as these rates adequately reflect the increasing uncertainty over time.

For the CGUs Sto, Skyrise, Beissier S.A.S., Ströher, and Unitex, significant due to their existing goodwill, forecasts were made on the basis of external factors with regard to the economic situation in order to determine turnover and gross income. The main forecasts based on internal factors were related to empirical values regarding the 5-year plan, in particular with regard to steady turnover growth in the single-digit percentage range, a constant gross profit, and a 1.0 % growth rate for the period beyond the planning horizon.

For discounting the cash flows, the weighted average cost of capital after taxes (WACC after taxes) is used as the discount factor, which differs by country-specific variations. Based on the respective WACC after taxes, the implicit WACC before taxes is determined by iteration. The WACC takes into account equity costs, which include a risk-free basic interest rate, the respective country risk, and the entrepreneurial risk (market risk premium multiplied by a specific beta factor), as well as borrowing costs. The WACC before taxes was between 6.1 % and 10.0 % (previous year: 5.5 % to 9.1 %).

The following pre-tax interest rates were used for CGUs which are key CGUs in the sense of goodwill: Sto 7.7 % (previous year: 7.1 %), Skyrise 6.9 % (previous year: 6.4 %), Beissier S.A.S. 8.7 % (previous year: 8.0 %), Ströher 7.8 % (previous year: 7.1 %), Unitex 7.9 % (previous year: 7.5 %).

The goodwill of the CGU Skyrise of EUR 5,490 K and the CGU Ströher of EUR 3,570 K were fully impaired due to the determination of the value in use. In addition, at the CGU Ströher, the brand was partially impaired in the amount of EUR 714 K and the customer base in the amount of EUR 1,157 K. The reason for the impairments were the lower margin expectations.

As the carrying amount of the goodwill allocated to the Ströher and Skyrise cash-generating units was impaired to its recoverable amount in the year under review, any further deterioration in a valuation assumption would lead to a further impairment. For all other goodwill, sensitivity analyses have shown that there is no need for impairment even if the assumptions deviate within a realistic framework.

The essential goodwill items are listed in Note (13).

Research and development costs
Research and development costs were recognised with an impact on profit and loss since capitalisation of the development costs in the

form of Intangible assets is not possible under IAS 38 as the requirements are not met. The main tasks of the research and development department are the identification of alternative materials, products, and processes.

Property, plant and equipment

Property, plant, and equipment are recognised at acquisition or production cost less cumulative depreciation and cumulative impairment losses.

The acquisition costs comprise 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.

The production costs comprise the expenditure incurred in utilising goods and services for such a production or manufacture. This includes the directly attributable costs and a reasonable share of the necessary overheads.

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

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

The useful lives and residual carrying amounts are audited regularly.

Maintenance and small repairs are recognised through profit and loss.

Plants under construction are assigned to property, plant, and equipment and are recognised at their procurement and production costs. Depreciation only takes place from the time of readiness for operation.

Borrowing costs

Borrowing costs are interest and other costs incurred by a company in connection with taking on debt capital.

Borrowing costs which are to be directly assigned to the acquisition, construction or manufacture of an 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.

The Group did not hold any assets to which borrowing costs were directly allocated. The unallocated portion of borrowing costs was insignificant.

Impairment of property, plant, and equipment, and intangible assets

Property, plant, and equipment, and intangible assets are tested for impairment if there is any evidence that their carrying amount may no longer be recoverable. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recorded with an impact on profit and loss. The recoverable amount is the higher value of the net realisable amount and the value in use.

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

If an impairment no longer exists or has decreased, a reversal of the impairment loss is recognised as income. No reversal is made to an impairment of goodwill.

Financial assets accounted for using the equity method
The financial assets accounted for using the equity method relate to a joint venture for which a contractual agreement exists regarding the joint control of the company, and to two associated companies.

The shares are accounted for at the beginning at their cost of acquisition. Then the carrying amount of the shares is increased or decreased annually to recognise the share of after-tax profits or losses, distributed dividends, impairment, and other changes to equity. An impairment is recognised in profit and loss as the difference between the recoverable amount and the carrying amount of the share.

Trade receivables and other financial assets
Trade receivables and other financial assets are accounted for at amortised acquisition costs. Furthermore, individual impairments, and general impairments are made in accordance with IFRS 9 to take sufficient account of default risks.

The impairment model under IFRS 9 requires the recognition of expected losses and replaces the impairment model under IAS 39, which is based on losses incurred. When valuating impairments in accordance with IFRS 9, the simplified approach was chosen, which allows for taking the expected impairment over the entire term into account. The method can be applied to financial assets that are valuated at amortised costs or at fair value with no impact on profit and loss.

The probabilities of default of trade receivables were determined using historical default rates for defined periods of overdue payments and subsequently recognised as an impairment of the portfolio, depending on the period of overdue payments, with an effect on expenses. The default risk for trade receivables increases significantly if they are more than one year overdue. The default risks are subject to a yearly test and are adjusted as needed. Furthermore, individual impairments were made if there were indications pointing to a specific impairment of single trade receivables. Defaults on receivables led to a direct derecognition of the receivables in question.

Furthermore, credit assessment of customers was mainly carried out by obtaining information from credit agencies and various companies using credit management software, which was also used to determine the credit limit. If the individual credit limit was exceeded, an approval was usually only given after an examination of the specific case.

The credit rating by Creditreform was used to determine the default probability and the impairments of other financial assets.

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

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

Inventories were assessed as follows:

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

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

The impairment of securities as well as cash and cash equivalents was determined using the cost of hedging by means of credit default swaps with a maturity of twelve months.

Financial instruments
In accordance with IFRS 9, a financial instrument is a contract that gives rise to a financial asset for one company and a financial liability or equity instrument for another, and that does not necessarily have to be in writing.

IFRS 9 defines the following different categories for financial assets:
- Financial instruments measured at fair value through profit and loss
  (Fair Value Through Profit and Loss = FVTPL)
- Financial instruments measured at fair value with no impact on profit and loss
  (Fair Value through Other Comprehensive Income = FVOCI)
- Financial assets at amortised costs of acquisition
  (Financial Assets at Amortised Cost = FAAC)

Financial liabilities are classified as follows in accordance with IFRS 9:
- Financial liabilities at fair value through profit and loss (= FLTPL)
- Financial liabilities measured at amortised cost (= FLAC)

Financial instruments measured at fair value through profit and loss
Financial instruments at fair value through profit and loss include financial assets held for trading, derivatives as well as financial assets for which the fair value option was selected upon initial recognition.

Financial assets are classified as held for trading if the business model concerned is designed to sell the financial assets in the near future. Subsequently, these financial instruments are examined to determine whether the intention to sell still exists. Gains or losses in this category are recognised through profit and loss.

Reclassification to financial instruments measured at amortised costs depends on the nature of the asset and does not affect financial instruments designated at fair value through profit and loss under the fair value option.

Primary financial instruments are recognised at the settlement amount.

Financial instruments measured at fair value with no impact on profit and loss
Financial instruments measured at fair value with no effect on profit and loss comprise financial assets for which the business model is designed to hold and sell them to generate cash flows and for which the cash flows of debt

capital instruments consist exclusively of interest and principal payments.

Financial instruments in this category are measured at fair value and changes in value are first recognised in reserves with no impact on profit and loss. When a debt capital instrument is derecognised, the accumulated gains or losses are reclassified to the statement of profit and loss ('recycling'). When an equity instrument is derecognised, any accrued gains or losses remain in reserves without reclassification.

Financial assets at amortised costs of acquisition
Financial assets measured at amortised acquisition costs are debt capital instruments for which the business model is designed to hold assets to generate cash flows and for which the cash flows consist exclusively of interest and principal payments and the fair value option is not exercised.

After initial recognition, these financial assets are measured at amortised costs of acquisition using the effective interest method. Gains and losses are recognised in the profit the period in which a financial asset is derecognised or impaired, and through the amortisation process.

Financial assets are assigned to this valuation category upon initial recognition. Where permissible and necessary, they are reclassified at the end of the accounting period.

The Group expects a significant increase in the default risk for a financial asset if contractual payments are more than 365 days overdue. In addition, an increased probability of default is assumed in certain cases if internal or external information indicates that it is unlikely that the contractually outstanding amounts will be paid in full after taking all loan collateral into account. In this case, the financial asset will be impaired.

Receivables and liabilities relating to the same counterparty are netted.

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

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

Financial liabilities at amortised cost
Financial liabilities measured at amortised costs are recognised at fair value taking into consideration transaction costs and subsequently measured using the effective interest method less impairments, repayments and taking into account discounts, premiums, and transaction costs.

Gains or losses are recognised through profit and loss upon derecognition or disposal. A financial liability is derecognised if the obligation underlying the liability no longer exists.

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

Derivative financial instruments

In the Group, derivative financial instruments in the form of currency forwards for hedging currency risks in order to hedge the risk arising from fluctuations in the cash flow of a recognised asset, a recognised liability, or a highly probable future transaction.

Derivative financial instruments are recognised at fair value at the time the contract is concluded and measured at fair value through profit and loss in subsequent periods, with reference to current forward exchange rates for contracts with similar maturity structures. Depending on the development of the fair value, an asset or a liability is recognised in connection with an expense or income.

In the fiscal year of 2020, there were no hedges satisfying the strict hedge accounting criteria.

Treasury stock

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

Post-employment benefit provisions

Actuarial measurement of the post-employment benefit provisions is based on the projected-unit-credit method for defined benefit plans for pension schemes as defined in IAS 19. Under this method, the pension obligations and acquired entitlements existing at the balance sheet date are determined on the basis of average life expectancy, future salary and pension increases, the expected retirement age, and the expected fluctuation.

Average life expectancy is estimated on the basis of acknowledged biometric models. Actuarial gains and losses from the changes of assumptions are recognised after the consideration of deferred taxes in other earnings with no impact on profit and loss.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less existing plan assets which are used to directly settle obligations. The plan assets are qualified insurance policies that are protected against access by creditors and cannot be paid out to the Group. Valuation is based on the fair value that corresponds to the present value of the covered liability.

Other provisions

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

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

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

Provisions are reviewed and adjusted at each balance sheet date.

Trade payables and other financial liabilities

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

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

Deferred tax assets on tax loss carryforwards are to be recognised if use can be expected. They are not set up if a temporary difference arises from goodwill or from the initial recognition of other assets and liabilities which affects neither tax earnings nor commercial earnings.

Deferred tax assets which are not expected to be recognised in a defined period of time are impaired. At each balance sheet date, an assessment is made as to whether the asset can be capitalised.

Deferred tax liabilities are formed for temporary differences arising from shares in subsidiaries, associated companies, and joint ventures unless the parent company is able to control the reversal of the temporary difference and the temporary difference is unlikely to reverse within a defined time period.

Deferred tax assets and liabilities are netted if the deferred taxes relate to one and the same taxpayer and the same taxation authority and if there is a legally enforceable right to set off the tax reimbursement claims against tax liabilities.

Deferred taxes are measured in accordance with the applicable national income tax rates as at the date of realisation as well as on the basis of applicable at the that point in time.

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

Recognition of income and expenses
Revenues from contracts with customers are recognised when control of the goods or services is transferred to the customer.

In the manufacture of products and systems for thermal insulation and building coatings, revenues from contracts with customers mainly result from deliveries of goods, which are generally recognised at the time of delivery. Payment is usually made 30 to 90 days after delivery. In addition, services are provided on a small scale for which the sales revenues are recorded in the time period in which the services are rendered. Payment is usually made 30 to 60 days after the service has been rendered.

Some contracts are designed in such a way that both an original delivery of goods and an associated craftsman's service are provided. These are service obligations to be accounted for as a whole, as the delivery and processing of the materials are related in accordance with the underlying agreement. Revenue is recognised when the service has been rendered in full.

The Group is responsible for providing the statutory warranty for remedying defects. Provisions are made for expenses expected to be incurred as a result. Furthermore, in rare cases, the Group grants warranties that extend beyond the statutory period. This is a separate performance obligation of the Group for which the sales revenues were not recognised as contract liabilities due to insignificance and were recognised with an impact on profit and loss over the contract term.

The amount of revenue recognised corresponds to the consideration expected to be received by the Group in exchange for the goods or services. If a contractual consideration includes a variable component, the Group determines the amount of the consideration to be received in exchange for the transfer of the goods or services to the customer. The variable consideration is estimated at the inception of the contract and may be included in the transaction price only if it is probable that there will be no significant change in the revenues and if the uncertainty associated with the variable consideration is low.

In determining transaction prices, expected rebates and discounts are separated from the agreed price, both in the case of the separate sale of goods or services and in the case of the combined sale, according to the principle of individual valuation, without revenue being recognised for them.

Payments to be received from customers are short-term, i.e. at the inception of the contract it is expected that the period between the transfer of the good or service and payment will not exceed one year. Therefore, the Group makes use of the simplification regulation of IFRS 15 and does not adjust the amount of the promised consideration by the effects of financing component.

In addition, the Group makes use of the simplification regulation of IFRS 15.121 and does not disclose any remaining service obligations whose underlying contracts have an expected original term of one year or less.

Revenue other than from contracts with customers is recognised if it is probable that economic benefits will flow and if the revenue amount can be determined reliably, irrespective of the time of payment. Revenue is measured at the fair value of the consideration received or to be received, taking into account contractually agreed payment terms, excluding taxes or other levies.

Interest income and interest expenses are recognised for all financial instruments measured at amortised cost using the effective interest rate. This is the discount rate used to discount estimated future cash receipts and payments over the expected term of the financial instrument or, if applicable, a shorter period, to the net carrying amount of the financial asset or financial liability. Interest income is reported in the statement of profit and loss as part of financial income.

Operating expenses are reported upon utilisation of the service or on the date on which they are caused.

For some projects, income and expenses are recognised according to the degree of completion (percentage-of-completion method). The income and expenses are recognised on a pro rata basis according to the costs incurred up to the balance sheet date in relation to the total incurred costs for the project.

Funding from the public sector

Funding from the public sector is recognised in accordance with IAS 20 if there is certainty that the conditions for the funding will be met in the form of conditions and that the funding will be granted.

Expense-related funding is collected through profit and loss in the period in which the expenses to be defrayed are incurred. The conditions to be fulfilled will be reviewed when the grant is called in in order to prevent repayments later on.

Financial guarantees

Financial guarantees obligate the making of payments, and indemnify the guarantee holder for a loss arising from a debtor who did not meet his payment obligations in accordance with the conditions of a financial instrument.

Financial guarantees are treated as insurance contracts pursuant to IFRS 4 as contingent liabilities until a claim becomes probable. Only then is an obligation recognised in the balance sheet.

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

Discretionary decisions by Management
The preparation of the consolidated financial statements requires discretionary decisions by Management, which affect the recognition and valuation of the reported assets, and liabilities, income, and expenses in the period under review.

This affected segment reporting in accordance with IFRS 8, in which the operating business segments were divided into Western Europe and Other in line with internal corporate governance and the internal reporting that follows this governance.

The non-current and current financial assets included financial instruments that met the business model and cash flow conditions. These assets were classified as financial instruments at amortised costs.

Estimates and assumptions by Management
The preparation of the consolidated financial statements requires Management to make estimates and assumptions on the basis of available information, which affect the recognition and valuation of reported assets, debt, income and expenses as well as contingent liabilities in the following areas.

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

- **Uncertainties in relation with the coronavirus pandemic**
  The development of the coronavirus pandemic continues to be dynamic, which may lead to increased risks with regard to value creation and recoverability, including in connection with impairments of goodwill and intangible assets, trade receivables, and inventories. The uncertainty prevailing in the global economy could strain suppliers, customers and other business partners, leading to supply chain disruption, payment defaults and production delays. The effects of the coronavirus pandemic are being carefully monitored. This includes the effects on inventories and receivables from customers as well as significant assumptions regarding goodwill and intangible assets. Although the Sto companies developed differently, the coronavirus pandemic did not lead to losses in earnings on Sto Group level.

- **Impairment of non-financial assets**
  If the carrying amount exceeds the fair value, the fair value is compared with the value in use as a further impairment test. The calculation of fair value less cost of sale is based on data from binding sales transactions between independent business partners concerning similar assets or observable market prices less directly attributable costs of selling the asset in question. The discounted cash flow method is used to calculate the value in use. The cash flows are derived from the

finance plan for the next five years, but without expansion investments. The value in use is also dependent on the underlying discount as well as on the growth rate.

- **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.

  Deferred tax liabilities amounted to EUR 1,140 K (previous year: EUR 1,893 K) and deferred tax assets amounted to EUR 33,291 K (previous year: EUR 29,807 K). Income tax liabilities amounted to EUR 19,654 K (previous year: EUR 10,417 K) and income tax receivables amounted to EUR 1,917 K (previous year: EUR 1,887 K).

- **Non-current and current provisions**
  The calculation of warranty provisions is based on empirical values for complaints and the latest information available. Furthermore, uncertainties arise with regard to pending court cases regarding compensatory damages in terms of compensation payments and the duration of the proceedings. In general, we expect the provision to be utilised only after damage recovery.

- **Pension benefits**
  The expense of defined benefit plans on termination of employment and the present value of pension obligations are determined by actuarial calculations. Among others, these parameters include future discount rates, the mortality rate, the expected age of retirement, and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation reacts sensitively to deviations from these assumptions.

  In determining the 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 to the expected term of the defined benefit obligation by extrapolation.

  The mortality rate is based on publicly accessible mortality tables for the country in question. Future increases in wages and salaries as well as pensions are based on expected future inflation rates for each country. The expected age of retirement is determined on the basis of the experience specific to the company as well as future expectations. The present value of the performance-oriented liabilities of EUR 171,864 K (previous year: EUR 162,582 K) were netted against the fair value of the plan asset of EUR 39,398 K (previous year: EUR 38,766 K). Post-employment benefit provisions amounted to EUR 132,466 K (previous year: EUR 123,816 K).

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

  A net liability of EUR 594 K (previous year: EUR 804 K) resulted from the financial instruments measured at fair value.

- **Receivables**
  Impairments and individual impairments are made in accordance with IFRS 9 for receivables in order to take account of expected losses. Impairments of receivables are assessed on a case-to-case basis and are also based on maturity in connection with the experience regarding defaults in the past, as well as changes in payment behaviour.

  Trade receivables totalled EUR 130,413 K (previous year: EUR 138,976 K).

- **Provisions**
  Provisions for warranties are set up if the occurrence of a liability is probable. The assessment of the degree of probability and the extent is based on empirical values, external experts, and current information available.

  The current and non-current warranty provisions amounted to EUR 38,164 K and EUR 12,908 K respectively (previous year: EUR 41,668 K and EUR 12,083 K respectively).

At the time of preparing the consolidated financial statements the assumptions and estimates did not include any significant risks that would have required significant adjustments of the assets and liabilities recognised in the consolidated balance sheet in the following fiscal year.

Consolidated segment reporting as at 31 December 2020

Information on geographic segments by sales markets in EUR K	Western Europe		Other			
			Northern/Eastern Europe		America/Asia/Pacific	
	2020	2019	2020	2019	2020	2019
External revenues	1,111,656	1,070,924	143,813	156,510	177,531	170,794
Inter-segment revenues	38,839	42,334	1,758	1,660	111	23
Segment turnover	**1,150,495**	**1,113,258**	**145,571**	**158,170**	**177,642**	**170,817**
EBITDA	158,273	124,695	15,595	8,341	12,490	5,269
Depreciation/amortisation	46,409	39,826	7,084	6,797	12,218	5,702
EBIT (earnings before interest and taxes)	**111,864**	**84,869**	**8,511**	**1,544**	**272**	**–433**
Interest income	1,158	1,168	117	130	325	560
Interest expenses	3,402	3,608	253	296	342	228
EBT (earnings before taxes)	**109,620**	**82,429**	**8,375**	**1,378**	**255**	**–101**
Segment assets	**723,709**	**651,751**	**102,876**	**100,493**	**111,999**	**112,153**
Investments	**36,422**	**27,291**	**2,524**	**1,954**	**2,799**	**6,103**
Employees as at the balance sheet date	**4,220**	**4,164**	**619**	**648**	**706**	**721**

Notes on product groups in EUR K	Facade systems		Facade coatings		Interiors	
	2020	2019	2020	2019	2020	2019
External revenues	668,882	677,083	322,054	304,588	211,509	197,772

Segment reporting is explained in Note (33).

Reconciliation/ consolidation booking entries		Group	
2020	2019	2020	2019
0	0	1,433,000	1,398,227
–40,708	–44,018	0	0
–40,708	**–44,018**	**1,433,000**	**1,398,227**
139	–96	186,497	138,209
0	0	65,711	52,325
139	**–96**	**120,786**	**85,884**
–789	–726	811	1,132
–789	–726	3,208	3,405
744	**–608**	**118,994**	**83,098**
35,209	**31,694**	**973,793**	**896,091**
0	**0**	**41,745**	**35,349**
0	**0**	**5,545**	**5,533**

Other product groups		Group	
2020	2019	2020	2019
230,555	218,785	1,433,000	1,398,227

Notes on the statement of profit and loss

(1) Revenues

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

(2) Other internally generated assets capitalised

As in the previous year, other capitalised, internally generated assets mainly comprise the internally generated asset for constructed Technical equipment and machinery as well as Buildings.

(3) Other operating income

in EUR K	**2020**	2019
Income from the reversal of provisions and accured liabilities	5,252	7,784
Income from changes in exchange rates	7,011	3,403
Proceeds from derecognised receivables	489	770
Income from the disposal of assets	266	339
Income from recharged expenses to third parties	531	261
Funding from the public sector	2,632	98
Other operating income	5,239	6,408
Total other operating income	**21,420**	19,063

Funding from the public sector primarily consists of subsidies granted in connection with the coronavirus pandemic. To some extent, this funding is subject to certain conditions. We assume that we can meet the conditions imposed.

(4) Cost of material

in EUR K	2020	2019
Raw materials, processing aids, and operating materials	292,634	291,113
Goods purchased	324,334	327,077
Total expenses for raw materials, processing aids, operating materials, and goods purchased	**616,968**	618,190
Temporary staff	3,672	4,583
Commission production	7,784	8,873
Total expenses for services purchased	**11,456**	13,456
Total expenses for materials	**628,424**	631,646

Expenses for commission production were mainly attributable to Skyrise Prefab Building Solutions Inc. in the amount of EUR 2,844 K (previous year: EUR 572 K), to StoCretec Flooring AS in the amount of EUR 2,494 K (previous year: EUR 5,150 K) and to Sto Építöanyag Kft. in the amount of EUR 1,589 K (previous year: EUR 1,442 K).

(5) Personnel expenditure

in EUR K	2020	2019
Wages and salaries	315,528	304,419
Social security contributions	40,613	40,606
Expenses for social security contributions, and for support	28,196	27,186
Total personnel expenses	**384,337**	372,211

Expenditure on post-employment benefits primarily comprises additions to the post-employment benefit provisions as stated in Note (24).

In the year under review, research and development costs of EUR 14.0 million (previous year: EUR 13.7 million) were recognised with an impact on profit and loss.

Annual average headcount

Amount	2020	2019
Employees	5,385	5,303
Trainees	236	218
Total no. of employees	**5,620**	5,521

(6) Other operating expenses

in EUR K	2020	2019
Selling and marketing costs	119,016	138,446
Administration costs	58,529	53,646
Rental and lease payments including overheads	12,205	11,789
Operating costs	33,460	34,002
Losses from the derecognition of financial assets	1,610	2,115
Other staff costs	6,316	7,429
Expenses due to changes in exchange rates	7,341	5,091
Losses from the disposal of non-current assets	301	2,163
Other expenses	13,687	14,891
Other operating expenses	**252,465**	269,572

The item Selling and marketing costs mainly includes outbound freight, warranty services as well as advertising and travel expenses.

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

(7) Impairment (net) of financial assets

in EUR K	2020	2019
Expenses for impairments of financial assets	–6,827	–7,784
Income from the reversal of impairments for financial assets	4,218	3,625
Impairment (net) of financial assets	**–2,609**	–4,159

(8) Depreciation/amortisation

The amortisation of Intangible assets, Property, plant, and equipment, and rights of use are analysed in the respective parts of these Notes.

In the year under review, the impairment test revealed an impairment of the goodwill of Ströher GmbH of EUR 3,570 K and of the goodwill of Skyrise Prefab Building Solutions Inc. of EUR 5,490 K (there was no impairment of goodwill in the previous year).

Due to the conducted impairment test, further impairments of intangible assets were made at Ströher GmbH in the amount of EUR 1,871 K. Of this amount, EUR 1,157 K were attributable to the customer base and EUR 714 K to the product brand.

The discount rate before taxes used for the cash flow forecast is 7.81 % for Ströher GmbH and 6.89 % for Skyrise Prefab Building Solutions Inc.. The reason for the impairments are the lower margin expectations at Ströher GmbH and Skyrise Prefab Building Solutions Inc.

Ströher GmbH belongs to the segment of Western Europe, and the Skyrise Prefab Building Solutions Inc. to the segment of America/Asia/Pacific.

(9) Earnings from financial assets accounted for using the equity method

Earnings from financial investments accounted for using the equity method amounts to EUR 605 K (previous year: EUR -513 K) in the year under review.

(10) Net interest income

in EUR K	2020	2019
Other interest and similar income	811	1,132
Interest and similar expenses	–1,372	–789
Interest expense for post-employment benefit obligations	–1,090	–1,819
Compounding interest of other non-current provisions and liabilities	–142	–193
Interest expense for leases	–604	–604
Total net interest income	**–2,397**	-2,273

(11) Taxes on income and earnings

Breakdown of tax expense

in EUR K	2020	2019
Actual tax expense in Germany	27,618	19,885
Actual tax expense outside of Germany	13,621	9,794
Actual tax expense	**41,239**	29,679
of which off-period tax expense	919	323
Expense/income from reversal of tax liabilities (off-period)	–152	–140
Actual taxes on income and earnings	**41,087**	29,539
Deferred tax income/expense in Germany	–2,770	–1,777
Deferred tax income/expense outside of Germany	9	–1,006
Deferred tax income/expense	**–2,761**	–2,783
Income tax expense reported	**38,326**	26,756

In the 2020 assessment period, the statutory corporate tax in Germany was levied at a rate of 15.0 %, which is the same as in the previous year. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.0 % (previous year: 28.9 %).

The local income tax rates for companies outside of Germany ranged between 0 % and 34.0 % (previous year: 0 % to 34.0 %). Deferred taxes were measured using the tax rates valid or enacted as of the balance sheet date.

Tax loss carryforwards were valued at EUR 40,408 K (previous year: EUR 40,532 K). Tax loss carryforwards of EUR 26,546 K (previous year: EUR 24,248 K) are available for an indefinite period, while EUR 4,036 K (previous year: EUR 5,368 K) may only be utilised within five years, as well as EUR 1,239 K (previous year: EUR 3,100 K) only within ten years, and EUR 8,587 K (previous year: EUR 7,816 K) only within 20 years.

Of the tax loss carryforwards, a sum of EUR 23,214 K (previous year: EUR 24,623 K) is assumed to not be available for the time being. Of these, EUR 9,448 K (previous year: EUR 8,338 K) are available for an indefinite period, while EUR 4,036 K (previous year: EUR 5,369 K) may only be utilised within five years, as well as EUR 1,143 K (previous year: EUR 3,100 K) only within ten years, and EUR 8,587 K (previous year: EUR 7,816 K) only within 20 years.

Of the tax loss carryforwards rated available, EUR 4,902 K (previous year: EUR 10,785 K) were attributable to companies whose earnings for the year of 2020 was negative. As the affected companies are mainly those companies with a profit history and as the earnings plans of the affected companies for the following years are positive, the tax loss carryforwards in the corresponding amount were classified as available.

Of deterred tax income, EUR 2,474 K (previous year: EUR 1,713 K) were from temporary differences.

No deferred taxes were recognised for temporary differences of EUR 6,319 K on the profits retained by subsidiaries (previous year: EUR 5,528 K) as, historically, these profits have always been used to extend business activities at the individual locations and will continue to be used for this purpose in the future.

The following deferred tax assets and liabilities are recognised to allow for recognition and valuation differences in the individual items of the balance sheet and the tax loss carryforwards:

Balance sheet item

in EUR K	Deferred tax assets		Deferred tax liabilities	
	31 Dec 2020	31 Dec 2019	**31 Dec 2020**	31 Dec 2019
Intangible assets	337	397	1,094	1,452
Property, plant and equipment	907	894	3,612	4,497
Rights of use	603	607	14,212	14,590
Financial assets accounted for using the equity method	83	45	0	0
Non-current trade receivables	120	120	120	120
Non-current financial assets	16	145	94	408
Other non-current assets	0	0	471	173
Inventories	2,112	2,101	177	168
Current trade receivables	1,666	1,657	451	472
Current financial assets	316	49	335	124
Other current assets	489	175	118	11
Cash and cash equivalents	57	78	15	4
Special tax items	0	0	14	217
Provisions for post-employment benefits and similar liabilities	24,894	22,904	14	40
Other non-current provisions	313	258	0	0
Non-current borrowings	0	130	172	84
Non-current lease liabilities	9,884	10,683	0	0
Other non-current liabilities	0	0	0	0
Other current provisions	1,807	1,212	429	419
Current borrowings	464	189	0	1
Current lease liabilities	3,993	3,947	0	0
Current trade payables	26	3	0	10
Other current liabilities	1,571	1,720	11	51
Loss carryforwards	3,832	3,441	0	0
Gross amount	**53,490**	**50,755**	**21,339**	**22,841**
Balancing	20,199	20,948	20,199	20,948
Balance sheet recognition	**33,291**	**29,807**	**1,140**	**1,893**

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

Change in deferred taxes

in EUR K	Consideration in		
	statement of profit and loss	Equity capital	**Total**
Deferred taxes as at 1 January 2019	**9,325**	**9,117**	**18,442**
Intangible assets	308	0	308
Property, plant and equipment	–302	0	–302
Rights of use	5,147	–19,079	–13,932
Financial assets accounted for using the equity method	45	0	45
Non-current trade receivables	–8	0	–8
Non-current financial assets	–568	0	–568
Other non-current assets	–151	0	–151
Inventories	321	0	321
Current trade receivables	674	0	674
Current financial assets	–156	0	–156
Other current assets	494	0	494
Cash and cash equivalents	400	0	400
Special tax items	–217	0	–217
Provisions for post-employment benefits and similar liabilities	751	5,953	6,704
Other non-current provisions	–74	0	–74
Non-current borrowings	15	0	15
Non-current lease liabilities	–4,344	14,873	10,529
Other non-current liabilities	–54	0	–54
Other current provisions	–24	0	–24
Current borrowings	134	0	134
Current lease liabilities	–872	4,810	3,938
Current trade payables	–44	0	–44
Other current liabilities	239	0	239
Loss carryforwards	1,070	0	1,070
Effects from first-time consolidation and deconsolidation	0	0	0
Currency translation effects	1	130	131
Deferred taxes as at 31 December 2019	**12,110**	**15,804**	**27,914**

Change in deferred taxes

in EUR K	Consideration in statement of profit and loss	Consideration in Equity capital	Total
Deferred taxes as at 1 January 2020	**12,110**	**15,804**	**27,914**
Intangible assets	1,356	0	1,356
Property, plant and equipment	813	0	813
Rights of use	190	0	190
Financial assets accounted for using the equity method	39	0	39
Non-current trade receivables	0	0	0
Non-current financial assets	185	0	185
Other non-current assets	–298	0	–298
Inventories	–618	0	–618
Current trade receivables	244	0	244
Current financial assets	289	0	289
Other current assets	199	0	199
Cash and cash equivalents	–490	0	–490
Special tax items	203	0	203
Provisions for post-employment benefits and similar liabilities	370	1,644	2,014
Other non-current provisions	60	0	60
Non-current borrowings	–218	0	–218
Non-current lease liabilities	–783	0	–783
Other non-current liabilities	0	0	0
Other current provisions	595	0	595
Current borrowings	292	0	292
Current lease liabilities	49	0	49
Current trade payables	32	0	32
Other current liabilities	–36	0	–36
Loss carryforwards	287	0	287
Effects from first-time consolidation and deconsolidation	0	–205	–205
Currency translation effects	1	37	38
Deferred taxes as at 31 December 2020	**14,871**	**17,280**	**32,151**

Reconciliation of expected and reported income tax expense

in EUR K	2020	2019
Earnings before income taxes	118,994	83,098
Expected income tax expense (tax rate: 29.0 %; previous year: 28.9 %)	**34,456**	24,015
Reconciliation: Tax-free income and permanent differences	3,412	3,064
Changes in tax rate	–90	–69
Deviations of local tax rates from Group tax rate	–2,809	–1,523
Deferred tax income on tax loss carryforwards capitalised for the first time	–19	–302
Tax reduction for tax loss carryforwards not yet capitalised	46	–21
Effects of non-recognition of tax loss carryforwards	2,381	1,396
Off-period taxes	766	168
Other effects	183	28
Income tax expense reported	**38,326**	26,756
Effective tax rate (%)	32.2	32.2

(12) Earnings per share

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

In addition to shares outstanding, diluted earnings per share also include potential shares (e.g. from options). Both at 31 December 2020 and 31 December 2019, there were no potential shares. Hence, undiluted earnings per share correspond to diluted earnings per share.

Amount	Ordinary shares		Preference shares	
	2020	2019	**2020**	2019
Weighted average number of shares outstanding – basic/diluted	**3,888,000**	3,888,000	**2,538,000**	2,538,000

in EUR K	2020	2019
Share attributable to the shareholders of Sto SE & Co. KGaA	80,765	58,187
basic/diluted earnings – of which:		
Limited ordinary shares	48,774	35,113
Limited preference shares	31,991	23,074

in EUR	2020	2019
Earnings per share – basic/diluted		
Limited ordinary share	12.54	9.03
Limited preference share	12.60	9.09

In the fiscal year of 2020, the following dividend was paid out from the earnings of 2019: EUR 4.03 (previous year: EUR 4.03) per ordinary share, consisting of a basic dividend of EUR 0.25 (previous year: EUR 0.25) and a bonus of EUR 3.78 (previous year: EUR 3.78), as well as EUR 4.09 (previous year: EUR 4.09) per preference share, consisting of a basic dividend of EUR 0.31 (previous year: EUR 0.31) and a bonus of EUR 3.78 (previous year: EUR 3.78).

In the fiscal year of 2020, a total of EUR 15,669 K was paid out to ordinary shareholders (previous year: EUR 15,669 K) and an amount of EUR 10,380 K was paid out to preference shareholders (previous year: EUR 10,380 K). The total payout amount was EUR 26,049 K (previous year: EUR 26,049 K).

Further notes on the statement of profit and loss in accordance with IFRS 7

The Sto Group categorises financial instruments as follows:

- financial instruments at fair value through profit and loss
- financial assets at amortised costs of acquisition
- financial instruments with a value recognition in accordance with IFRS 16
- financial instruments that are subject to hedge accounting
- financial instruments outside the scope of application of IFRS 7 (equity investments)

Net earnings from financial assets categorised in accordance with IFRS 9

in EUR K	**2020**	2019
Assets		
Financial assets at fair value through profit and loss (FVTPL)	1,440	108
Financial assets measured at fair value with no impact on profit and loss (FVOCI)	–32	0
Financial assets at amortised cost (FAAC)	–4,010	–5,283
Liabilities		
Financial liabilities at amortised cost (FLAC)	–297	–357
Financial liabilities at fair value through profit and loss (FLTPL)	–1,048	–1,719

Net earnings from financial assets and liabilities recognised at fair value through profit and loss include changes in market value as well as exchange-rate related income and expenses from these financial instruments. Interest expenses and interest income are not part of net earnings.

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

in EUR K	2020	2019
Interest income	674	1,099
Interest expenses	1,768	1,269
Net interest income	**–1,094**	–170

Notes on the consolidated statement of financial position

(13) Intangible assets

Changes in intangible assets from 1 January until 31 December 2019

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	**Total**
Cost of acquisition/production				
1 January 2019	**40,039**	**42,569**	**663**	**83,271**
Additions	1,335	0	1,343	2,678
Changes to the companies consolidated	5,850	10,230	0	16,080
Disposals	399	0	27	426
Transfers	523	0	–449	74
Exchange rate differences	209	234	0	443
31 December 2019	**47,557**	**53,033**	**1,530**	**102,120**
Cumulative depreciation and impairment losses				
1 January 2019	**31,256**	**4,247**	**0**	**35,503**
Depreciation for the year	2,559	0	0	2,559
Impairment losses	0	0	0	0
Disposals	387	0	0	387
Transfers	–19	0	0	–19
Exchange rate differences	–25	0	0	–25
31 December 2019	**33,384**	**4,247**	**0**	**37,631**
Net carrying amount as at 31 December 2018	**8,783**	**38,322**	**663**	**47,768**
Net carrying amount as at 31 December 2019	**14,173**	**48,786**	**1,530**	**64,489**

Changes in intangible assets from 1 January until 31 December 2020

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	**Total**
Cost of acquisition/production				
1 January 2020	**47,557**	**53,033**	**1,530**	**102,120**
Additions	1,063	0	973	2,036
Changes to the companies consolidated	1,529	1,446	0	2,975
Disposals	435	0	0	435
Transfers	81	0	–81	0
Exchange rate differences	–622	–393	8	–1,007
31 December 2020	**49,173**	**54,086**	**2,430**	**105,689**
Cumulative depreciation and impairment losses				
1 January 2020	**33,384**	**4,247**	**0**	**37,631**
Depreciation for the year	2,516	0	0	2,516
Impairment losses	1,871	9,060	0	10,931
Disposals	433	0	0	433
Transfers	0	0	0	0
Exchange rate differences	–587	–117	0	–704
31 December 2020	**36,751**	**13,190**	**0**	**49,941**
Net carrying amount as at 31 December 2019	**14,173**	**48,786**	**1,530**	**64,489**
Net carrying amount as at 31 December 2020	**12,422**	**40,896**	**2,430**	**55,748**

As in the previous year, the useful lives for patents are generally 20 years, provided there is no lower statutory period of protection, 3 to 8 years for software, and 3 to 20 years for other intangible assets. These assets are depreciated exclusively on a straight-line basis.

Goodwill is not subject to scheduled amortisation and is only impaired if it is not recoverable.

Goodwill
Goodwill reported, amounting to EUR 40,896 K (previous year: EUR 48,786 K), breaks down as follows:

Cash Generating Units in EUR K	31 Dec 2020	31 Dec 2019
Sto SE & Co. KGaA	15,760	15,760
Beissier S.A.S., La Chapelle la Reine/France	3,635	3,635
Unitex Australia Pty Ltd, Dandenong South/Australia	3,289	3,269
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany	2,780	2,780
Beissier S.A.U., Errenteria/Spain	2,679	2,679
Sto Sp. z o.o., Warsaw/Poland	2,402	2,402
Sto Építöanyag Kft., Dunaharaszti/Hungary	1,764	1,764
VIACOR Polymer GmbH, Rottenburg am Neckar/Germany	1,445	–
Liaver GmbH & Co. KG, Ilmenau/Germany	1,437	1,437
Sto Isoned B.V., Tiel/Netherlands	1,189	1,189
Sto Norge AS, Oslo/Norway	974	1,005
Skyrise Prefab Building Solutions Inc., Pickering/Canada	0	5,754
Ströher GmbH, Dillenburg/Germany	0	3,570
Miscellaneous under EUR 1,000 K	3,542	3,542
Total goodwill	**40,896**	48,786

With the exception of Sto SE & Co. KGaA and Ströher GmbH, the cash-generating units identified for purposes of calculating goodwill are identical to the legal entities. The Sto CGU comprises Sto SE & Co. KGaA, Stühlingen/Germany, Verotec GmbH, Lauingen/Germany, and StoCretec GmbH, Kriftel/Germany. The Ströher CGU comprises Ströher GmbH, Dillenburg/Germany, Ströher Produktions GmbH & Co. KG, Dillenburg/Germany, and GEPADI Fliesen GmbH, Dillenburg/Germany.

(14) Property, plant, and equipment

Changes in property, plant and equipment from 1 January to 31 December 2019

in EUR K	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plant, operating and business equipment	Payments made on account and equipment under construction	Total
Cost of acquisition/production					
1 January 2019	**357,158**	**217,153**	**198,568**	**11,315**	**784,194**
Additions	2,889	6,444	14,619	8,719	32,671
Changes to the companies consolidated	3,635	4,901	419	0	8,955
Disposals	1,953	5,378	8,523	40	15,894
Transfers	5,005	3,535	739	–10,461	–1,182
Exchange rate differences	678	378	532	10	1,598
31 December 2019	**367,412**	**227,033**	**206,354**	**9,543**	**810,342**
Cumulative depreciation and impairment losses					
1 January 2019	**197,197**	**171,214**	**160,622**	**313**	**529,346**
Depreciation for the year	9,221	10,202	11,235	0	30,658
Impairment losses	0	0	0	27	27
Disposals	810	4,191	7,718	0	12,719
Transfers	–19	–269	–394	0	–682
Exchange rate differences	547	311	406	3	1,267
31 December 2019	**206,136**	**177,267**	**164,151**	**343**	**547,897**
Net carrying amount as at 31 December 2018	**159,961**	**45,939**	**37,946**	**11,002**	**254,848**
Net carrying amount as at 31 December 2019	**161,276**	**49,766**	**42,203**	**9,200**	**262,445**

Changes in property, plant and equipment from 1 January to 31 December 2020

in EUR K	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plant, operating and business equipment	Payments made on account and equipment under construction	Total
Cost of acquisition/production					
1 January 2020	**367,412**	**227,033**	**206,354**	**9,543**	**810,342**
Additions	1,713	6,055	12,740	19,202	39,710
Changes to the companies consolidated	1,905	113	159	0	2,177
Disposals	220	4,571	6,678	301	11,770
Transfers	1,518	3,100	275	–4,893	0
Exchange rate differences	–2,491	–2,828	–1,157	–74	–6,550
31 December 2020	**369,837**	**228,902**	**211,693**	**23,477**	**833,909**
Cumulative depreciation and impairment losses					
1 January 2020	**206,136**	**177,267**	**164,151**	**343**	**547,897**
Depreciation for the year	9,457	10,194	12,324	0	31,975
Impairment losses	0	0	0	0	0
Disposals	197	4,477	6,431	41	11,146
Transfers	–103	–12	115	0	0
Exchange rate differences	–1,163	–2,021	–750	–6	–3,940
31 December 2020	**214,130**	**180,951**	**169,409**	**296**	**564,786**
Net carrying amount as at 31 December 2019	**161,276**	**49,766**	**42,203**	**9,200**	**262,445**
Net carrying amount as at 31 December 2020	**155,707**	**47,951**	**42,284**	**23,181**	**269,123**

Property, plant and equipment in the amount of EUR 30,916 K (previous year: EUR 29,357 K) are encumbered with land charges which serve to secure payables to banks. The value amounted to EUR 1,693 K (previous year: EUR 1,530 K).

There were no impairments of property, plant and equipment in the current fiscal year (previous year: EUR 27 K). The impairment in the previous year related to a building under construction and a machine under construction, which were impaired due to lower market prices.

(15) Rights of use

Development of rights of use from 1 January to 31 December 2019

in EUR K	Industrial property rights and licences including software	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plant, operating and business equipment	**Total**
Cost of acquisition/production					
31 December 2018	**0**	**0**	**0**	**0**	**0**
First-time application effects from IFRS 16 as at 1 January 2019	411	53,387	0	12,634	66,432
As at 1 January 2019	**411**	**53,387**	**0**	**12,634**	**66,432**
1 January 2019	**411**	**53,387**	**0**	**12,634**	**66,432**
Additions	0	7,744	692	5,813	14,249
Changes to the companies consolidated	0	1,915	0	192	2,107
Disposals	0	198	81	1,405	1,684
Transfers	0	0	741	367	1,108
Exchange rate differences	0	429	0	56	485
31 December 2019	**411**	**63,277**	**1,352**	**17,657**	**82,697**
Cumulative depreciation and impairment losses					
1 January 2019	**0**	**0**	**0**	**0**	**0**
Depreciation for the year	82	12,201	188	6,610	19,081
Disposals	0	42	81	651	774
Transfers	0	0	513	188	701
Exchange rate differences	0	43	0	17	60
31 December 2019	**82**	**12,202**	**620**	**6,164**	**19,068**
Net carrying amount as at 31 December 2018	**0**	**0**	**0**	**0**	**0**
Net carrying amount as at 31 December 2019	**329**	**51,075**	**732**	**11,493**	**63,629**

Development of rights of use from 1 January to 31 December 2020

in EUR K	Industrial property rights and licences including software	Land, land rights and buildings including plant buildings on land owned by others	Technical equipment and machinery	Other plant, operating and business equipment	**Total**
Cost of acquisition/production					
1 January 2020	**411**	**63,277**	**1,352**	**17,657**	**82,697**
Additions	57	14,177	71	6,909	21,214
Changes to the companies consolidated	0	129	54	181	364
Disposals	0	923	303	2,539	3,765
Transfers	0	–25	0	25	0
Exchange rate differences	–2	–792	0	–194	–988
31 December 2020	**466**	**75,843**	**1,174**	**22,039**	**99,522**
Cumulative depreciation and impairment losses					
1 January 2020	**82**	**12,202**	**620**	**6,164**	**19,068**
Depreciation for the year	96	13,397	259	6,537	20,289
Disposals	0	468	303	2,353	3,124
Transfers	0	0	0	0	0
Exchange rate differences	0	–224	0	–77	–301
31 December 2020	**178**	**24,907**	**576**	**10,271**	**35,932**
Net carrying amount as at 31 December 2019	**329**	**51,075**	**732**	**11,493**	**63,629**
Net carrying amount as at 31 December 2020	**288**	**50,936**	**598**	**11,768**	**63,590**

The Group primarily leases properties and vehicles. In terms of properties, the Group mainly rents Sales Centres and office buildings. Information on the corresponding lease liabilities and further explanations can be found in Notes (10) and (27).

(16) Financial assets accounted for using the equity method

As at 31 December 2020, the carrying amount of shares accounted for using the equity method stands at EUR 11,230 K (previous year: in EUR 10,626 K).

The investments accounted for using the equity method generated a positive result of EUR 605 K (previous year: EUR -513 K), as well as cumulative losses amounting to EUR 0 K (previous year: EUR 160 K).

Companies accounted for using the equity method require the joint approval of all shareholders to pay dividends or repay loans.

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

(17) Inventories

Inventories are measured at the lower of acquisition/production cost and the net realisable amount. The impairment included therein amounted to EUR 9,439 K (previous year: EUR 9,865 K). The impairments are mainly based on overstocking.

in EUR K	31 Dec 2020	31 Dec 2019
Raw materials, processing aids, and operating materials	26,132	22,983
Work in progress	7,523	6,764
Finished products and goods	68,372	70,586
Payments made on account	1,181	920
Total inventories	**103,208**	101,253

Inventory with a carrying amount of EUR 2,564 K (previous year: EUR 2,376 K) serve to secure liabilities to banks. The value amounted to EUR 311 K (previous year: EUR 347 K).

(18) Non-current and current trade receivables

The fair values of trade receivables equal their carrying amounts. Impairments of EUR 23,887 K (previous year: EUR 23,283 K) were taken into account.

Trade receivables with a carrying amount of EUR 1,385 K (previous year: EUR 1,736 K) serve to secure liabilities to banks. The value amounted to EUR 220 K (previous year: EUR 216 K).

in EUR K	current	non-current	Carrying amount as at 31 Dec 2020	current	non-current	Carrying amount as at 31 Dec 2019
from						
Third parties	128,726	1,685	130,411	137,738	1,236	138,974
Companies accounted for using the equity method	2	0	2	2	0	2
Total trade receivables	**128,728**	**1,685**	**130,413**	**137,740**	**1,236**	**138,976**

(19) Non-current and current financial assets

Financial assets due from third parties included financial investments due for settlement in more than three months as well as impairments amounting to EUR 208 K (previous year: EUR 127 K). Receivables from suppliers also included in the financial assets amounted to EUR 4,336 K (previous year: EUR 4,538 K).

As in the previous year, the positive fair value of derivative financial instruments resulted from currency hedging transactions that are explained in more detail under Note (34).

in EUR K	current	non-current	Carrying amount as at 31 Dec 2020	current	non-current	Carrying amount as at 31 Dec 2019
Financial assets from third parties	117,693	26,308	144,001	57,345	4,535	61,880
Other receivables and financial assets from companies accounted for using the equity method	1,380	0	1,380	234	649	883
Positive fair value of derivative financial instruments	340	0	340	1	0	1
Total financial assets	**119,413**	**26,308**	**145,721**	**57,580**	**5,184**	**62,764**

(20) Other non-current and current assets

Other receivables due from third parties include current insurance refund claims from sales risks in the amount of EUR 15,506 K (previous year: EUR 18,491 K).

Other tax reimbursement claims include VAT reimbursement claims of EUR 2,756 K (previous year: EUR 3,404 K).

No impairments were made to Other assets in the period under review and in the previous year.

in EUR K	current	non-current	Carrying amount as at 31 Dec 2020	current	non-current	Carrying amount as at 31 Dec 2019
Other receivables from third parties	17,002	4	17,006	19,929	19	19,948
Other tax reimbursement claims	3,105	0	3,105	3,718	0	3,718
Prepaid expenses	7,375	1,713	9,088	6,696	697	7,392
Other payments made on account	310	0	310	552	0	552
Total other assets	**27,792**	**1,717**	**29,509**	**30,895**	**716**	**31,610**

(21) Cash and cash equivalents

in EUR K	31 Dec 2020	31 Dec 2019
Credit balances with banks	129,689	127,942
Cheques, cash in hand	354	665
Total cash and cash equivalents	**130,043**	128,607

Cash and cash equivalents include impairments due to IFRS 9 in the amount of EUR 169 K (previous year: EUR 235 K).

(22) Equity
Changes in equity and minority interests are analysed in the statement of changes in equity.

Subscribed capital
As at 31 December 2020, the share capital of Sto SE & Co. KGaA amounted to EUR 17,556 K. It was divided into 4,320,000 registered limited ordinary shares and 2,538,000 limited preference shares with no voting rights with a notional nominal value of EUR 2.56 per share. The figures for the 2020 fiscal year correspond to the previous year.

The limited preference shares include a guaranteed minimum dividend of EUR 0.13 and bore a dividend that was EUR 0.06 higher than that of the limited ordinary shares. If the net income of one or more fiscal years is not sufficient for an advance dividend payout of at least EUR 0.13, the missing amounts will be paid in arrears without interest from the net income of the following fiscal years before payout of a dividend.

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

Stotmeister Beteiligungs GmbH, Stühlingen/Germany, holds all but four of the limited ordinary shares of Sto SE & Co. KGaA not in the ownership of Sto SE & Co. KGaA as well as 100 % of the shares of STO Management SE, Stühlingen/Germany. The personally liable partner, STO Management SE, Stühlingen/Germany, does not have a share in the capital of Sto SE & Co. KGaA.

Capital reserves
Capital reserves essentially comprise additions from premiums.

Revenue reserves and other reserves
Revenue reserves and other reserves comprise the following items:

- Reserves for accrued profits:
  Reserves for accrued profits include the profits earned by Sto SE & Co. KGaA and its subsidiaries 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 subsidiaries in a foreign currency.

- Reserve for pensions:
  The post-employment benefit reserve contains actuarial gains or actuarial losses from the post-employment benefit provisions arising from differences between the actual development and the assumed trends as well as changes in the assumptions underlying calculations.

- Treasury stock:
  As at 31 December 2020, Sto SE & Co. KGaA, Stühlingen/Germany, holds treasury stock in the form of 432,000 registered limited ordinary shares with a notional value of EUR 1,106 K. This is equivalent to 10 % of all ordinary shares, or 6.3 % of the share capital of Sto SE & Co. KGaA. Treasury stock is not entitled to dividends. The figures for the 2020 fiscal year correspond to the previous year.

Proposed dividend
In accordance with Sections 278, 58 (4) of the German Stock Corporation Act (Aktiengesetz, AktG), Sto SE & Co. KGaA's dividend payout is based on the unappropriated surplus recorded in the financial statements of Sto SE & Co. KGaA prepared in accordance with German commercial law. Hence, a net income of EUR 71,421 K (previous year: EUR 52,236 K) was recorded.

The personally liable partner of Sto SE & Co. KGaA, STO Management SE, Stühlingen/Germany, proposes via its Executive Board at the Annual General Meeting of Sto SE & Co. KGaA a dividend payout per limited ordinary share of EUR 0.25 (previous year: EUR 0.25) plus a bonus of EUR 4.69 (previous year: EUR 3.78) to form a total of EUR 4.94 (previous year: EUR 4.03), and EUR 0.31 (previous year: EUR 0.31) plus a bonus of EUR 4.69 (previous year: EUR 3.78) to form a total of EUR 5.00 (previous year: EUR 4.09) per limited preference share, and hence a total payout amount of EUR 31,897 K (previous year: EUR 26,049 K).

It is also proposed to retain EUR 39,000 K (previous year: EUR 26,000 K) as revenue reserves and to carry the remaining amount of EUR 524 K (previous year: EUR 187 K) forward to a new account.

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

in EUR K	**31 Dec 2020**	31 Dec 2019	Change in %
Equity attributable to the shareholders of Sto SE & Co. KGaA	**528,614**	**486,139**	**8.7 %**
Current borrowings	7,654	5,142	48.9 %
Non-current borrowings	5,269	3,682	43.1 %
Less Cash and cash equivalents	130,043	128,607	1.1 %
Net assets	**117,120**	**119,783**	**–2.2 %**
% of equity	22.2 %	24.6 %	
Equity ratio	54.6 %	54.3 %	
Return on Capital Employed (ROCE)	**19.7 %**	**14.0 %**	

In the fiscal year of 2020, the equity attributable to the shareholders of Sto SE & Co. KGaA rose by 8.7 % as compared to the previous year. This was essentially the result of the increase in revenue reserves.

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

Due to the credit line agreed with a banking consortium in December 2012, most recently extended in 2017, the Group is subject to complying with financial covenants. In case of non-compliance the lenders are entitled to terminate the loan for good cause. The agreed-upon covenants were complied with in the year under review as well as in the previous year.

(23) Share of minority interests
The shares of equity on the part of minority interests in the past fiscal year were attributable to shareholders of UAB TECH-COAT, Klaipėda/Lithuania, VIACOR Polymer GmbH, Rottenburg am Neckar/Germany as well as Sto Italia Srl, Empoli/Italy. In the previous year, they were attributable to UAB TECH-COAT, Klaipėda/Lithuania, to Skyrise Prefab Building Solutions Inc., Pickering/Canada, as well as to Sto Italia Srl, Empoli/Italy. All non-controlling interests are insignificant for the Group.

(24) Post-employment benefits and similar liabilities

Provisions for post-employment benefits are recognised in accordance with entitlement arising under the company pension scheme. The provided benefits vary according to the legal, tax and economic situation in the individual country and are based on the length of service and the salary of the entitled employees.

The Group pension scheme primarily comprises defined benefit plans which reflect discounted future payments based on provisions and for which the post-employment benefit provisions are calculated using the projected unit credit method in accordance with IAS 19. For defined benefit obligation plans, future obligations are measured on the basis of the benefit entitlements acquired as at the balance sheet date. In making this assessment, assumed relevant trends are taken into account, and actuarial calculations are applied.

Actuarial gains or losses arise from deviations in the actual development (e.g. income and pension increases, changes in interest rates) from the assumptions, and from changes in the assumptions. All actuarial gains and losses are recognised in equity with no impact on profit and loss. Actuarial gains and losses reported within equity are presented in the table on post-employment benefits provisions. The sensitivity analysis shows the impact of deviations in the assumptions.

Benefit obligations assumed by the German companies primarily existed for old-age, invalidity, widow's and orphan's pensions. A prerequisite for receiving benefits was that upon occurrence of the event the employee either had had a minimum period of service of 10 years after the age of 25, or had been in an employment relationship with Sto or had had a non-lapsable entitlement. Old-age pension is granted with receiving state pension. The monthly old-age or invalidity pension amounts to between EUR 5.11 and EUR 9.20 per year of service and depending on the employee's status. The widow's pension amounts to 60 % of the old-age and invalidity pension.

In addition, the Group had defined contribution plans, whose current contribution payments (excluding contributions to the statutory pension funds) were reported as post-employment benefit expenses. For these plans, the Company paid contributions into public or private pension funds in accordance with statutory or contractual obligations. Upon payment of the contributions, the company had no further benefit obligations.

Expenses from defined contribution plans amounted to EUR 1,081 K (previous year: EUR 1,100 K). Contributions to statutory pension funds came to EUR 21,377 K (previous year: EUR 21,438 K).

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

Summary of the post-employment benefit provisions

in EUR K	2020	2019
Pension plan of the Euro companies	121,609	113,588
Pension plan of Sto AG, Switzerland	10,857	10,228
Total	**132,466**	123,816

Changes in post-employment benefit provisions

Pension plan of the Euro companies

in EUR K	Present value of the defined-benefit obligation (I)	Fair value of the plan assets (II)	Liability from the defined-benefit obligation (I) – (II)
As at 1 January 2019	**98,757**	**9,348**	**89,409**
Current service cost	3,207	0	3,207
Interest expense/income	1,905	181	1,724
Expenses for/income from post-employment benefit obligations recognised through profit and loss	**5,112**	**181**	**4,931**
Pension benefits paid	**–2,231**	**0**	**–2,231**
Actuarial gains and losses from changes in demographic assumptions	834	0	834
Actuarial gains and losses from changes in financial assumptions	22,002	1,416	20,586
Experience-based adjustments	298	0	298
Profit/loss from reassessment recognised in other earnings	**23,134**	**1,416**	**21,718**
Employer contributions	**0**	**239**	**–239**
As at 31 December 2019	**124,772**	**11,184**	**113,588**

Pension plan of the Euro companies

in EUR K	Present value of the defined-benefit obligation (I)	Fair value of the plan assets (II)	Liability from the defined-benefit obligation (I) – (II)
As at 1 January 2020	**124,772**	**11,184**	**113,588**
Current service cost	4,369	0	4,369
Interest expense/income	1,181	101	1,080
Expenses for/income from post-employment benefit obligations recognised through profit and loss	**5,550**	**101**	**5,449**
Pension benefits paid	**–3,302**	**–751**	**–2,552**
Actuarial gains and losses from changes in demographic assumptions	347	0	347
Actuarial gains and losses from changes in financial assumptions	5,128	113	5,015
Experience-based adjustments	112	0	112
Profit/loss from reassessment recognised in other earnings	**5,587**	**113**	**5,474**
Employer contributions	**0**	**350**	**–350**
As at 31 December 2020	**132,606**	**10,997**	**121,609**

Current service costs are included in staff costs; interest expenses on the obligation is reported under interest expenses, Note (10).

The plan assets of the Euro companies are qualifying insurance contracts in the form of almost risk-free direct insurances. The contributions to the plan assets for the following fiscal year are expected to amount to EUR 136 K (previous year: EUR 130 K).

The calculation of post-employment benefit provisions was based on the following assumptions.

	Germany		Outside of Germany	
	2020	2019	**2020**	2019
Discount rate as at 31 December in %	0.55	0.95	0.55	0.95
Future pension increases in %	1.23	1.56	2.40	2.40
Age of retirement in years	65	65	62 – 65	62 – 65

Since 31 December 2018, the 'Richttafel 2018 G' (Reference Table 2018 G) by Prof Dr Klaus Heubeck has been used as the biometric basis for calculations for German companies.
The running period of the performance-oriented obligation of the Euro companies averaged at 20.98 years (previous year: 20.58 years).

Pension plan of Sto AG, Switzerland

in EUR K	Present value of the defined-benefit obligation (I)	Fair value of the plan assets (II)	Liability from the defined-benefit obligation (I) – (II)
As at 1 January 2019	**35,620**	**25,762**	**9,858**
Currency differences	**1,382**	**1,005**	**377**
Current service cost	1,204	0	1,204
Interest expense/income	343	248	95
Past service costs	0	0	0
Expenses for/income from post-employment benefit obligations recognised through profit and loss	**1,547**	**248**	**1,299**
Pension benefits paid	**–3,444**	**–3,444**	**0**
Actuarial gains and losses from changes in demographic assumptions	–3,022	0	–3,022
Actuarial gains and losses from changes in financial assumptions	2,944	116	2,828
Experience-based adjustments	–116	0	–116
Profit/loss from reassessment recognised in other earnings	**–194**	**116**	**–310**
Employer contributions	**0**	**996**	**–996**
Employee contributions	**2,899**	**2,899**	**0**
As at 31 December 2019	**37,810**	**27,582**	**10,228**

Pension plan of Sto AG, Switzerland

in EUR K	Present value of the defined-benefit obligation (I)	Fair value of the plan assets (II)	Liability from the defined-benefit obligation (I) – (II)
As at 1 January 2020	**37,810**	**27,582**	**10,228**
Currency differences	**171**	**127**	**44**
Current service cost	1,246	0	1,246
Interest expense/income	38	28	10
Past service costs	–84	0	–84
Expenses for/income from post-employment benefit obligations recognised through profit and loss	**1,200**	**28**	**1,172**
Pension benefits paid	**–4,227**	**–4,227**	**0**
Actuarial gains and losses from changes in demographic assumptions	0	0	0
Actuarial gains and losses from changes in financial assumptions	478	359	119
Experience-based adjustments	353	0	353
Profit/loss from reassessment recognised in other earnings	**831**	**359**	**472**
Employer contributions	**0**	**1,059**	**–1,059**
Employee contributions	**3,473**	**3,473**	**0**
As at 31 December 2020	**39,258**	**28,401**	**10,857**

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

The contributions to the plan assets for the following fiscal year are expected to amount to EUR 1,049 K (previous year: EUR 1,036 K).

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

	Switzerland	
	2020	2019
Discount rate as at 31 December in %	0.15	0.10
Future salary increases in %	1.00	1.00
Age of retirement in years	65	65

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

The running period of the performance-oriented liability averages at 14.60 years at the end of the reporting period (previous year: 14.80 years).

The following shows a quantitative sensitivity analysis of the most important assumptions as at 31 December 2020:

in EUR K	Effects on the performance-based obligation of the **Euro countries**	
	31 Dec 2020	31 Dec 2019
Discount rate		
Decline by 0.5 %	15,261	13,585
Increase by 0.5 %	–12,944	–12,765
Pensions		
Decline by 1.0 %	–15,374	–17,718
Increase by 1.0 %	18,940	14,051
Life expectancy		
Decrease by 1 year	–5,054	–5,483
Increase by 1 year	5,266	4,300
Retirement age		
Decrease by 1 year	2,327	1,765
Increase by 1 year	–2,473	–3,289

in EUR K	Effects on the performance-based obligation of **Sto AG Switzerland**	
	31 Dec 2020	31 Dec 2019
Discount rate		
Decline by 0.5 %	3,083	3,030
Increase by 0.5 %	–2,708	–2,658
Salary adjustments		
Decline by 0.5 %	–243	–248
Increase by 0.5 %	239	244
Life expectancy		
Decrease by 1 year	–598	–575
Increase by 1 year	577	554

To determine the above sensitivity analysis, the provisions were determined based on the internationally applicable projected unit credit method taking into consideration the changed parameters while keeping the other parameters steady. These provisions were then compared to the provision as at 31 December 2020.

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

in EUR K	Expected disbursements as at 31 Dec 2020	Expected disbursements as at 31 Dec 2019
Within the next 12 months	4,721	4,376
Between 1 and 5 years	23,355	21,957
Between 5 and 10 years	32,396	31,670
Expected disbursements within the next 10 years	**60,472**	58,003

(25) Non-current and current provisions

in EUR K	Human resources division	Production division	Sales division	Other provisions	Total
As at 1 January 2019	**8,165**	**1,187**	**47,959**	**2,713**	**60,024**
Currency differences	7	0	–243	–4	–240
Consumption	–1,547	–46	–19,080	–1,342	–22,015
Additions/formation	2,462	108	30,355	1,869	34,794
Changes to the companies consolidated	0	0	90	185	275
Reclassification	0	0	0	0	0
Compounding of interest	87	13	93	0	193
Reversal	–1,469	0	–5,265	–191	–6,925
As at 31 December 2019	**7,705**	**1,262**	**53,909**	**3,230**	**66,106**
Currency differences	–19	0	823	–18	786
Consumption	–2,389	–89	–13,004	–963	–16,445
Additions/formation	5,590	366	12,617	3,302	21,875
Changes to the companies consolidated	0	0	0	136	136
Reclassification	0	1	128	–129	0
Compounding of interest	53	11	68	10	142
Reversal	–312	–6	–3,276	–376	–3,970
As at 31 December 2020	**10,628**	**1,545**	**51,265**	**5,192**	**68,630**
of which current	**6,103**	**421**	**38,357**	**4,551**	**49,432**
of which non-current	**4,525**	**1,124**	**12,908**	**641**	**19,198**

Provisions in the staff area were set aside for anniversary expenses, termination settlements and similar obligations, among other things.

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

Provisions in the sales area essentially comprise provisions for warranties, that were set up for individual cases, compensation claims of commercial representatives as well as provisions for litigation risks.

The most significant warranty provision of EUR 25,019 K (previous year: EUR 28,625 K) is contrasted by an insurance refund of EUR 15,506 K (previous year: EUR 18,491 K) which is reported under other current assets.

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

(26) Non-current and current borrowings

in EUR K	current	non-current	Carrying amount as at 31 Dec 2019
Liabilities to banks	4,142	3,682	7,824
Other borrowings	1,000	0	1,000
Total borrowings	**5,142**	**3,682**	**8,824**

in EUR K	current	non-current	Carrying amount as at 31 Dec 2020
Liabilities to banks	5,088	2,716	7,804
Other borrowings	2,566	2,553	5,119
Total borrowings	**7,654**	**5,269**	**12,923**

(27) Non-current and current lease liabilities

in EUR K	current	non-current	Carrying amount as at 31 Dec 2020	current	non-current	Carrying amount as at 31 Dec 2019
Liabilities from leases	18,583	46,153	64,736	18,514	47,217	65,731

The current and future payments from lease liabilities can be seen in the following tables:

in EUR K	2019	up to 1 year	1–5 years	5–10 years	31 Dec 2019
Lease payments	19,893	19,058	42,111	6,267	67,436
Interest portions	604	544	996	165	1,705
Carrying amount/present value of lease liabilities	**19,289**	**18,514**	**41,115**	**6,102**	**65,731**
Payments for short-term leases	1,649	1,016	0	0	1,016
Payments for small-ticket leases	772	238	12	0	250

in EUR K	2020	up to 1 year	1–5 years	5–10 years	31 Dec 2020
Lease payments	21,700	19,190	37,342	10,216	66,748
Interest portions	604	607	971	434	2,012
Carrying amount/present value of lease liabilities	**21,096**	**18,583**	**36,371**	**9,782**	**64,736**
Payments for short-term leases	4,085	1,198	0	0	1,198
Payments for small-ticket leases	378	134	226	0	360

Total lease payments in the current year amounted to EUR 26,163 K (previous year: EUR 22,314 K).

Potential future future cash outflows from leases were not included in the lease liability as it was not sufficiently certain that the leasing contracts would be renewed.

Cash outflows from leases possible in the future are shown in the following table:

in EUR K	2020	2019
From extension and termination options	6,915	6,832
From contracts with residual value guarantees	110	111
From contracts not yet active	1,038	1,873

Current earnings include the following additional expenses relating to leases:

in EUR K	2020	2019
Expense for short-term leases	4,085	1,649
Expense for leases of low value	378	772
Expenses (income) from variable lease payments	–47	83
Amortisation of rights of use	20,289	19,081

Information on the rights of use and further explanations can be found in Notes (10) and (15).

(28) Non-current and current trade payables

in EUR K	current	non-current	Carrying amount as at 31 Dec 2020	current	non-current	Carrying amount as at 31 Dec 2019
from						
Third parties	51,421	0	51,421	48,787	151	48,938
Companies accounted for using the equity method	59	0	59	105	0	105
Total trade payables	**51,480**	**0**	**51,480**	**48,892**	**151**	**49,043**

The fair values of trade payables correspond to the carrying amounts.

(29) Non-current and current financial liabilities

in EUR K	current	non-current	Carrying amount as at 31 Dec 2020	current	non-current	Carrying amount as at 31 Dec 2019
Negative fair values of derivative financial instruments	938	0	938	800	9	809
Other liabilities						
towards customers	20,447	0	20,447	17,849	0	17,849
towards employees	1,258	0	1,258	1,034	0	1,034
Other	16,021	225	16,246	14,754	260	15,014
Total financial liabilities	**38,664**	**225**	**38,899**	**34,437**	**269**	**34,706**

As in the previous year, the negative fair value of derivative financial instruments resulted from currency hedging transactions explained in Note (34) in more detail.

(30) Non-current and current other liabilities

in EUR K	current	non-current	Carrying amount as at 31 Dec 2020	current	non-current	Carrying amount as at 31 Dec 2019
Advance payment received on orders	1,775	0	1,775	2,358	0	2,358
Other liabilities						
from other taxes	10,381	0	10,381	9,938	0	9,938
social security liabilities	4,254	0	4,254	3,424	0	3,424
towards employees	29,772	0	29,772	27,075	0	27,075
Other	6,321	3	6,324	6,220	10	6,230
Total other liabilities	**52,503**	**3**	**52,506**	**49,015**	**10**	**49,025**

(31) Further notes on financial instruments in accordance with IFRS 7

Reconciliation of balance sheet items with financial instrument categories

in EUR K	Measurement category in accordance with IFRS 9	**Carrying amount**	Financial instruments				
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet in accordance with IFRS 16	Not in the scope of application of IFRS 7/hedge accounting
		31 Dec 2019	Carrying amount	Fair value			
Assets							
Trade receivables	FAAC	138,976	138,976	138,976	0	0	0
Financial assets							
- Other investments	FVTPL	4	0	0	4	0	0
- Financial assets held for trading	FVOCI	0	0	0	0	0	0
- Derivative assets without hedge relationship	FVTPL	1	0	0	1	0	0
- Other financial assets	FAAC	10,179	10,179	10,179	0	0	0
- Financial assets – Associated companies	FAAC	883	883	883	0	0	0
- Financial investments	FAAC	51,697	51,697	51,405	0	0	0
Total financial assets		62,764	62,759	62,467	5	0	0
Cash and cash equivalents	FAAC	128,607	128,607	128,607	0	0	0
Liabilities							
Borrowings	FLAC	8,824	8,824	8,981	0	0	0
Lease liabilities	NA	65,731	0	0	0	65,731	0
Trade payables	FLAC	49,043	49,043	49,043	0	0	0
Financial liabilities							
- Derivative liabilities without hedge relationship	FLTPL	809	0	0	809	0	0
- Other financial liabilities	FLAC	33,897	33,897	33,897	0	0	0
Total financial liabilities		34,706	33,897	33,897	809	0	0

in EUR K	Measurement category in accordance with IFRS 9	**Carrying amount**	Financial instruments				
			Amortised costs of acquisition		Fair value	Value recognition in the balance sheet in accordance with IFRS 16	Not in the scope of application of IFRS 7/hedge accounting
		31 Dec 2020	Carrying amount	Fair value			
Assets							
Trade receivables	FAAC	130,413	130,413	130,413	0	0	0
Financial assets							
- Other investments	FVTPL	4	0	0	4	0	0
- Financial assets held for trading	FVOCI	24,894	0	0	24,894	0	0
- Derivative assets without hedge relationship	FVTPL	340	0	0	340	0	0
- Other financial assets	FAAC	6,287	6,287	6,287	0	0	0
- Financial assets – Associated companies	FAAC	1,378	1,378	1,378	0	0	0
- Financial investments	FAAC	112,818	112,818	111,154	0	0	0
Total financial assets		145,721	120,483	118,819	25,238	0	0
Cash and cash equivalents	FAAC	130,043	130,043	130,043	0	0	0
Liabilities							
Borrowings	FLAC	12,923	12,923	12,887	0	0	0
Lease liabilities	NA	64,736	0	0	0	64,736	0
Trade payables	FLAC	51,480	51,480	51,480	0	0	0
Financial liabilities							
- Derivative liabilities without hedge relationship	FLTPL	938	0	0	938	0	0
- Other financial liabilities	FLAC	37,951	37,951	37,951	0	0	0
Total financial liabilities		38,889	37,951	37,951	938	0	0

The carrying amounts of the financial instruments are aggregated as follows in accordance with the categories stipulated in IFRS 9:

in EUR K	31 Dec 2020	31 Dec 2019
Financial assets measured at fair value through profit and loss (FVTPL)	344	5
Financial assets measured at amortised cost (FAAC)	380,939	330,342
Financial assets measured at fair value through other comprehensive income (FVOCI)	24,894	0
Financial liabilities measured at amortised cost (FLAC)	102,354	91,764
Financial liabilities measured at fair value through profit and loss (FLTPL)	938	809

Balance sheet items measured at fair value

in EUR K	31 Dec 2019	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
- Derivatives with no hedge relationship	1	0	1	0
- Other	4	0	0	4
Financial assets measured at fair value with no impact on profit and loss				
- Financial assets held for trading	0	0	0	0
Financial assets measured at fair value	**5**	**0**	**1**	**4**
Financial liabilities measured at fair value through profit and loss				
- Derivatives with no hedge relationship	809	0	809	0
Financial liabilities measured at fair value	**809**	**0**	**809**	**0**

in EUR K	31 Dec 2020	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
- Derivatives with no hedge relationship	340	0	340	0
- Other	4	0	0	4
Financial assets measured at fair value with no impact on profit and loss				
- Financial assets held for trading	24,894	24,894	0	0
Financial assets measured at fair value	**25,238**	**24,894**	**340**	**4**
Financial liabilities measured at fair value through profit and loss				
- Derivatives with no hedge relationship	938	0	938	0
Financial liabilities measured at fair value	**938**	**0**	**938**	**0**

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

Level 1
Financial instruments traded in active markets, the listed prices of which were adopted unchanged for measurement purposes.

Level 2
The measurement is made on the basis of valuation methods in which the influential factors are derived either directly or indirectly from observable market data. They are measured based on the observable exchange rates, the interest structure curves of the respective currencies as well as the currency-related basic spreads between the respective currencies. The derivatives are currency hedges only.

Level 3
The measurement is effected using valuation methods where the influential factors are not based exclusively on observable market data.

Neither any reclassifications between the levels and nor any additions or disposals were carried out during the reporting period.

The measurement of the portfolio of financial instruments at fair value as at 31 December 2020 resulted in net expenses of EUR 598 K (previous year: income of EUR 808 K). The valuation result from fair value measurement is a component of Other operating income (Note 3) and Other operating expenses (Note 6). No netting takes place.

Development of impairments of financial instruments measured at amortised acquisition costs (trade receivables, other receivables and financial assets):

in EUR K	Trade receivables	Financial assets FAAC
As at 1 January 2019	**20,572**	**825**
Exchange rate differences	23	3
Additions	7,763	21
Consumption	–2,188	–26
Reversals	–3,154	–470
Changes to the companies consolidated	267	9
As at 31 December 2019	**23,283**	**362**

in EUR K	Trade receivables	Financial assets FAAC
As at 1 January 2020	**23,283**	**362**
Exchange rate differences	–538	–6
Additions	6,713	81
Consumption	–2,373	0
Reversals	–4,126	–92
Changes to the companies consolidated	928	0
As at 31 December 2020	**23,887**	**345**

Impairments in the reporting period

The bases of measurement shown below for determining provisions for loss in accordance with IFRS 9 result from the underlying gross receivables less recoverable VAT, collateral held by customers and credit-insured amounts.

IFRS 9 Provisions for loss on trade receivables as at 31 December 2019:

in EUR K	Not due:	1–30 days	31–60 days	61–90 days	91–120 days	121–180 days	181–364 days	365–730 days	> 730 days	**Total**
Trade receivables	66,926	14,839	5,364	2,172	1,551	1,489	1,587	783	1,506	**96,217**
Risk coefficient	2 %	3 %	6 %	12 %	15 %	20 %	26 %	85 %	95 %	
Provisions for loss	1,339	445	322	261	233	298	413	666	1,431	**5,408**

IFRS 9 Provisions for loss on trade receivables as at 31 December 2020:

in EUR K	Not due:	1–30 days	31–60 days	61–90 days	91–120 days	121–180 days	181–364 days	365–730 days	> 730 days	**Total**
Trade receivables	64,206	9,661	3,750	1,790	498	1,015	1,081	2,016	3,057	**87,074**
Risk coefficient	2 %	3 %	6 %	12 %	15 %	20 %	26 %	85 %	95 %	
Provisions for loss	1,284	290	225	215	75	203	281	1,714	2,904	**7,191**

IFRS 9 Provisions for loss on financial assets as at 31 December 2019:

in EUR K	Bases of measurements	Discount in %	Provisions for loss
Financial investments, and cash and cash equivalents (FAAC)	180,629	0.18 %	325
Financial investment at fair value OCI (FVOCI)	0	0.18 %	0
Other financial assets – Associated companies (FAAC)	884	0.16 %	1
Other financial assets – Third parties (FAAC)	10,206	0.26 %	27

IFRS 9 Provisions for loss on financial assets as at 31 December 2020:

in EUR K	Bases of measurements	Discount in %	Provisions for loss
Financial investments, and cash and cash equivalents (FAAC)	243,177	0.13 %	316
Financial investment at fair value OCI (FVOCI)	24,926	0.13 %	32
Other financial assets – associated companies (FAAC)	1,380	0.16 %	2
Other financial assets – Third parties (FAAC)	6,303	0.26 %	16

Total impairment loss, including individual impairments, as at 31 December 2019:

in EUR K	Impairments of the period	of which recovery measures
Trade receivables	7,763	7,763
Financial assets (FAAC)	21	21

Total impairment loss, including individual impairments, as at 31 December 2020:

in EUR K	Impairments of the period	of which recovery measures
Trade receivables	6,713	6,713
Financial assets (FAAC)	81	81

In the case of trade receivables, items that are overdue are the key indicator of impairment or the assumption of non-realisability. If trade receivables become increasingly overdue, it is assumed that there will also be an increasing lack of realisability in accordance with IFRS 9.

Written-off trade receivables subject to enforcement measures continue to be regularly reviewed for the possibility of recovery.

The following table shows the carrying amounts and fair values of the financial instruments as at 31 December 2020, excluding financial instruments which typically barely differ between carrying amount and fair value:

in EUR K	Carrying amount 31 Dec 2020	Fair value 31 Dec 2020	Fair value Level
Financial assets			
Non-current			
Investments	4	4	Level 3
Loans	2	2	Level 2
Financial investments	25,786	26,071	Level 2
Other financial assets	516	516	Level 2
Total non-current financial assets	**26,308**	**26,593**	
Current			
Financial investments	111,926	109,977	Level 2
Loans	783	783	Level 2
Forward exchange contracts	340	340	Level 2
Other financial assets	6,364	6,364	Level 2
Total current financial assets	**119,413**	**117,464**	
Total financial assets	**145,721**	**144,057**	
Financial liabilities			
Non-current			
Borrowings	5,269	5,264	Level 2
Other financial liabilities	225	225	Level 2
Total non-current financial liabilities	**5,494**	**5,489**	
Current			
Borrowings	7,654	7,654	Level 2
Forward exchange contracts	938	938	Level 2
Other financial liabilities	37,726	37,726	Level 2
Total current financial liabilities	**46,318**	**46,318**	
Total financial liabilities	**51,812**	**51,807**	

The carrying amounts of cash and cash equivalents, trade receivables and liabilities as well as current borrowings and other liabilities nearly correspond to the fair values due to their short terms. The financial investments and borrowings are mainly borrower's note loans, Money Market Funds, fixed-term deposits, loans and current account credits to banks. The fair values were determined using the present-value method based on interest rates appropriate to maturities and creditworthiness.

Other disclosures

(32) 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 between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities (IAS 7 Statement of Cash Flows).

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

Based on earnings after taxes (EAT), the cash flow is indirectly derived from operating activities. Earnings after taxes (EAT) are adjusted for taxes on income and earnings as well as for non-cash expenses (essentially depreciation) and non-cash income. Cash flow from operating activities reflects changes in working capital.

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

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

(33) Segment reporting
For the purpose of corporate management by the responsible corporate entity – the personally liable partner STO Management SE – the Group is divided up into geographical business units. These were divided into the operating segments of Western Europe and Other, with the segment Other including business in the regions of Northern/Eastern Europe and America/Asia/Pacific in line with internal reporting. The business segment of Western Europe comprises business in the regions of the Euro zone (without Finland, Lithuania, and Slovakia), Switzerland, as well as the United Kingdom.

The activities of all segments included the production and distribution of facade systems, facade coatings, interior products and other product groups.

The netting prices between segments conform to arms-length conditions. Transfers between business segments are eliminated on consolidation.

Internal reporting is carried out in accordance with IFRS.

The segment results were reported in the levels EBITDA, EBIT and EBT.
The elimination of earnings between the segments as well as earnings from investments of companies accounted for using the equity method in the amount of EUR 605 K (previous year: EUR -513 K) were recorded in EBT in the consolidation column.

Depreciation/amortisation relate to Property, plant and equipment, Intangible assets, and Rights of use. Investments relate to Property, plant and equipment, and Intangible assets.

In the previous year, non-scheduled depreciation/amortisation on property, plant, and equipment was carried out in the segment of Western Europe in the amount of EUR 20 K and in the segment Other in the area of Northern/Eastern Europe in the amount of EUR 7 K.

In the year under review, the impairment test in the segment of Western Europe resulted in a necessary depreciation of Intangible assets of EUR 5,441 K at Ströher GmbH. This includes impairment of goodwill of EUR 3,570 K. In the segment of Other, in the area of America/Asia/Pacific, the goodwill of Skyrise Prefab Building Solutions Inc. was written off due to the impairment test in the amount of EUR 5,490 K.

Segment assets mainly comprise Property, plant and equipment, Intangible assets, Rights of use, Inventories, Trade receivables from third parties as well as Other receivable and Financial assets from third parties.

Income tax receivables in the amount of EUR 1,917 K (previous year: EUR 1,887 K), and Deferred tax receivables in the amount of EUR 33,291 K (previous year: EUR 29,807 K) are listed in the 'Reconciliation/consolidation booking entries' column under 'Segment assets'. No material adjustments were made to earnings.

Owing to the broad customer structure, there is no customer with whom 10 % or more of sales revenues are generated.

The breakdown of sales revenues is made according to the customer’s head office.

in EUR K	2019			
	Germany	France	Others	**Total**
External revenues	611,306	141,264	645,657	**1,398,227**
Intangible assets, Property, plant and, equipment, and Rights of use	212,483	32,650	145,429	**390,562**

in EUR K	2020			
	Germany	France	Others	**Total**
External revenues	660,103	137,516	635,381	**1,433,000**
Intangible assets, Property, plant and, equipment, and Rights of use	208,508	30,980	148,973	**388,461**

(34) Financial risk management and financial instruments

Hedging policy

The Sto Group's international activities expose it to interest and currency risks in particular. The goal of risk management is to adequately hedge currency risks that can arise during planning. Forward exchange transactions with a term of up to one year are generally concluded for this purpose.

Guidelines have been adopted to govern the scope for hedging and internal monitoring. Within the framework of these guidelines, only hedging transactions with approved counterparties may be concluded only to hedge existing or planned transactions. As a matter of principle, the type and scope of hedging operations are determined by the underlying transaction.

Liquidity risk

Detailed liquidity planning is the basis of liquidity management. On the balance sheet date, cash and cash equivalents as well as existing, unused credit lines in the amount of EUR 123.9 million (previous year: EUR 118.2 million) were available. These credit lines are mainly a syndicated loan, which was taken out in 2012 and which was extended until 2022 in 2017.

The following overview sets out the contractually agreed cash outflows from financial instruments including interest, not including cash outflows from leases shown in Note (27).

in EUR K	Cash outflows			31 Dec 2019
	up to 1 year	1–5 years	5–10 years	
Borrowings	5,238	3,809	0	9,047
Trade payables	48,892	151	0	49,043
Other financial liabilities	33,636	260	0	33,896
Derivatives	47,394	2,349	0	49,743
Total cash outflows	**135,160**	**6,569**	**0**	**141,729**

in EUR K	Cash outflows			31 Dec 2020
	up to 1 year	1–5 years	5–10 years	
Borrowings	7,801	5,390	1	13,192
Trade payables	51,480	0	0	51,480
Other financial liabilities	37,726	225	0	37,951
Derivatives	82,401	0	0	82,401
Total cash outflows	**179,408**	**5,615**	**1**	**185,024**

There are contingencies in the amount of EUR 793 K (previous year: EUR 663 K) for which no liability is currently expected to arise (Note 35).

The amounts of the derivatives shown correspond to the un-discounted cash flows. These payments can be processed on a gross or net basis.

In the following table, the cash outflows are compared to the corresponding cash inflows:

in EUR K	Inflows/outflows of cash and cash equivalents as at 31 Dec 2019			Total
	up to 1 year	1–5 years	5–10 years	
Inflow	46,595	2,340	0	48,935
Outflow	47,394	2,349	0	49,743
Balance	**–799**	**–9**	**0**	**–808**

in EUR K	Inflows/outflows of cash and cash equivalents as at 31 Dec 2020			Total
	up to 1 year	1–5 years	5–10 years	
Inflow	81,803	0	0	81,803
Outflow	82,401	0	0	82,401
Balance	**–598**	**0**	**0**	**–598**

The following overview shows the changes in the liabilities from financing activities.

in EUR K	1 January 2019	First-time application effect	Changes to the companies consolidated	Cash flows	New leases	Reclassification of maturity	Currency translation effects	31 December 2019
Current interest-bearing loans	11,272	0	2,670	–9,429	0	630	–1	5,142
Non-current interest-bearing loans	3,116	0	1,740	–585	0	–630	41	3,682
Total interest-bearing loans	**14,388**	**0**	**4,410**	**–10,014**	**0**	**0**	**40**	**8,824**
Current lease liabilities	187	16,820	125	–19,289	2,086	18,512	73	18,514
Non-current lease liabilities	228	52,004	1,890	0	11,253	–18,512	354	47,217
Total lease liabilities	**415**	**68,824**	**2,015**	**–19,289**	**13,339**	**0**	**427**	**65,731**
Total liabilities from financing activities	**14,803**	**68,824**	**6,425**	**–29,303**	**13,339**	**0**	**467**	**74,555**

in EUR K	1 January 2020	First-time application effect	Changes to the companies consolidated	Cash flows	New leases	Reclassifi-cation of maturity	Currency translation effects	31 December 2020
Current interest-bearing loans	5,142	0	3,650	–2,774	0	1,636	0	7,654
Non-current interest-bearing loans	3,682	0	730	2,494	0	–1,636	–1	5,269
Total interest-bearing loans	**8,824**	**0**	**4,380**	**–280**	**0**	**0**	**–1**	**12,923**
Current lease liabilities	18,514	0	156	–21,096	3,344	17,977	–312	18,583
Non-current lease liabilities	47,217	0	208	0	17,122	–17,977	–417	46,153
Total lease liabilities	**65,731**	**0**	**364**	**–21,096**	**20,466**	**0**	**–729**	**64,736**
Total liabilities from financing activities	**74,555**	**0**	**4,744**	**–21,376**	**20,466**	**0**	**–730**	**77,659**

Default risk arising from financial assets
The credit and default risk arising from financial assets entails the risk of a counterparty defaulting and is limited to the maximum net carrying amount of the receivable due from the defaulting counterparty.

In connection with the investment of cash and the portfolio of derivative financial assets, there are generally default risks due to the risks of financial institutions failing to honour their obligations. The resulting risk was controlled by means of diversification and the careful selection of counterparties. At the moment, no cash investments or derivative financial assets are overdue or individually impaired on account of default risks.

The default risk of financial assets in the form of trade receivables was taken into account by means of impairments. There was no concentration of default risks, which were mainly measured by cluster risks, i.e. risk concentrations with regard to borrower rating classes, customer structure and proportion of receivables from a customer in relation to total receivables.

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

in EUR K	of which individually impaired	of which not due, and impaired in accordance with IFRS 9	of which overdue and impaired in accordance with IFRS 9	**Carrying amount 31 Dec 2019**
Financial assets	0	62,759	0	62,759
Trade receivables	7,159	97,801	34,016	138,976
Cash	0	128,607	0	128,607
Total financial instruments measured at amortised cost of acquisition	**7,159**	**289,167**	**34,016**	**330,342**

in EUR K	of which individually impaired	of which not due, and impaired in accordance with IFRS 9	of which overdue and impaired in accordance with IFRS 9	**Carrying amount 31 Dec 2020**
Financial assets	0	120,483	0	120,483
Trade receivables	4,865	99,130	26,418	130,413
Cash	0	130,043	0	130,043
Total financial instruments measured at amortised cost of acquisition	**4,865**	**349,656**	**26,418**	**380,939**

Trade receivables are assessed on the basis of the creditworthiness of the respective customer. Information is obtained and regularly updated to assess the credit quality of financial assets which are neither overdue nor adjusted. On the basis of this and other information, the financial assets are classified and credit limits defined.

Collateral amounting to EUR 6,556 K (previous year: EUR 5,312 K) was held in the financial year for overdue and impaired trade receivables.

This mainly relates to pledged land and bank guarantees received, which can only be used in case of late payments.

The gross carrying amount of receivables which were individually impaired stood at EUR 21,561 K (previous year: EUR 21,977 K) in the reporting period. The gross carrying amount of receivables which are subject to impairment in accordance with IFRS 9 stood at EUR 132,739 K (previous year: EUR 140,297 K).

The gross carrying amount of the financial assets measured at amortised cost (FAAC) with individual impairments stood at EUR 11 K (previous year: EUR 9 K).

The financial assets measured at fair value with and without an impact on profit and loss were neither overdue nor individually impaired. In the case of financial instruments that are not due and that are impaired in accordance with IFRS 9, there were no signs of possible default as at the 2020 balance sheet date.

Maturity analysis of overdue financial instruments impaired in accordance with IFRS 9:

Maturity analysis of overdue financial instruments impaired in accordance with IFRS 9:

in EUR K	overdue				
	1–30 days	31–60 days	61–90 days	> 90 days	**31 Dec 2019**
Trade receivables	18,246	7,336	2,374	6,060	34,016
Total overdue and impaired financial instruments in accordance with IFRS 9	**18,246**	**7,336**	**2,374**	**6,060**	**34,016**

Maturity analysis of overdue financial instruments impaired in accordance with IFRS 9:

in EUR K	overdue				
	1–30 days	31–60 days	61–90 days	> 90 days	**31 Dec 2020**
Trade receivables	11,099	4,848	2,333	8,138	26,418
Total overdue and impaired financial instruments in accordance with IFRS 9	**11,099**	**4,848**	**2,333**	**8,138**	**26,418**

Currency risk
Payments in foreign currency are determined in the budget phase for the following year. On the basis of the planned payment flows, suitable hedging strategies are created, agreed upon with the relevant bodies, and implemented. The planned cash positions are hedged without exception through hedging instruments congruent with the time and economic state from the area of derivatives. The currency hedge mainly affected CZK/EUR, HUF/EUR, RUB/EUR, SGD/EUR, USD/EUR, NOK/EUR, SEK/EUR, PLN/EUR, CAD/EUR, CHF/EUR, GBP/EUR, DKK/EUR, AUD/EUR as well as CAD/USD. The changes in fair value were recognised in the statement of profit and loss with an impact on profit and loss.

The main operative currency risks are due to the manufacture of products in Germany and their subsequent selling and delivery to subsidiaries outside of Germany in Euro. Currency risks occurred due to business completed in euros with subsidiaries outside the Euro zone, mainly in Switzerland, Sweden, Poland, Hungary, Great Britain, Norway, and the Czech Republic. All non-functional currencies in which the Group holds financial instruments are used as relevant risk variables in the sensitivity analysis stipulated by IFRS 7.

The essential currency risk results from the change in the assets and liabilities in the non-functional currency pair CNY/EUR. If the Chinese renminbi had been 10 % lower/higher against the euro, pre-tax earnings would have been up by EUR 94 K (previous year: EUR 95 K), or down by EUR 77 K (previous year: EUR 78 K).

Interest rate risk
Interest rate risks in accordance with IFRS 7 arise due to possible changes in the market interest rates for cash investments and due to the variable interest rates for current and non-current liabilities.

The volume of non-current, variable-rate borrowings was so low that a change of the market interest level by 100 basis points on 31 December 2020 would have had no significant impact on earnings, like in the previous year.

Due to the maturity of the financial investments with a running period of up to one year, there is no interest rate risk for the as at 31 December 2020.

Valuation of derivative financial instruments

The market values of the derivative financial instruments are determined on the basis of the tradability based on reference prices and valuation models and is presented as follows:

in EUR K	31 Dec 2020		31 Dec 2019	
	Nominal volume	**Market value total**	Nominal volume	Market value total
Forward exchange transactions/options	82,563	–598	49,862	–808
Total derivative financial instruments	**82,563**	**–598**	49,862	–808

The nominal volume of a derivative hedge transaction is the reference amount for which the payments are derived. The hedged contract and the risk are not the same as the nominal volume but only reflect rate changes to which they refer. The market value corresponds to the amount that would have to be paid at the balance sheet date if the hedge had been settled.

The increase in the nominal volume in a functional currency in case of foreign currency forwards is based on an increased hedging volume of payments outside the functional currency.

As a rule, the residual maturity of the currency derivatives lies within a year.

(35) Contingencies

in EUR K	**2020**	2019
Guarantees from the Sto Group to third parties	792	662
Reserve liability to cooperatives	1	1
Total contingencies	**793**	663

In the case of default guarantees, no liability is currently expected to arise.

(36) Litigation

Neither Sto SE & Co. KGaA nor its Group companies are involved in any court litigation or arbitration proceedings which are liable to exert a significant influence on the Group's economic situation or have done so in the past two years. There is no evidence that any such litigation or proceedings will arise in the future. Provisions in an appropriate amount have been set aside by the individual Group companies to allow for any expenses arising from court litigation or arbitration proceedings.

(37) Other financial obligations

in EUR K	31 Dec 2019		Maturity	
		within one year	between 1 and 5 years	after 5 years
Liabilities from maintenance contracts	8,227	3,428	4,309	490
Acceptance obligations	29,573	23,605	5,942	26
Other obligations	7,119	4,881	2,238	0
Total other financial obligations	**44,919**	**31,914**	**12,489**	**516**

in EUR K	31 Dec 2020		Maturity	
		within one year	between 1 and 5 years	after 5 years
Liabilities from maintenance contracts	5,238	3,263	1,975	0
Acceptance obligations	34,605	28,018	6,566	21
Other obligations	4,035	1,153	2,881	1
Total other financial obligations	**43,878**	**32,434**	**11,422**	**22**

Of the acceptance obligations, an amount of EUR 5,098 K (previous year: EUR 9,252 K) relates to items of tangible fixed assets. Furthermore, acceptance obligations relating to inventories as well as other acceptance obligations exist.

(38) Auditors' fees

The following fees paid to the auditors of the consolidated annual financial statement of the Sto Group, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, for services provided were recorded:

in EUR K	2020	2019
Audits of financial statements	407	390
Other certification or valuation activities	6	5
Other services	17	83
Auditors' fees in total	**430**	478

(39) Events after the balance sheet date

With effect from 28 February 2021, Sto SE & Co. KGaA acquired the remaining 50.2 % of shares in JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany. JONAS is a family-run company with 88 employees and is one of the most efficient and productive manufacturers of wall paints and other water-based coating products on the professional market in Germany. JONAS operates a highly modern manufacturing plant in Wülfrath/Germany, provides renowned service, and offers products of the highest quality. The consideration to be transferred amounts to EUR 17.4 million. The purchase price allocation (allocation of the purchase price to the assets and liabilities) has not yet been made as not all parameters to be taken into account in this respect were available.

Between the end of the 2020 fiscal year and the point at which this report was signed off, there were no other events of particular note and with a significant impact on the assets, financial, and income situation of the Sto Group.

(40) Related party disclosures

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

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

As at 31 December 2020, members of the Executive Board of STO Management SE and the Supervisory Board of Sto SE & Co. KGaA are members of the supervisory boards of or have a leading position at other companies with which Sto SE & Co. KGaA maintains relations as part of its ordinary business activities. All transactions with such companies are conducted on arms-length terms.

The volume of deliveries and services, including net interest income, between companies in the Sto Group and related parties and persons are set out in the following table:

in EUR K	Share	Rendered deliveries and services		Received deliveries and services		Receivables from		Liabilities to	
		2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Inotec GmbH, Waldshut-Tiengen/Germany	47.5%	50	55	4,321	3,876	658	658	59	105
JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany	49.8%	362	344	6	0	1,063	701	0	0
STO Management SE, Stühlingen/Germany		832	742	4,867	4,310	71	82	2,721	2,155
Stotmeister Beteiligungs GmbH, Stühlingen/Germany		49	43	0	0	18	50	0	0
Other		0	0	128	28	0	0	0	0

(41) List of subsidiaries and investments as at 31 December 2020

Fully consolidated companies in Germany	Capital share in %	
Name, registered office	**2020**	2019
StoCretec GmbH, Kriftel/Germany	100	100
Verotec GmbH, Lauingen/Germany	100	100
Gefro Verwaltungs-GmbH & Co. KG, Stühlingen/Germany	100	100
Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany	100	100
Südwest Lacke + Farben Verwaltungs-GmbH, Böhl-Iggelheim/Germany	100	100
Innolation GmbH, Lauingen/Germany	100	100
Sto SMEE Beteiligungs GmbH, Stühlingen/Germany	100	100
Ströher GmbH, Dillenburg/Germany	100	100
Ströher Fliesen GmbH, Dillenburg/Germany	–	100
Ströher Produktions GmbH & Co. KG, Dillenburg/Germany	100	100
GEPADI Fliesen GmbH, Dillenburg/Germany	100	100
Sto BT GmbH, Stühlingen/Germany	100	100
Sto BTB GmbH, Stühlingen/Germany	100	100
Sto BTK GmbH, Stühlingen/Germany	100	100
Sto BTN GmbH, Stühlingen/Germany	100	100
Sto BTR GmbH, Stühlingen/Germany	100	100
Sto BTV GmbH, Stühlingen/Germany (previously VeroStone GmbH, Eichstätt/Germany)	100	100
Sto Building Solutions GmbH, Stühlingen/Germany	100	100
Liaver GmbH & Co. KG, Ilmenau/Germany	100	100
Liaver Beteiligungen GmbH, Stühlingen/Germany	100	100
Sto Panel Holding GmbH, Stühlingen/Germany	100	100
VIACOR Polymer GmbH, Rottenburg am Neckar/Germany	50.1	–

For changes in the current year, please refer to 'General disclosures' Note 4 'Companies consolidated'.

Fully consolidated companies outside of Germany	Capital share in %	
Name, registered office	**2020**	2019
Sto Ges.m.b.H., Villach/Austria	100	100
Sto S.A.S., Bezons/France	100	100
Beissier S.A.S., La Chapelle la Reine/France	100	100
Innolation S.A.S., Amilly/France	100	100
Beissier S.A.U., Errenteria/Spain	100	100
Sto SDF Ibérica S.L.U., Mataró/Spain	100	100
Sto Isoned B.V., Tiel/Netherlands	100	100
Sto N.V., Asse/Belgium	100	100
Sto Italia Srl, Empoli/Italy	52	52
Sto Finexter OY, Vantaa/Finland	100	100
Sto Scandinavia AB, Linköping/Sweden	100	100
Hesselberg Sverige AB, Helsingborg/Sweden	–	100
Sto Danmark A/S, Hvidovre/Denmark	100	100
Sto Norge AS, Oslo/Norway	100	100
StoCretec Flooring AS, Moss/Norway	100	100
UAB TECH-COAT, Klaipėda/Lithuania	95	95
Sto AG, Niederglatt/Switzerland	100	100
Sto Ltd., Paisley/Great Britain	100	100
Sto Sp. z o.o., Warsaw/Poland	100	100
Sto Építöanyag Kft., Dunaharaszti/Hungary	100	100
Sto s.r.o., Dobřejovice/Czech Republic	100	100
STOMIX spol. s.r.o., Skorosice/Czech Republic	100	100
Sto Slovensko s.r.o., Bratislava/Slovakia	100	100
OOO Sto, Moscow/Russia	100	100
Sto Yapı Sistemleri Sanayi ve Ticaret A.Ş., Istanbul/Turkey	100	100
Sto Gulf Building Material LLC., Dubai/UAE	49	49
Sto Corp., Atlanta/USA	100	100
Sto Canada Ltd., Etobicoke/Canada	100	100
Skyrise Prefab Building Solutions Inc., Pickering/Canada	100	59.8
Industrial y Comercial Sto Chile Ltda., Santiago de Chile/Chile	100	100
Sto Colombia S.A.S., Bogota D.C./Columbia	100	100
Sto Mexico S. de R.L. de C.V., Monterrey/Mexico	100	100
Sto Brasil Revestimentos e Fachadas Ltda., Itaquaquecetuba/Brazil	100	100
Sto Corp. Latin America Inc., Panama/Panama	100	100
Shanghai Sto Ltd., Shanghai/China	100	100
Langfang Sto Building Material Co. Ltd., Langfang/China	100	100
Wuhan Sto Building Material Co. Ltd., Wuhan/China	100	100
Sto SEA Pte. Ltd., Singapore/Singapore	100	100
Sto SEA Sdn. Bhd., Masai/Malaysia	100	100
Unitex Australia Pty Ltd, Dandenong South/Australia	100	100

For changes in the current year, please refer to 'General disclosures' Note 4 'Companies consolidated'.

Companies accounted for using the equity method	Capital share in %	
Name, registered office	**2020**	2019
Inotec GmbH, Waldshut-Tiengen/Germany	47.5	47.5
JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany	49.8	49.8
JONAS GmbH, Wülfrath/Germany	49.8	49.8

No restrictions apply with regard to the liquidation of assets or the payment of debts for a fully consolidated company within the Sto Group.

(42) German Corporate Governance Code

On 17 December 2020, the Executive Board of the personally liable partner of Sto SE & Co. KGaA, STO Management SE, and the Supervisory Board of Sto SE & Co. KGaA issued the declaration of compliance with the recommendations of the government commission Regierungskommission Deutscher Corporate Governance Kodex (German Corporate Governance Code) in the version of 16 December 2019 in accordance with Section 161 of the German Stock Corporation Act (AktG) and, on 17 December 2020, made it available to shareholders on the Internet page www.sto.de in the section 'Investor Relations' under the category 'Corporate Governance & Compliance' under 'Entsprechenserklärung' (Declaration of compliance).

(43) Remuneration of the Executive body and the Supervisory Board

Due to its legal form, Sto SE & Co. KGaA does not have an Executive Board; business is conducted by the personally liable partner STO Management SE as the sole member of the management body pursuant to Section 287 (2) of the German Stock Corporation Act (AktG). This partner receives the statutory liability remuneration and expense allowance in accordance with Section 6 (3) of the articles of association of Sto SE & Co. KGaA. This complies with the statutory provisions contained in the German Stock Corporation Act (AktG). Part of this expense allowance was the remuneration of the members of the Executive Board of STO Management SE in the 2020 fiscal year; current due payments totalled EUR 3,278 K (previous year: EUR 2,896 K). The long-term-incentive payments, which are also due in the short term, amounted to EUR 323 K (previous year: EUR 206 K). Current and non-current payments amounted to a total of EUR 3,601 K* (previous year: EUR 3,102 K). Expenses for future benefits after terminating the employment relationship (current service cost) amounted to EUR 327 K (previous year: EUR 329 K). Remunerations for the Executive Board of STO Management SE thus total EUR 3,928 K (previous year: EUR 3,431 K). Another part of the expense allowance for STO Management SE was the remuneration of the Supervisory Board of STO Management SE for the 2020 fiscal year in the amount of EUR 171 K (previous year: EUR 169 K).

As at 31 December 2020, the non-current financial liabilities for the current members of the Executive Board of STO Management SE amounted to EUR 86 K (previous year: EUR 105 K). As at 31 December 2020, post-employment benefit provisions for former members of the Executive Board were valued at EUR 2,196 K (previous year: EUR 2,231 K) due to offsetting against plan assets. Remuneration paid to former members of the Executive Board and the Supervisory Board came to EUR 578 K (previous year: EUR 571 K).

In the 2020 fiscal year, remunerations of the Supervisory Board of Sto SE & Co. KGaA totalled EUR 504 K (previous year: EUR 494 K).

The members of the Supervisory Board will only receive currently due payments for their respective activities on the committee. Excluded from this are compensation and other payments to operations employee representatives pursuant to their employment contracts. No compensation has been granted for personally rendered services outside of committee activities by the members of the Supervisory Board.

Following the decision at the Annual General Meeting on 19 June 2019, the need for disclosure in accordance with Section 314 No. 6a sentence 5-9 of the German Commercial Code (HGB)** and Section 314 (2) sentence 2 HGB** in conjunction with Section 286 (5) HGB** has been dispensed with.

* Expense allowance for the total remuneration of the Executive Board of the personally liable partner STO Management SE in accordance with Section 314 (1) No. 6 a) of the German Commercial Code (HGB)

** Relating to the legal status of the German Commercial Code (HGB) prior to the entry into force of the application obligation pursuant to the amendment by the Act of 4 November 2019 on the Implementation of the Second Shareholders' Rights Directive (ARUG II)

Members of the Executive Board of STO Management SE in the fiscal year of 2020 (personally liable partner of Sto SE & Co. KGaA):

Rainer Hüttenberger
Spokesman of the Executive Board, responsible for Sales Sto Brand International, Business Unit Organisation, Corporate Strategic Development, and M&A
Stein a. Rhein/Switzerland, Dipl.-Betriebswirt (FH)
Chairperson of the BOD of Sto Corp., Atlanta/USA
Chairperson of the BOD of Shanghai Sto Ltd., Shanghai/China
Chairperson of the BOD of Sto Scandinavia AB, Linköping/Sweden
Chairperson of the BOD of Sto Danmark A/S, Hvidovre/Denmark
Chairperson of the BOD of Sto Yapı Sistemleri Sanayi ve Ticaret A.Ş., Istanbul/Turkey
Member of the BOD of Sto Norge AS, Oslo/Norway
Member of the BOD of Sto Finexter OY, Vantaa/Finland
Member of the BOD of Sto SEA Pte. Ltd., Singapore/Singapore

Michael Keller
Chief Sales Officer, responsible for Sales Sto Brand Germany, Distribution, Marketing Communication, and Central Services
Bonndorf/Germany, Ing.-Päd. (TU)
Member of the Administrative Board of Beissier S.A.U., Errenteria/Spain

Jan Nissen
Chief Technical Officer, responsible for Process Engineering, Innovation, Materials Management, and Logistics
Bad Dürrheim/Germany, Bachelor of Science
Deputy Chairperson of the Advisory of Inotec GmbH, Waldshut-Tiengen/Germany
Member of the BOD of Shanghai Sto Ltd., Shanghai/China
Member of the BOD of Sto SEA Pte. Ltd., Singapore/Singapore

Rolf Wöhrle
Chief Financial Officer, responsible for Finance, Controlling, Legal, Internal Audit, and Information Technology
Bad Dürrheim/Germany, Dipl.-Betriebswirt (BA)

Members of the Supervisory Board of Sto SE & Co. KGaA in the fiscal year of 2020:

Dr Max-Burkhard Zwosta
Chairperson of the Supervisory Board
Chairperson of the Nomination Committee
Wittnau/Germany
Chartered Accountant and Tax Consultant
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
Chairperson of the Supervisory Board of Brauerei Ganter GmbH & Co. KG, Freiburg i.Br./Germany
Chairperson of the Supervisory Board of Ganter Grundstücks GmbH, Freiburg i.Br./Germany
Chairperson of the Advisory Board of Ganter Real Estate Nr.1 GmbH & Co. KG, Freiburg i.Br./Germany
Chairperson of the Supervisory Board of Freicon Holding AG, Freiburg i.Br./Germany
Chairperson of the Advisory Board of alfer aluminium Gesellschaft mbH, Wutöschingen/Germany
Chairperson of the Advisory Board of Walter Maisch Familien Holding GmbH & Co. KG, Gaggenau/Germany
Member of the Supervisory Board of Testo SE & Co. KGaA, Titisee-Neustadt/Germany
Member of the Supervisory Board of Testo Management SE, Titisee-Neustadt/Germany
Chairperson of the Associate Advisory Board of EGT AG, Triberg/Germany

Wolfgang Dell
Deputy Chairperson of the Supervisory Board (since 8 May 2020)
Member of the Audit Committee (since 10 June 2020)
Employee representative, Hattersheim/Germany
Administrator Maintenance Plant Technology, Sto SE & Co. KGaA

Maria H. Andersson
Chairperson of the Finance Committee
Member of the Audit Committee
Munich/Germany
Family Officer/Single Family Office, Munich/Germany
Partner at Mackewicz & Partner Investment Advisers, Munich/Germany
Managing director of GIWA Verwaltungs GmbH, Munich/Germany
Managing director of GIWA Immobilien GmbH, Munich/Germany
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
Member of the Advisory Board of Matador Partners Group AG, Sarnen/Switzerland

Dr Renate Neumann-Schäfer
Chairperson of the Audit Committee
Member of the Finance Committee
Überlingen/Germany
Corporate consultant, Economist
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
Member of the Supervisory Board of R. Stahl Aktiengesellschaft, Waldenburg/Germany
Member of the Administrative Council of Samariter GmbH, Nürtingen/Germany
Member of the Foundation Council of Samariter Stiftung, Nürtingen/Germany
Member of the Foundation Council of Stiftung Zeit für Menschen, Nürtingen/Germany
Member of the Supervisory Board of Goldhofer Aktiengesellschaft, Memmingen/Germany

Cornelia Reinecke
Member of the Nomination Committee
Emmendingen/Germany
Head of Human Resources and Member of the Management Board of Sick AG, Waldkirch/Germany

Prof Dr Klaus Peter Sedlbauer
Member of the Nomination Committee
Rottach-Egern/Germany
Chairholder at the Institute of Building Physics of the Technical University Munich/Germany
Head of the Fraunhofer Institute for Building Physics, Stuttgart/Germany and Holzkirchen/Germany
Member of the Advisory Board of agn Niederberghaus + Partner GmbH, Ibbenbüren/Germany

Peter Zürn
Bretzfeld-Weißlensburg/Germany
Kaufmann (business man)
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
Chairperson of the Administrative Board of Würth á Islandi ehf., Garðabær/Iceland
Member of the Supervisory Board of Wuerth Indonesia P.T., Jakarta/Indonesia
Member of the Supervisory Board of Würth France SA, Erstein/France

Frank Heßler
Employee representative, Mannheim/Germany
Political Trade Union Secretary
Deputy regional manager of IG BCE of the regional district of Baden-Württemberg

Niels Markmann
(since 24 April 2020) Employee representative, Velbert/Germany
Chairperson of the General Works Council and Chairperson of the Works Council for the North-West sales region, Sto SE & Co. KGaA

Barbara Meister
Member of the Finance Committee
Member of the Audit Committee
Employee representative, Blumberg/Germany
Chairperson of the Stühlingen Works Council, Sto SE & Co. KGaA

Roland Schey
Member of the Finance Committee
Employee representative, Tengen/Germany
Head of Finance and Accounting Sto Group

Martina Seth
Employee representative, Bad Münder/Germany
Head of the Wilhelm-Gefeller Education and Conference Centre of the IG BCE, Bad Münder/Germany

Members of the Supervisory Board of STO Management SE in the fiscal year of 2020 (personally liable partner of Sto SE & Co. KGaA):

Jochen Stotmeister
Chairperson of the Supervisory Board
Grafenhausen/Germany

Dr Max-Burkhard Zwosta
Deputy Chairperson of the Supervisory Board
Wittnau/Germany

Maria H. Andersson
Munich/Germany

Dr Renate Neumann-Schäfer
Überlingen/Germany

Gerd Stotmeister
Allensbach/Germany

Peter Zürn
Bretzfeld-Weißlensburg/Germany

Stühlingen/Germany, 12 April 2021

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

Rainer Hüttenberger (Spokesman)	Michael Keller
Jan Nissen	Rolf Wöhrle

Audit certificate of the independent auditor

To STO SE & Co. KGaA

Report on the audit of the consolidated financial statements and the Group management report

Audit assessments

We have audited the consolidated annual financial statement prepared by STO SE & Co. KGaA, Stühlingen/Germany, and its subsidiaries (the Group), comprising the consolidated statement of profit and loss and the consolidated statement of comprehensive income for the fiscal year from 1 January until 31 December 2020, the consolidated statement of financial position as at 31 December 2020, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from 1 January until 31 December 2020, as well as the notes to the financial statements, together with a summary of important accounting methods. Furthermore, we have audited the Group management report of STO SE & Co. KGaA, Stühlingen/Germany, for the fiscal year from 1 January until 31 December 2020. In accordance with German legal requirements, we have not audited the content of the combined declaration on management of the company in accordance with Sections 289f and 315d of the German Commercial Code (HGB), which is part of the Group management report, published on the website indicated in the section 'Declaration on management of the company / Non-financial statement' of the Group management report.

In our opinion based on the findings of our audit,

- the accompanying consolidated annual financial statement of the Group complies in all material respects with the IFRSs as they are to be applied in the EU, and additionally with German legal regulations to be applied in accordance with Section 315e (1) of the German Commercial Code (HGB), and gives a true and fair view of the assets and financial situation of the Group as at 31 December 2020 as well as of its income situation for the fiscal year from 1 January until 31 December 2020, and
- the accompanying Group management report provides a suitable view of the Group's position. In all material respects, this Group management report is consistent with the consolidated annual financial statement of the Group, complies with German legal regulations and accurately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not extend to the contents of the above-mentioned combined declaration on management of the company.

In accordance with Section 322 (3) Sentence 1 of the German Commercial Code (HGB), we declare that our audit has not given rise to any objections to the correctness of the consolidated annual financial statement of the Group and the Group management report.

Basis for the audit opinions

We conducted our audit of the consolidated annual financial statements of the Group and the Group management report in accordance with Section 317 of the German Commercial Code (HGB) and the EU regulation on statutory audits (no. 537/2014) while observing the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility in accordance with these regulations and principles is mostly described under 'Responsibility of the auditor for the audit of the consolidated annual financial statement of the Group and the Group management report'. We are independent of the Group companies in accordance with European and German commercial and professional legal regulations and have fulfilled our German professional duties in accordance with these requirements. Furthermore, in accordance with Article 10 (2) Letter (f) of the EU regulation on statutory audits we declare that we have not provided any prohibited non-audit services pursuant to Article 5 (1) of the EU regulation of statutory audits. We are of the opinion that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated annual financial statement of the Group and on the Group management report.

Particularly important audit matters in the audit of the consolidated annual financial statement of the Group

Particularly important audit matters are those matters which, according to our dutiful judgement, were most significant in our audit of the consolidated annual financial statement for the fiscal year from 1 January until 31 December 2020. These matters have been considered in connection with our audit of the consolidated annual financial statement as a whole and in forming our opinion thereon; we do not express a separate opinion on these matters.
In the following, we describe what we consider to be particularly important audit issues:

1. Recognition and measurement of provisions for warranty risks

Reasons for determining this as a particularly important audit matter

The Group is exposed to considerable warranty risks. For our audit, provisions for warranty risks are of particular importance as their recognition and valuation are fraught with uncertainties and are highly dependent on the evaluations and assumptions of the statutory representatives. The assessment of the probability of damage occurring and estimates of the costs which would be incurred have a significant impact on the assets and income situation of the Group.

Auditing procedure

As part of our audit we have examined the processes established by the Sto Group for the identification, assessment, and reporting of provisions for warranty risks. Our auditing procedures included inquiries of legal representatives and other persons entrusted with these matters within the Group, obtaining written statements from internal legal advisors regarding the evaluation of the estimated outflow of funds and the likelihood of occurrence, obtaining confirmation from external legal advisors, and assessing internal opinions on the reporting in the consolidated annual financial statement. In addition, we have assessed the accuracy of the estimates made by the legal representatives with regard to the costs incurred and the probabilities of occurrence on the basis of the development of the amounts of provisions set aside in previous years.
Our auditing procedure has not given rise to any objections to the recognition and measurement of provisions for warranty risks.

Reference to related information

The Sto Group has provided information on the accounting and valuation methods applied to the provisions for warranty risks, and on the amount of contingent liabilities resulting from warranty risks under '6. Presentation of the major accounting and valuation policies', in the subsection 'Estimates and assumptions by Management' as well as under 'Notes on the consolidated statement of financial position', Note (25).

2. Recoverability of goodwill

Reasons for determining this as a particularly important audit matter

Goodwill is subjected to an impairment test at least once per fiscal year as at 31 December and additionally during the year if there are indications of an unscheduled depreciation

requirement in order to determine a possible depreciation requirement. These evaluations are regularly based on the present value of future cash flows of the respective cash-generating units to which goodwill has been allocated. The result of these evaluations depends to a large extent on the assessment of the future development of the respective parts of the company by the legal representatives and on the determination of the discount rate.
Due to the complexity of this evaluation and the discretionary scope available in the context of the evaluation, this impairment test was one of the most significant matters in the context of our audit.

Auditing procedure
Within the framework of our audit, we have followed the methodical procedure of the legal representatives for carrying out the impairment test in accordance with IAS 36 with the assistance of internal evaluation experts. Among other things, we compared the definition of the cash-generating units with the control levels used in the Group at which goodwill is monitored. We have verified whether the legal representatives have determined the carrying amount and the recoverable amount of the cash-generating units in an equivalent manner. The corporate planning underlying the impairment tests of goodwill, especially regarding the future development of turnover and the EBIT margin, have been compared with the planning of the future development of the company set up by the legal representatives and approved by the Supervisory Board. We have discussed the major premises of the planning with the legal representatives and compared it to the earnings and the inflow of cash and cash equivalents in the past. The derivation of the discount rate and its individual components has been assessed by questioning the peer group, comparing the market data with external evidence and verifying the arithmetical accuracy of the calculation. We have also looked at the growth rate assumptions on the basis of long-term inflation expectations for the respective countries. Our auditing procedure has not given rise to any objections to the recoverability of goodwill of cash-generating units.

Reference to related information
The Sto Group reports on the procedure regarding the impairment test of cash-generating units as well as their earnings in the Notes to the consolidated annual financial statement under '6. Presentation of the major accounting and valuation policies' in the subsection 'Intangible assets'.

Other information
The Supervisory Board is responsible for the report of the Supervisory Board. The legal representatives and the Supervisory Board are responsible for the declaration in accordance with Section 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code, which forms part of the Declaration on management of the company.
In all other respects, the legal representatives are responsible for the other information. Other information comprises the above-mentioned combined declaration on management of the company and the combined non-financial consolidated statements, as well as the components provided for the Annual Report, of which we had received the final version by the time this audit certificate was issued, in particular the sections 'Sto at a glance', 'Foreword', 'Report of the Supervisory Board', 'Corporate Governance Report / Declaration on management of the company', 'Sustainability and Corporate Social Responsibility', 'The Sto share', 'Responsibility statement by the legal representatives', as well as the 'Financial calendar with publisher's details'. It does not contain the consolidated annual financial statement of the Sto Group, the information from the Group management

report that is included in the content-related audit, and the related audit certificate.

Our audit opinions on the consolidated annual financial statement of the Group and the Group management report do not extend to other information, and accordingly we express neither an audit opinion nor any other form of audit conclusion.
In connection with our audit, we have the responsibility to read the other information and to assess whether the other information

- is materially inconsistent with the consolidated annual financial statement, the Group management report or our audit findings or
- otherwise appears materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the consolidated annual financial statement and the Group management report

The legal representatives are responsible for drawing up the consolidated annual financial statement, which complies with the IFRSs, as they are to be applied in the EU, and additionally with the German legal regulations in accordance with Section 315e (1) of the German Commercial Code (HGB) in all material aspects. They are also responsible for ensuring that the consolidated annual financial statement gives a true and fair view of the assets situation, financial position and earnings situation of the Group. In addition, the legal representatives are responsible for the internal controls they have determined necessary to enable the preparation of a consolidated annual financial statement that is free from material misstatements, whether intentional or not.
When preparing the consolidated annual financial statement of the Group, the legal representatives are responsible for assessing the capability of the Group to continue corporate activity. Furthermore, it is their responsibility to disclose matters in connection with the continuation of corporate activity where relevant. In addition, they are responsible for preparing the balance sheet on the basis of the accounting principle of continuing corporate activity, unless there is the intention to liquidate the Group or to discontinue operations or there is no realistic alternative.
The legal representatives are also responsible for preparing the Group management report which gives a suitable view of the Group's position and which is consistent with the consolidated annual financial statement in all material aspects, complies with the German legal regulations, and suitably presents the opportunities and risks of the development in the future. Moreover, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary to enable the preparation of a Group management report in accordance with the applicable German legal regulations and to provide sufficient suitable evidence for the statements in the Group management report.
The Supervisory Board is responsible for monitoring the accounting process of the Group for preparing the consolidated annual financial statement and the Group management report.

Responsibility of the auditor for the auditing of the consolidated annual financial statement and the Group management report

Our objective is to obtain sufficient certainty as to whether the consolidated annual financial statement as a whole is free from material misstatements, whether intended or not, and whether the Group management report as a whole provides a suitable view of the Group's position and, in all material aspects, is in accordance with the consolidated annual financial statement and the findings of our audit, complies with German legal regulations and suitably presents the opportunities and risks of the development in the future, as well as to issue an audit certificate which contains our audit opinions on the corporate annual financial statement and the Group management report. Sufficient certainty is a high degree of certainty but no guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code (HGB) and the EU regulation on statutory audits while observing the generally accepted German principles of proper audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a materially false statement. False statements can result from infringements or inaccuracies and are considered to be material if the reasonable assumption can be made that they, individually or collectively, could influence decisions taken by addressees on the basis of this consolidated annual financial statement and the Group management report.

During the audit we exercise due discretion and maintain a critical attitude. Furthermore,

- we identify and evaluate risks resulting from materially false statements, whether intentional or not, in the consolidated annual financial statement and in the Group management report, we plan and conduct audit procedures as a reaction to these risks, and obtain audit evidence which is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misstatements are not detected is higher in the case of infringements than in the case of inaccuracies, since infringements may involve fraudulent interaction, forgery, intentional incompleteness, misleading statements, or the repeal of internal controls;
- we gain an understanding of the internal control system relevant for the auditing of the consolidated annual financial statement and the precautions and measures relevant for the auditing of the Group management report in order to plan auditing procedures which are appropriate for the given circumstances but without the objective of issuing an audit opinion of the effectiveness of these systems;
- we assess the appropriateness of the accounting methods used by the legal representatives, and the reasonableness of estimates and related disclosures made by the legal representatives;
- we draw conclusions about the appropriateness of the accounting principle of continuing corporate activity applied by the legal representatives and, based on the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's capability to continue corporate activity. If we come to the conclusion that there is a material uncertainty, we are obliged to point out the related disclosures in the consolidated annual financial statement and the Group management report in our audit certificate or, if these disclosures are inappropriate, to modify our respective audit certificate. We draw our conclusions based on audit evidence obtained by the date of our audit certificate. However, future events or circumstances may prevent the Group from continuing its corporate activity;
- we assess the overall presentation, the structure and the content of the consolidated annual financial statement, including disclosures, and whether the consolidated annual financial statement presents the underlying business transactions and events in such a way that the consolidated annual financial statement gives a true and fair view of the assets, financial and income situation of the Group in accordance with the IFRSs, as they are to be applied in the EU, and additionally with the German legal regulations in accordance with Section 315e (1) of the German Commercial Code (HGB);
- we obtain sufficient and appropriate audit evidence for the accounting information

of the companies or business activities within the Group in order to issue an audit opinion on the consolidated annual financial statement and the Group management report. We are responsible for instructing, monitoring and conducting the audit of the consolidated annual financial statement. We are solely responsible for our audit opinions;
- we assess whether the Group management report is in accordance with the consolidated annual financial statement, its compliance with the law and the view it gives of the position of the Group.
- we conduct audit procedures relating to the future-oriented statements made by the legal representatives in the Group management report. On the basis of sufficient suitable audit evidence, we particularly retrace the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not issue an independent audit opinion on the future-oriented statements and the underlying statements. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, amongst other things, the planned scope and time schedule of the audit and significant audit findings, including any deficiencies in the internal control system, which we identify during our audit.

We issue a statement to those responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and the protective measures taken to that end.

From the matters that we have discussed with those responsible for monitoring, we determine those matters that were most significant in the audit of the consolidated annual financial statement for the current reporting period and which are therefore particularly important audit matters. We describe these matters in the audit certificate, unless laws or other legal regulations exclude public disclosure of the matter.

Other statutory and other legal requirements

Report on the audit of the electronic reproductions of the consolidated annual financial statement and the Group management report prepared for the purpose of disclosure in accordance with Section 317 (3b) of the German Commercial Code (HGB)

Audit opinion

In accordance with Section 317 (3b) of the German Commercial Code (HGB), we have performed an audit with reasonable assurance to determine whether the reproductions of the consolidated annual financial statement and the Group management report (hereinafter also referred to as 'ESEF documents') contained in the attached file, STO_SE_KA+KLB_ESEF-2020-12-31, and prepared for disclosure purposes comply in all material respects with the electronic reporting format ('ESEF format') stipulated in Section 328 (1) of the HGB. In accordance with German legal requirements, this audit only covers the conversion of the information in the consolidated annual financial statements and the Group management report into the ESEF format and therefore covers neither the information contained in these reproductions nor any other information contained in the above-mentioned file.

In our opinion, the reproductions of the consolidated annual financial statement and the Group management report contained in the aforementioned attached file and prepared for the purpose of disclosure comply in all material respects with the requirements regarding the electronic reporting format stipulated in Section 328 (1) of the German Commercial Code (HGB). Beyond this audit opinion and our audit opinions on the accompanying consolidated annual financial statements and the accompanying Group management report for the fiscal year from 1 January to 31 December 2020 included in the preceding 'Report on the audit of the consolidated annual financial statements and Group management report", we do not express any audit opinion on the information contained in these reproductions or on other information contained in the aforementioned file.

Basis for the audit opinion

We conducted our audit of the reproductions of the consolidated annual financial statement and the Group management report contained in the above-mentioned attached file in accordance with Section 317 (3b) of the German Commercial Code (HGB) and in compliance with the draft IDW Auditing Standard 'Audit of electronic reproductions of financial statements and management reports prepared for the purpose of disclosure in accordance with Section 317 (3b) of the HGB' (IDW EPS 410). Our responsibility thereafter is described in more detail in the section 'Responsibility of the Group auditor for the audit of the ESEF documents'. Our auditing firm has applied the quality control system requirements of the IDW Qualitätssicherungsstandards: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW Standard on Quality Control: Requirements for Quality Control in Audit Firms) (IDW QS 1).

Responsibility of the legal representatives and the Supervisory Board for the ESEF documents

The legal representatives of the company are responsible for the preparation of the ESEF documents with the electronic reproductions of the consolidated annual financial statements and the Group management report in accordance with Section 328 (1) sentence 4 no. 1 of the German Commercial Code (HGB), and for the recording of the consolidated annual financial statements in accordance with Section 328 (1) sentence 4 no. 2 of the German Commercial Code (HGB).

Furthermore, the legal representatives of the company are responsible for the internal controls they have determined necessary to enable the preparation of the ESEF documents that are free from material breaches, whether intentional or unintentional, of the electronic reporting format requirements of Section 328 (1) of the German Commercial Code (HGB).

The legal representatives of the company are also responsible for submitting the ESEF documents together with the audit certificate and the attached audited consolidated annual financial statement and audited Group management report as well as other documents to be disclosed to the operator of the Bundesanzeiger (German federal government gazette).

The Supervisory Board is responsible for monitoring the preparation of the ESEF documents as part of the accounting process.

Responsibility of the Group auditor for the audit of the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material breaches, whether intentional or unintentional, of the electronic reporting format requirements of Section 328 (1) of the German Commercial Code (HGB). During the audit we exercise due discretion and maintain a critical attitude. Furthermore,

- we identify and evaluate risks resulting from material breaches, whether intentional or unintentional, of the requirements of Section 328 (1) of the German Commercial Code (HGB), we plan and conduct audit procedures as a reaction to these risks, and

obtain audit evidence which is sufficient and suitable to serve as the basis for our audit opinion.
- we gain an understanding of the internal controls relevant for the auditing of the ESEF documents in order to plan auditing procedures which are appropriate for the given circumstances but without the objective of issuing an audit opinion on the effectiveness of these controls;
- we assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version applicable at the balance sheet date, for the technical specification for that file;
- we assess whether the ESEF documents allow for a consistent XHTML representation of the audited consolidated annual financial statement and the audited Group management report;
- we assess whether the mark-up of the ESEF documents with inline XBRL technology (iXBRL) enables an adequate and complete machine-readable XBRL copy of the XHTML rendering.

Other information in accordance with Article 10 of the EU regulation on statutory audits

We were elected as Group auditors at the Annual General Meeting on 10 June 2020. We were commissioned by the Supervisory Board on 18 August 2020. We have been the Group auditors of STO SE & Co. KGaA, Stühlingen/Germany, without interruption since the 1989 fiscal year.

We declare that the audit opinions contained in this audit certificate are consistent with the additional report to the Audit Committee in accordance with Article 11 of the EU regulation of statutory audits (Audit report).

In addition to the audit, we performed the following services, which were not disclosed in the consolidated annual financial statements or the Group management report, for the group companies:
- Advice on accounting issues and general governance issues
- Non-legally required audits for specific industries
- Non-legally required agreed investigative actions with respect to financial information

Responsible chartered accountant

The chartered accountant responsible for the audit is Mr Andreas Nietzer.

Villingen-Schwenningen/Germany, 14 April 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nietzer	Busser
Chartered accountant	Chartered accountant

Responsibility statement by the legal representatives

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

Stühlingen/Germany, 12 April 2021

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

Rainer Hüttenberger
(Spokesman)

Michael Keller

Jan Nissen

Rolf Wöhrle

Financial calendar 2021

Electronic publication of the 2020 annual financial statements............ 29 April 2021
Interim report on the first half of 2021.. 18 May 2021
Annual General Meeting in 2021.. 16 June 2021
Report on the first half of 2021 .... 31 August 2021
Interim report on the second half of 2021... 19 November 2021
Electronic publication of the 2021 annual financial statements............ 28 April 2022

The annual financial statement of Sto SE & Co. KGaA (German Commercial Code, HGB) are available in electronic form at www.unternehmensregister.de. In addition, it is published on the website www.sto.de or may be requested in writing by post:

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