Building with conscience.

2021 Annual Report

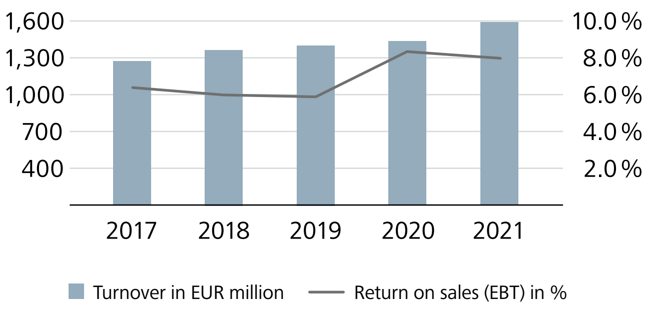
Sto SE & Co. KGaA

Sto at a glance

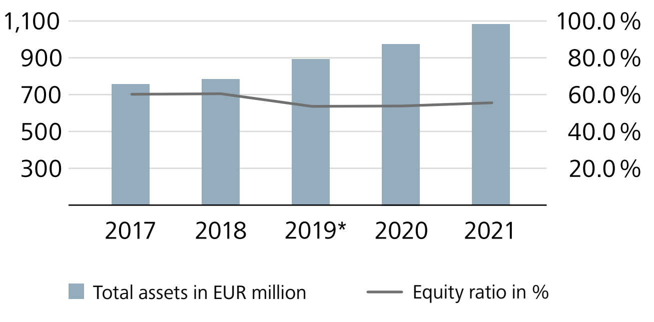
Sto Group	2017	2018	2019*	2020	2021	Changes in % 21/20
Turnover	1,277.4	1,332.4	1,398.2	1,433.0	1,590.5	11.0
Germany	562.8	596.0	611.3	660.1	692.5	4.9
Outside of Germany	714.6	736.4	786.9	772.9	898.0	16.2
Investments (without: financial assets and IFRS 16)	32.7	32.1	35.3	41.7	41.9	0.5
Depreciation/amortisation (without: financial assets and IFRS 16)	33.3	31.3	33.2	45.5	46.9	3.1
EBITDA	117.3	113.2	138.2	186.5	192.5	3.2
EBIT	84.0	81.9	85.9	120.8	124.5	3.1
EBT	82.2	80.2	83.1	119.0	127.9	7.5
Return on sales (EBT) (%)	6.4	6.0	5.9	8.3	8.0	
EAT (earnings after taxes)	55.8	53.8	56.3	80.7	94.7	17.4
Earnings per limited ordinary share (EUR)	8.62	8.33	9.03	12.54	14.40	14.8
Earnings per limited preference share (EUR)	8.68	8.39	9.09	12.60	14.46	14.8
Cash flow from current operating activities	86.5	80.7	117.0	177.2	111.4	−37.1
per share (EUR)	13.46	12.56	18.21	27.58	17.34	−37.1
ROCE (%)**	16.1	15.6	14.0	19.7	18.9	
Total assets	749.6	784.4	896.1	973.8	1,084.7	11.4
Equity capital	450.1	477.5	486.5	531.4	610.0	14.8
in % of total assets	60.1	60.9	54.3	54.6	56.2	
Employees (year end)	5,308	5,333	5,533	5,545	5,697	2.7
of which in Germany	2,884	2,887	2,943	3,000	3,127	4.2
of which outside of Germany	2,424	2,446	2,590	2,545	2,570	1.0
Sto share						
Dividend per limited ordinary share (EUR)***	0.25/3.78	0.25/3.78	0.25/3.78	0.25/4.69	0.25/4.69	
Dividend per limited preference share (EUR)***	0.31/3.78	0.31/3.78	0.31/3.78	0.31/4.69	0.31/4.69	
Price-to-earnings ratio (31 Dec)	14.5	9.8	12.5	10.3	15.3	
Price-to-book ratio (31 Dec)	1.8	1.1	1.5	1.6	2.3	

(Figures in EUR million unless otherwise indicated)

Development of P&L data



Development of balance sheet data



* 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 liabilities
*** 2021: 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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About the title image
A long-lasting building is one that has been built the right way: with the help of professional tradespeople, using the optimum technologies and materials – and with functions that have been well thought out. Fit for the future. Together with its construction partners, Sto believes in offering sustainable, functional, aesthetically appealing, and service-oriented solutions for facades and interiors. Its long-standing claim neatly captures this belief in just three words: Building with conscience. In 2021, Sto added an emotional layer to its claim by developing a brand campaign called «For the love of building. **Building with conscience.»** . This brings together the emotional and rational aspects that undergird day-to-day work by the Sto team and their external partners so that great things can be achieved.
Photo: Martin Baitinger, Böblingen/Germany

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.

In memory of Fritz Stotmeister

Photo: Stotmeister

**Our founder and Honorary Chairman,
Fritz Stotmeister, passed away peacefully on 21 April 2022 after a fulfilled life.**

Foreword

Rainer Hüttenberger,
Spokesman of the
Executive Board
Photo: Martin Baitinger,
Böblingen/Germany

Dear Shareholders,
Sto can look back on 2021 as a turbulent year during which we had to contend with a great deal, but still managed some remarkable achievements.

In the first half year, our business recovered appreciably, a situation that was bolstered by considerable revival of demand in the construction sector – as the coronavirus pandemic flattened out – and favourable weather conditions. Furthermore, noticeable catch-up effects were seen outside of Germany in light of how the restrictions for containing the infection had been much more extreme in some countries in 2020 than in our core market of Germany, where work on construction sites had been able to continue uninterrupted. We were also able to benefit from funding programmes aimed at supporting energy-efficient building refurbishment – such as in Italy or France.

As expected at the middle of the year, the rate of growth fell in the second half year due to the waning of the catch-up effects and the appearance of new waves of the coronavirus infection, or rather new variants of the virus. In addition, significant supply bottlenecks and shortages arose, leading – in turn – to considerable price increases in the context of procurement.

The supply crisis was sometimes so serious that our teams within many areas of the company ended up devoting all of their attention to countering the resulting disruptions. Among other things, they explored additional sources of supply or looked for equivalent materials, adopted alternative products, and ensured the supply of raw materials in numerous ways. Another very time-consuming task was the process of checking and approving substitute materials to make sure they were suitable. Such materials have to meet our high quality requirements as well as the social and environmental standards applicable along the entire supply chain and, at the same time, also have to ensure adequate value for money. We established a Supply Task Force to track the daily availability of materials and sometimes also had to prioritise customer orders. In addition, we extended our strategic stockpiling and expanded our storage capacity.

Thus, the entire Sto organisation concentrated on safeguarding the process chains and on maintaining customer supply to the maximum possible extent. Together with all the other challenges that we had to overcome in 2021, it is a remarkable achievement that we still managed to exceed our original targets in 2021: consolidated turnover increased by 11.0 % to EUR 1,590.5 million and earnings before interest and taxes by 3.1 % to EUR 124.5 million. These new records that we have set are primarily down to the unity and experience of our expert employees, who responded to the exceptional circumstances with a huge amount of commitment and dedication, and went on to achieve the extraordinary. On behalf of the entire Executive Board, we would like to thank all of our employees.

Supplying our customers – which is always the top priority at Sto – will remain a key focus over the next few months because, as things currently stand, the supply bottlenecks and associated price increases for the purchasing department are set to continue. These could potentially restrict Sto's growth because a poor supply of raw and other materials to construction sites has the power to cause delays in preceding construction stages like the ones already seen in 2021.

Overall, we are still expecting to see positive business development in the current fiscal year of 2022 despite the more than challenging environment. In the Sto Group, we except a turnover in the order of EUR 1.74 billion and EBIT of between EUR 114 million and EUR 134 million. This does not take into consideration potential influences from the Russia-Ukraine conflict as described in the Risks and opportunities report.

What is the source of our optimism? Firstly, we have once again demonstrated over the past two years that Sto is capable of overcoming challenges, including new ones of a far-reaching nature. We can look back on our company's 67-year history, which – on balance – has been very positive and are able to draw on a vast wealth of experience. With our highly motivated employees, very flexible yet proven structures, and an extremely solid financial foundation, we are well placed to respond efficiently and achieve further income-oriented growth.

Secondly, the markets in which we operate offer substantial opportunities. For instance, the need to improve energy efficiency within the construction sector is rapidly gathering pace across the world because of the huge potential for climate protection within this area. Within the German construction sector alone, annual greenhouse gas emissions – which stood at 210 million tonnes of CO_2 in 1990 – are to be reduced to 67 million tonnes by the year 2030. In order for this to happen, the buildings must be brought up to a higher standard of energy efficiency through investment, with the German government having launched a set of funding programmes for this very purpose. Similar government-funded programmes also exist in other countries – from which we have already benefited significantly in 2021. At the EU level, the Green Deal, in particular, should trigger a surge in renovation and boost demand on the external wall insulation system market. Currently, only around a quarter of the total European building stock meets modern energy standards – consequently, there is a very high level of potential to be tapped here as well.

In addition, the very high gas and heating oil prices are accelerating the energy-related refurbishment of buildings because the economic benefits of having good thermal insulation, in particular, become much more important alongside the ecological ones as energy costs rise. As the 'world market leader in the area of external wall insulation systems', a title we have been officially authorised to bear since 2018, we expect to be tapping into this growth potential.

Solely by virtue of our business model and how our products work, sustainability and climate protection have always been very important at Sto. This idea is also expressed in our 'Building with conscience.' claim, which represents our mission to contribute to the conservation of value and the aesthetic appeal of buildings. In 2021, the topic of sustainability took on even more significance when we defined it as one of our core competencies as part of our strategy review. Thus, a sustainable approach extends to every area within the company's sphere of influence and is being implemented at every value-added step. Aside from the contribution that our products make towards reducing the environmental impact of buildings, we also endeavour to minimise the consequences that our own actions have on the environment, conserve resources in all areas of the company, increase energy efficiency at our sites, use renewable energy sources, avoid waste, address the issue of the recycling economy intensively, use compensation measures to offset unavoidable CO_2 emissions, and are working towards making the Sto Group as a whole climate-neutral by 2025.

Sustainability thinking also guides our product development activities. One example is the StoTherm AimS® external wall insulation system, which we launched in Germany and some other European markets in 2021. All system components are based on an extremely high proportion of renewable and sufficiently available raw materials. For instance, we have done away with the mineral oil that would normally be used in the binder, replacing it with pine oil. When used in conjunction with a suitable insulant, the products from the AimS® line can be combined to create a fully sustainable external wall insulation system that is certified by the Blue Angel ecolabel.

As part of our strategy review, we defined a total of 14 core initiatives and, in 2022, intend to implement some more of these with a view to systematically exploiting the opportunities offered by our markets. In 2021, we postponed many of the originally planned projects due to the tasks we had to solve because of the supply bottlenecks, among other things. We will catch up with some of these in the course of the current year, although the supply to customers must remain the top priority at all times. One example is digitisation, something that we will be stepping up considerably over the next few years – in production, in sales, and in the area of finance. This will provide us with tools for increasing efficiency within the Sto Group and finding new ways of doing things. That is why we have drawn up a comprehensive programme that covers virtually every process within the company and encompasses a huge number of individual digitisation projects.

At the beginning, I referred to 2021 as a turbulent year, and for good reason because Sto also had to contend with new developments on the capital market. Almost 30 years to the day since the Sto share was first listed on 12 May 1992, we were added to the SDAX in September 2021 and now find ourselves among the most important second-line stock market indices in Germany. The SDAX includes the 70 largest (when measured by market capitalisation and trading volume) companies from the classic sectors that rank below the MDAX shares. The Sto share also saw an upward trend in 2021: after a subdued start, the value rose almost continuously from March onwards, reaching its annual high of EUR 230.50 in the summer. After that, the price fell slightly but managed to stabilise again in the last two months of 2021. At year end, the cost of a Sto share was EUR 221.00, an increase of 70.8 % compared to the previous year's closing price.

Subject to the approval of the Annual General Meeting, we will again be distributing an ordinary dividend of EUR 0.31 per limited preference share and EUR 0.25 per limited ordinary share to our shareholders for the 2021 fiscal year, along with the same bonus as last year of EUR 4.69 per share. In this way, we want you to adequately benefit from the success of the company. At the same time, this allows us to continue to strengthen the equity base of Sto SE & Co. KGaA.

We started 2022 with a huge to-do list and there are lots of risks and uncertainties to get a handle on. The war in Ukraine has shocked and stunned us all, and is making reliable predictions even more difficult. In addition, the supply bottlenecks and coronavirus pandemic are continuing to concern us and we must do everything we can to ensure that we emerge healthy from these difficult times. To overcome these challenges, we will be reliant on the kind of commitment and flexibility that our employees have already been required to demonstrate to a high degree in 2021. We know just how valuable our employees are to Sto as a company, that their service and achievements must not be taken for granted, and that we can always count on them. With their help, we will write the next chapter in our company's success story.

So let's continue pulling together as a team to tackle this difficult year through our combined efforts.

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
Photo: Sto SE & Co. KGaA

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, Member of the Audit Committee

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/Germany, Member of the Nomination Committee

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

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

Niels Markmann*
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 regularly, promptly, and comprehensively informed of all issues of importance to the company and the Group. The Supervisory Board 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 2021 fiscal year, the Supervisory Board held five regular meetings, on 22 April, 16 June, 29 July, 4 November, and 16 December 2021. The Supervisory Board was quorate and 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.

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 2021 fiscal year were conducted via video and/or phone conferences.

At all of the meetings in 2021, the Supervisory Board dealt in depth with the market situation and current developments of Sto SE & Co. KGaA and its subsidiaries, the company's strategy, opportunities and risks, 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 that persisted throughout the 2021 fiscal year, including the manifold effects on employees, the companies of the Sto Group, and business partners, as well as the distortion of the international procurement markets. At each meeting and via regular interim reports, the Supervisory Board was thoroughly briefed on the current status quo regarding the coronavirus pandemic and its direct and indirect consequences, particularly in relation to matters associated with raw materials and procurement.

Another focus of the first ordinary meeting on 22 April 2021 was the examination of the Annual financial statement and the Management report for Sto SE & Co. KGaA, as well as the Consolidated annual financial statement of the Sto Group and Group management report, including the Sustainability report, for the 2020 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 report, Remuneration report, 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 2020 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 2020 fiscal year, the organisation of the agenda of the Annual General Meeting on 16 June 2021, and the use of a virtual format for the Annual General Meeting based on the COVID-19 act, while also making arrangements for voting by 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 accepted the proposal for the appropriation of profits by the personally liable partner STO Management SE and also the proposed amendment of the company's articles of association. Furthermore, the Supervisory Board made its nomination proposal to the Annual General Meeting on 16 June 2021 concerning the auditor for Sto SE & Co. KGaA (Annual financial statement and Consolidated annual financial statement of the Sto Group) for the 2021 fiscal year in accordance with the resolution that had been passed by the Supervisory Board in December 2020 concerning the Audit Committee's recommendation to exercise the right of nomination.

The Supervisory Board also acknowledged and approved the Sto Group's strategic plan, including the 5-year plan for 2021–2025, which was discussed in detail while taking into account the details examined in the Finance Committee, and dealt with various key corporate management measures as well as the sustainability and marketing strategy.

The Supervisory Board meeting on 16 June 2021 primarily served the purpose of preparing for the company's Annual General Meeting, which was due to take place in a virtual format that same day.

In addition to examining business development in the first half year of 2021, the meeting on 29 July 2021 was mainly concerned with the year-end projections, current development of the supply chain and challenges in this area, investment measures, and cyber security matters.

On 4 November 2021, the Supervisory Board focused, in particular, on the projections for the 2021 fiscal year and on current business development, including in light of the ongoing distortion of the procurement and transport markets. In addition to various other management measures, the intended organisational restructuring of the subsidiaries in Norway was also presented and discussed.

At the final Supervisory Board meeting held on 16 December 2021, the main items on the agenda were planning the 2022 fiscal year for both Sto SE & Co. KGaA and the Stop Group, and assessing the 2021 business development. The marketing strategy was also discussed extensively at the meeting. 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 2021 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 19 January 2021 and a professional-development session on 29 March 2021.

Supervisory Board committees
In the 2021 fiscal year, the Supervisory Board of Sto SE & Co. KGaA formed 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 twice in 2021 to agree selection criteria and lay the groundwork for the Supervisory Board elections due to take place in 2022. The Audit Committee and the Finance Committee each met four times in the 2021 fiscal year. Major topics for the Audit Committee were the 2020 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 points included current business development, the latest projections for the year as a whole, and the 2021 half-year report. Furthermore, the members of the Audit Committee discussed issues of Compliance Management and the effectiveness of the internal control and risk management system and 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.

In light of the particular challenges posed by the ongoing coronavirus pandemic and the distortion of the international procurement markets, the Chairperson of the Supervisory Board attended the meetings of the Audit Committee and the Finance Committee in the 2021 fiscal year after arranging this with them.

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 2021 based on the version of the Code of 16 December 2020. 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 2021 Annual Report.

Audit of the annual financial statement
On 16 June 2021, the Annual General Meeting of Sto SE & Co. KGaA appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany to act as the auditor and Group auditor for the 2021 fiscal year. The chartered accountant audited the Annual financial statement of Sto SE & Co. KGaA, the Management report, the Consolidated annual financial statement of the Sto Group, the Group management report for the 2021 fiscal year, as well as the Dependent company report in accordance with Sections 312, 278 of the German Stock Corporation Act (AktG) and the Remuneration report in accordance with Section 162 of the German Stock Corporation Act (AktG) that had been prepared by the Executive Board of the personally liable partner STO Management SE. The responsible audit partners with respect to Section 319a (1) sentence 4 of the German Commercial Code (HGB) were Kai Mauden and Marco Fortenbacher. 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 paragraph 2 of the German Stock Corporation Act (AktG) was also confirmed. Moreover, the chartered accountant confirmed that the statements

required under Section 162 (1) and (2) of the German Stock Corporation Act (AktG) – insofar as applicable due to the legal form of organisation – had been provided. 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, and the Remuneration report were distributed to all Supervisory Board members in a timely manner. The Audit Committee pre-examined these documents in its meeting held on 20 April 2022. 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 21 April 2022, the financial statements and reports, as well as the 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 2021 and there were no circumstances that could impair their independence as auditors.

For the Dependent company report the auditors issued the following audit certificate: 'Following our audit and assessment in accordance with professional standards, we confirm that 1) the factual information in the report is correct, 2) the consideration given by the Company for the legal transactions listed in the report was not inappropriately high or disadvantages were compensated for, 3) there are no circumstances in the measures listed in the report that would indicate a materially different assessment than that of the legal representatives'.

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 the statements to be published in the Annual Report which were not to be reviewed by the auditor and the Remuneration report, 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 2021 in accordance with Section 171 of the German Stock Corporation Act (AktG), as well as the Dependent company report. At the Annual General Meeting to be held on 22 June 2022, the Supervisory Board will hence propose the approval of the Annual financial statement of Sto SE & Co. KGaA for the 2021 fiscal year and the approval of the Remuneration report prepared and audited in accordance with Section 162 of the German Stock Corporation Act (AktG). 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 their analysis and objective.

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

Personnel-related matters
There were no changes of personnel on the Supervisory Board or in the make-up of committees in the 2021 fiscal year.

On behalf of the entire Supervisory Board, I 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 the commitment they have shown in the year under review, the flexibility that they had to adopt to overcome the major challenges encountered, and their impressive achievements. We wish the whole team the best of health and much success in mastering the tasks that lie ahead in the current fiscal year, which will be no less demanding.

Stühlingen, 21 April 2022

Dr Max-Burkhard Zwosta
Chairperson of the Supervisory Board

Corporate Governance Report / Statement on corporate governance

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) (Statement on corporate governance). 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, where it can be found under the 'Corporate Governance & Compliance' category. The Remuneration report in accordance with Section 162 of the German Stock Corporation Act (AktG) is likewise published in the 'Investor Relations' section of the www.sto.de website, under the category 'Vergütungsbericht gem. § 162 AktG' (Remuneration report in accordance with Section 162 AktG).

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 German Corporate Governance Code all provide the foundation for our approach to corporate governance. The legal form of the company is a Kommanditgesellschaft auf Aktien (KGaA, 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, which governs and manages Sto SE & Co. KGaA on its behalf. 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 control and risk management system. Detailed information about risk management is provided in the Group management report, which is part of this Annual Report.

Diversity, information concerning Sections 76, 111 of the German Stock Corporation Act (AktG)
Due to its legal form of organisation, Sto SE & Co. KGaA does not have an Executive Board but has a personally liable partner instead – i.e. the legal entity that is STO Management SE. In the absence of an Executive Board, it cannot have a diversity concept in accordance with Section 298f (2) No. 6 or specify what percentage of men and women should make up the body authorised to represent the company.

In accordance with Section 76 (4) of the German Stock Corporation Act (AktG), Executive Boards of listed companies are legally required to set target figures for the percentage of women at the two management levels below the Executive Board. At Sto SE & Co. KGaA, which does not have an Executive Board due to its legal form of organisation, 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. Sto SE & Co. KGaA is committed to considering people from/with/of different age groups, professional qualifications, educational or occupational backgrounds, and genders in the composition of the Supervisory Board – as well as in the workforce. The Nomination Committee and Supervisory Board also take account of this when submitting nomination proposals to the Annual General Meeting. Furthermore, industry-specific conditions and the current proportion of women in the workforce are also taken into account when setting the target quotas.

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 2021, 0 % of the management positions at the division management level and 11.3 % of the department manager positions were held by women. By 31 December 2022, these percentages are expected to be at 0 % and 13.0 % 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 2021 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 2021 fiscal year, the Supervisory Board of Sto SE & Co. KGaA gathered for five ordinary 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 2021 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 2021, 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. Furthermore, 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 twice in the 2021 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 in advance of the next ordinary Supervisory Board elections as part of the nomination and selection process.

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. Together with the personally liable partner STO Management SE, the Supervisory Board produces the Remuneration report in accordance with Section 162 of the German Stock Corporation Act (AktG) and submits it to the auditor for auditing.

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, Member of the Audit Committee, 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 administrator), 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 at the IG BCE for 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, any other criteria listed in C.6 of the Code concerning the independence of the candidates, while also ensuring that the necessary fields of expertise are covered to the required extent.

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 body 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 of 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 no indication of dependence on the company, and that independence is ensured accordingly.

Remuneration of the management body and the Supervisory Board of Sto SE & Co. KGaA

Information concerning the remuneration and expense allowance paid to the personally liable partner STO Management SE and details of the main features of the remuneration system for the supervisory body of Sto SE & Co. KGaA can be found in the Remuneration report produced in accordance with Section 162 of the German Stock Corporation Act (AktG). The Remuneration report for the last fiscal year and the Audit certificate by the auditor in accordance with Section 162 of the German Stock Corporation Act (AktG) and the last remuneration resolution in accordance with Section 113 (3) AktG have been made publicly accessible and have been made permanently available for inspection by the statutory deadline on the company's website at www.sto.de, where they can be found in the 'Investor Relations' area under the category 'Vergütungsbericht gemäß § 162 AktG' (Remuneration report in accordance with Section 162 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 2021.

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 (KGaA, 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 (liability) 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 2021, 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 Annual financial statements of both the Sto Group and 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. Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, which was selected by the Annual General Meeting of Sto SE & Co. KGaA on 16 June 2021 to serve as the auditor and Group auditor for the 2021 fiscal year and subsequently commissioned by the company, has issued a declaration to this effect.

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
Sto SE & Co. KGaA wishes to make clear that only non-voting preference shares in its share capital are traded on an organised market within the meaning of Sections 289a and 315a of the German Commercial Code (HGB). Consequently, the following information is provided in the interest of transparency but without any legal obligation. The following information reflects the situation as at the balance sheet date of 31 December 2021.

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 as at the 2021 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)

Members of the Executive Board of STO Management SE in the fiscal year of 2021
(personally liable partner of Sto SE & Co. KGaA)

Rainer Hüttenberger
Stein am Rhein/Switzerland, Spokesman of the Executive Board, responsible for Sales Sto Brand International, Business Field Organisation, Corporate Strategic Development, M&A, and the Business Unit Industry, Member of the Executive Board since 1 April 2011

Michael Keller
Bonndorf/Germany, Chief Sales Officer, responsible for Sales Sto Brand Germany, Distribution, Marketing Communications, Sustainability, and Central Services, Member of the Executive Board since 1 July 2015

Jan Nissen
Bad Dürrheim/Germany, Chief Technology Officer, responsible for Process Engineering, Innovation, Materials Management, and Logistics, Member of the Executive Board since 1 January 2017

Rolf Wöhrle
Bad Dürrheim/Germany, Chief Financial Officer, responsible for Finance, Controlling, Information Technology, Internal Audit, Investor Relations, Legal, and Technical Service, Member of the Executive Board since 1 September 2010

The Sto Executive Board (from left): Michael Keller, Rainer Hüttenberger, Jan Nissen, and Rolf Wöhrle.
Photo: Martin Baitinger, Böblingen/Germany

The 2021 fiscal year at a glance

- Consolidated turnover up by 11.0 % to EUR 1,590.5 million in 2021
- Considerable growth of 16.2 % outside of Germany, turnover in Germany increases by 4.9 %, mainly as a result of first-time consolidations
- Improved earnings in spite of significant disruptions to procurement markets: EBIT improves by 3.1 % to EUR 124.5 million and EBT by 7.5 % to EUR 127.9 million
- Cash flow from operating activities amounts to EUR 111.4 million (previous year: EUR 177.2 million)
- Mainly due to first-time consolidation, the size of the Group workforce increases by 152 to 5,697 employees as at the 2021 year end
- Outlook for 2022: without factoring in the impact of the Russia-Ukraine conflict, Sto expects its turnover to be in the order of EUR 1.74 billion and its EBIT to be between EUR 114 million and EUR 134 million

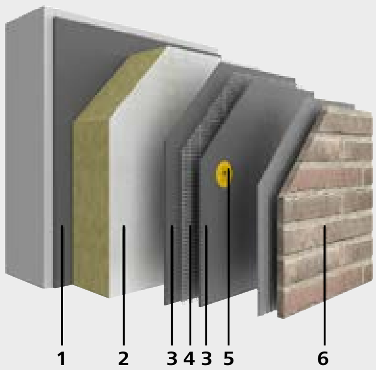
A. Group fundamentals

Business model
Sto is a major international manufacturer of products and systems for building coatings. The product range is divided into four product groups. The core business of **facade systems** – which contributed 46.5 % to 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, and rainscreen cladding facades (RSC). Secondly, there is the **facade coatings** product group, which covers render and paint systems for external applications. In 2021, this accounted for 22.3 % of consolidated turnover. The third group is **products for interiors,** which, for example, includes plaster and paint systems for home and office interiors, as well as decorative coatings, interior claddings, and acoustic systems for regulating sound. In the year under review, this group contributed 15.6 % to turnover. Furthermore, Sto produces and sells high-quality floor coatings, products for concrete repair, and various other products. These are grouped together under **Other product groups**, which likewise contributed 15.6 % to turnover.

The items in the Sto product range are perfectly matched with one another, reflecting the company's vast **pool of expertise**. This is one of the main factors behind the Group's success. The components within the core business of facade systems and the supplementary business areas (such as design services) plus the alternative coating materials and claddings (such as brick slips) complement each other particularly well. Firstly, this boosts application and installation efficiency and ensures long-term conservation of value and, secondly, it provides building owners with the greatest possible degree of individual design freedom.

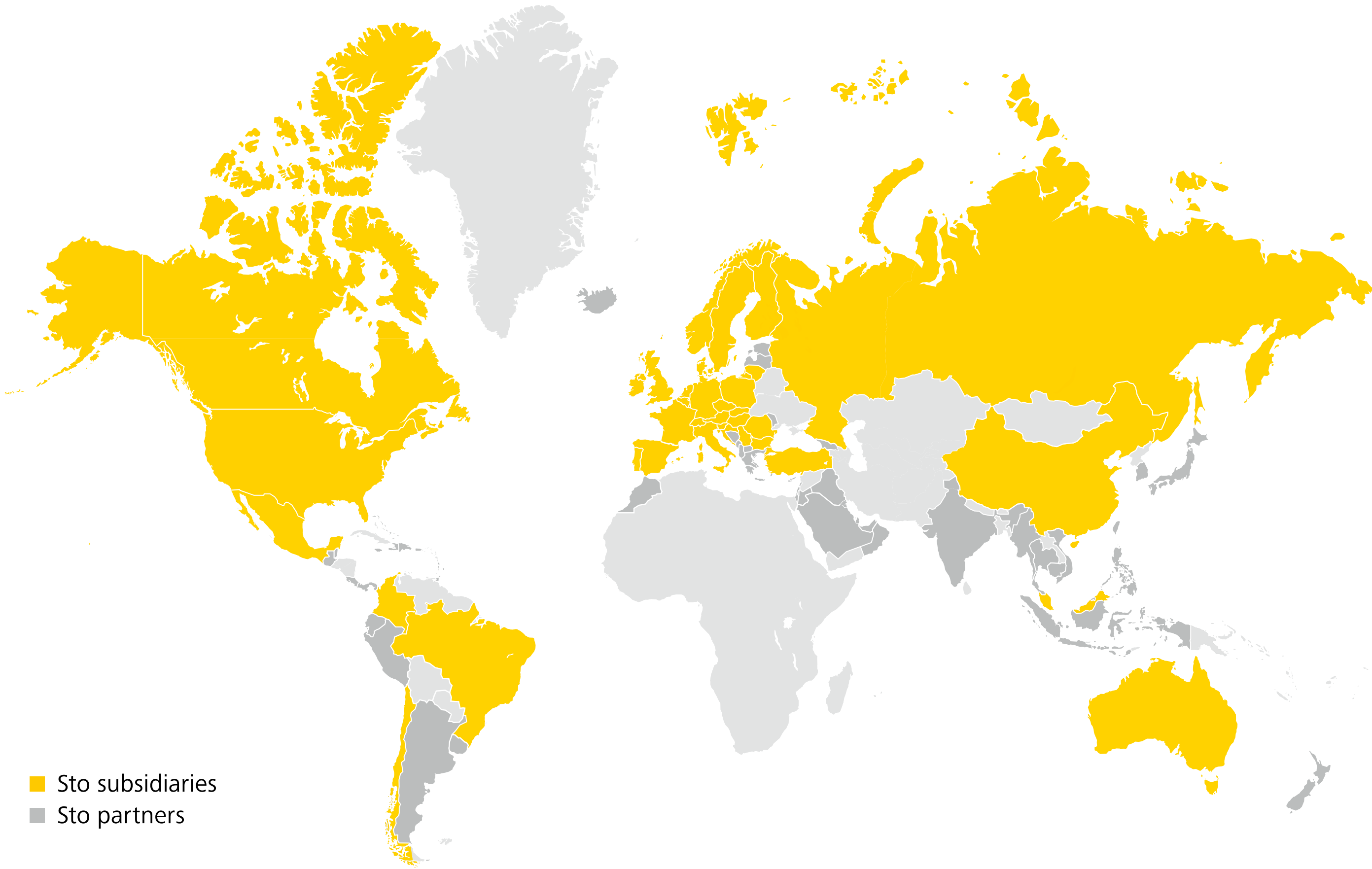
StoTherm Mineral with StoBrick

StoBrick, the brick cladding system, is a genuine success story: in the past ten years alone, 1.2 million square metres of it have been installed on thermally insulated facades.



1 — **Bonding**
StoLevell Uni
2 — **Insulation**
Sto-Stone Wool Insulation Board
3 — **Base coat**
StoArmat Classic AimS
4 — **Reinforcement**
Sto-Glass Fibre Mesh
5 — **Fixing**
Sto-Thermo Anchor II UEZ 8/60
6 — **Cladding**

Photo: Sto SE & Co. KGaA



The key hallmarks of the Sto business model are high levels of expertise, quality, and customer benefit. The company has also managed to establish 'sto' as an **international product brand** through its globally harmonised market presence. The brand strategy is based on the four core brand values: 'Close', 'Experienced', 'Performing', and 'Advanced'.

The Group's **innovative strength** is another pillar of the positive image cultivated by the 'sto' brand and of our corporate success. To secure the position we are seeking to uphold as a technology leader and tap into new growth areas, we engage in comprehensive research and development activities. This strategic direction is evident in our corporate vision: 'Technology leader in the sustainable design of living space tailored to human needs. Worldwide.'

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'.

Sales markets
The business activities of the Sto Group are divided into the segments of **Western Europe, Northern/Eastern Europe** and **America/Asia/Pacific**. Our corporate management is primarily focused on these segments. In Western Europe, which includes including Germany and which is also the most important market, Sto generated 78.4 % of its consolidated turnover in 2021. Germany – the most significant individual market – accounted for 43.5 %. Meanwhile, Sto generated 9.8 % of its turnover in Northern/Eastern Europe and another 11.8 % in America/Asia/Pacific.

One of Sto's strategic growth initiatives is systematically developing and penetrating new markets. By stepping up the **internationalisation** of our business activities, we can seize existing sales opportunities worldwide and spread the entrepreneurial risk by partially offsetting fluctuations in individual countries. As at the end of 2021, the Sto Group was represented in 38 countries with 50 subsidiaries of its own as well as their operating sites. In many other regions, we also maintain supply partnerships via distribution partners.

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

Customers and distribution system
The portfolio of the 'sto' brand 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.

With a view to tapping into additional potential for sales and increasing our market share, we have also spent several years setting up a **multi-stage distribution concept**. Via this second, supplementary distribution channel, we 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, which is responsible for the areas of floor coatings and concrete repair.
- **Innolation GmbH**, Lauingen, which produces insulants solely for internal use at Sto and develops innovative insulant technologies.
- **Liaver GmbH & Co. KG**, Ilmenau, which produces expanded glass granulate from recycled glass. The company also uses these materials to produce acoustic products and shipbuilding panels.
- **Verotec GmbH**, Lauingen, which produces carrier boards for acoustic systems, rainscreen cladding systems, and architectural elements for other Group companies and for sale to external partners.
- **VIACOR Polymer GmbH**, Rottenburg am Neckar, which specialises in polyurethane-based industrial flooring, floor coatings for car parks, and sports floor coatings.
- **Ströher GmbH**, Dillenburg, and its subsidiaries, which focus on brick surfaces for facade systems, outdoor ceramics, and tiles for interiors. In addition to Group companies, Ströher's main customers are trading companies.
- **Südwest Lacke + Farben GmbH & Co. KG**, Böhl-Iggelheim, which is the Group's specialist for paints and lacquers, and works primarily with trading companies.
- **JONAS Farben GmbH**, Wülfrath, which has been a fully consolidated member of the Sto Group since the beginning of March 2021 and was previously recorded using the equity method. As a manufacturer of wall paints and other coating products, JONAS Farben GmbH specialises in the German professional market, particularly private-label paints.

Outside of Germany, business is largely handled by national companies operating independently, with their offering tailored to suit the respective local conditions. Some of these companies produce on site, while the remaining products are largely sourced through the Group.

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

The individual product groups of the Sto Group are each managed by a team of product managers. Each product management team with global responsibility for particular products and systems is in charge of the strategic positioning of their product groups and coordinates marketing and sales objectives with the relevant 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 (such as Technical Service or Strategic Marketing), which are able to provide all subsidiaries and product groups with worldwide assistance in dealing with overarching issues. In this way, Sto creates the right conditions for efficient management on a global scale, and for targeted further development of the service portfolio.

Business management control system
The four-member Executive Board of the personally liable partner STO Management SE is responsible for managing Sto SE & Co. KGaA's business, as part of which it develops the Group's strategy and ensures that it is put into practice. The parent company Sto SE & Co. KGaA, the segments, and the subsidiaries are controlled and managed by means of strategic and operational targets, as well as financial key figures. 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.[1]

The reports compiled under this reporting system are submitted directly to the Executive Board of STO Management SE, which then forwards all relevant information to the Sto Supervisory Board. Additionally, management meetings generally take place periodically between the Executive Board and the executive staff of the subsidiaries or sales regions. 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

[1] 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 liabilities

as a means of corporate and risk management. Such indicators mainly consist of global economic data and detailed industry information.

Statement on corporate governance/ Non-financial statement

The specifications relating to the combined Statement on corporate governance, as outlined in Sections 315d, 289f, 289a, and 315a of the German Commercial Code (HGB), 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 published 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 accordance with Section 315b of the German Commercial Code (HGB), provided as a supplement to the Group management report, is contained in the 'Sustainability and Corporate Social Responsibility' chapter of the Annual Report. This can also be viewed online at www.sto.de by going to the 'Investor Relations' area and then to the 'Nachhaltigkeit & CSR' (Sustainability & Corporate Social Responsibility) category. 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, which 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 STOManagement SE receives an expense allowance from Sto SE & Co. KGaA for managing the latter's business. The remuneration that is paid to the members of the STO Management SE management body as part of 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.

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. The corporate vision and other principles on which our practice is based are defined in the Sto Guiding Principles, which provide all employees and managers with guidance when making strategic and operational decisions. These principles have helped shape the objectives that we set as part of our Strategy 2025:

- **Sustainable, profitable growth that protects capital** – We align our decisions with this overarching corporate objective.

- **Customer focus** – We are an expert, reliable, and flexible partner, and stand for 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. By drawing on our product and system portfolio, we develop impressive and carefully differentiated complete solutions to cover the entire value chain of our target groups. 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 strategy, which we revised in 2020, by focusing specifically on three topics:

- **Accelerating growth**
- **Increasing profit**
- **Expanding our core competence**

The objectives will be realised through a total of 14 core initiatives.

B. Financial report

General statement on business development in 2021 and comparison with the forecast

The Sto Group managed to exceed its planned growth for 2021 in spite of various challenges, increasing consolidated turnover by 11.0 % to EUR 1,590.5 million (previous year: EUR 1,433.0 million). As a result, it hit the forecast exactly – which had again been revised upwards slightly in December – and set a new record in the process. Once adjusted by the first-time consolidation of JONAS Farben GmbH and the net negative effects of currency translation, growth in the year under review amounted to 9.3 %.

The lion's share of the increase in turnover was attributable to the very strong business development in the first half of the year. During this period, the high demand in the construction sector – which was also partly due to a shortage of investment alternatives on the capital market – was assisted by the generally favourable weather conditions. In several markets outside of Germany, significant catch-up effects were noticeable compared to the corresponding period of the previous year, which had been substantially affected by the coronavirus pandemic. From the middle of the year onwards, growth became less dynamic compared to the first half year of 2021. In the course of the second quarter, Germany – in particular – had sometimes been affected by considerable bottlenecks in the supply of raw materials and primary products and by disruptions to global supply chains, the knock-on effect of which was delays on construction sites, mainly in the third quarter and especially in relation to upstream construction stages. In addition, fewer catch-up effects were noticeable in the autumn given the good business development that had been seen during the corresponding period of the previous year. In certain countries, restrictions were reimposed as a result of the coronavirus pandemic. In the final few months of the year, Sto again benefited from good weather conditions in most of our key markets and, particularly outside of Germany, recorded growth levels that exceeded expectations.

We also managed to improve consolidated earnings in the 2021 fiscal year despite the fact that the dramatic price increases encountered in the course of the year in the area of procurement had a huge impact on gross profit. Earnings before interest and taxes (EBIT) increased by 3.1 % to EUR 124.5 million (previous year: EUR 120.8 million) and were therefore within the most recently forecast range, which had been increased to between EUR 113 million and EUR 128 million in December 2021. Earnings before taxes (EBT) totalled EUR 127.9 million (adjusted forecast: between EUR 115 million and EUR 130 million; previous year: EUR 119.0 million), resulting in a return on sales of 8.0 % (adjusted forecast: between 7.2 % and 8.2 %; previous year: 8.3 %). Sto has set new records for itself in terms of both EBIT and EBT. Standing at 18.9 %, the ROCE (return on capital employed) was also within the expected range (adjusted forecast: between 17.3 % and 19.6 %; previous year: 19.7 %).

The higher business volume within the Sto Group was a particularly crucial factor for the positive development of income. Moreover, the slump in the gross profit margin in the fourth quarter was not as severe as initially assumed, partly due to positive product mix effects. To compensate for the risk-laden situation on the procurement markets that had existed from the very beginning of the year, the expensive strategic measures that had originally been planned were postponed and earnings-securing measures were introduced, which we gradually intensified in the course of the year in the face of increasing pricing pressure.

The financial and asset situation of the Sto Group remained extremely sound and robust in 2021. With an equity ratio of 56.2 % (31 December 2020: 54.6 %) and cash stocks of EUR 137.1 million (31 December 2020: EUR 130.0 million), we possess an excellent foundation for further business development. Taking borrowings into account, net financial assets increased to EUR 127.0 million as at the reference date (31 December 2020: EUR 117.1 million). Cash flow from operating activities stood at EUR 111.4 million (previous year: EUR 177.2 million).

At the Annual General Meeting on 22 June 2022, the Executive Board of the personally liable partner STO Management SE will propose a dividend payout of EUR 31,896,720.00. This means that limited preference shareholders will once receive an unchanged ordinary dividend of EUR 0.31 and a bonus of EUR 4.69 per share. Limited ordinary shareholders will likewise be paid the same amounts as the previous year: an ordinary dividend of EUR 0.25 and a bonus of EUR 4.69 per share.

To overcome the challenges faced during the 2021 fiscal year, our employees had to demonstrate the highest possible degree of commitment. Thanks to their extraordinary efforts, which we by no means take for granted, we were able to maintain supply to the customers to the maximum possible extent, and exceed our turnover and earnings targets. In particular, the considerable disruptions in the supply chain, but also the still noticeable negative effects of the coronavirus pandemic, put a strain on the entire Sto workforce, which responded to the demands with outstanding performance.

At the time of compiling the Group management report, the Executive Board of STO Management SE views the situation 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 2021

Global economic development

In 2021, the global economy recovered considerably from the severe slump it had suffered the previous year as a result of the coronavirus pandemic. According to estimates by the International Monetary Fund (IMF), the global economy grew by 5.9 % over the year as a whole (previous year: -3.1 %). Right through to the summer, the declining number of cases and noticeable progress in the area of vaccinations helped to support a major upswing, although this became considerably less dynamic over the following months. Economic development in the second half of the year was mainly hampered by supply bottlenecks and price increases in relation to key raw materials and primary products. Additional uncertainties arose due to the emergence of more infectious variants of the virus and rising inflation.

According to the IMF, the industrialised countries saw an increase of 5.0 % in 2021, following on from the significant minus of 4.5 % the previous year. Gross domestic product (GDP) in the USA increased by 5.6 % in the reporting period. Meanwhile, in the eurozone, economic output rose by 5.2 %. Countries such as France (+6.7 %), Italy (+6.2 %), and Spain (+4.9 %) in particular – which had recorded considerable declines in 2020 – experienced particularly strong expansion in this regard.

The overall level of growth calculated by the IMF for the developing and emerging countries was 6.5 % (previous year: -2.0 %), which was mainly due to the high rates of growth in Asia and Latin America. Over the year as a whole, the Chinese economy grew by 8.1 %.

According to calculations by the Federal Statistical Office of Germany (Destatis), the German economy also managed to revive in 2021 in spite of the ongoing coronavirus pandemic and increasing supply and material bottlenecks. GDP was 2.8 % higher in 2021 than the previous year, but still remained below the pre-crisis level: compared to 2019, economic output was 2.0 % lower. According to Destatis, growth occurred in virtually every sector in the year under review: in the manufacturing sector, for example, gross value added was up by 4.4 % in 2021 compared to the previous year, and in the combined sector of trade, transport, and hospitality, an increase of 3.0 % was recorded. According to Destatis, on the demand side, price-adjusted private consumer spending stabilised at the same low level as the previous year, while government spending supported the growth of the German economy.

International trends for the construction sector

Incoming orders in the **German construction industry** increased significantly in 2021: Destatis, the Federal Statistical Office of Germany, reported nominal growth of 9.4 %, although the steep rise in prices meant that the increase was actually only 2.3 % in real terms. Supply bottlenecks regarding construction materials had a particularly noticeable impact on the turnover for this sector, which nominally increased by 0.8 % but, in real terms, was actually 6.2 % below the previous year's. Together with the restrictions associated with the coronavirus pandemic, these played a role in preventing incoming orders from being processed quickly enough. In addition, the low nominal increase in turnover was partly attributable to the temporary reduction in value added tax in the second half year of 2020. This led to larger final invoices being brought forward to 2020 when they would normally have been issued at the beginning of the new year. According to information from 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 building boom continued to be bolstered by the ongoing high demand for living space in 2021. According to estimates by the residential construction associations, turnover in the building industry is thought to have increased nominally by 2 %, with an increase of 1 % expected in the commercial construction segment. In the area of public-sector construction, turnover fell by 3 %.

According to information from the Verband der deutschen Lack- und Druckfarbenindustrie e.V. (Association of the German Paint and Printing Ink Industry), the architectural coatings subsegment in Germany saw sales in the area of professional products – which is the one of relevance to Sto – drop by 2 %. Meanwhile, the volume of sales in the do-it-yourself segment, in which the 'sto' brand is not positioned, fell by around 16 % following the boom that it had experienced in 2020. Within the architectural coatings market as a whole, volumes declined by 9.7 % in total in 2021, which – when measured in terms of value – equates to an 8 % decrease in turnover. Within the EWIS market, sales in Germany grew by 2.9 % (previous year: 5.2 %) according to information from the market research institute B+L Marktdaten GmbH.

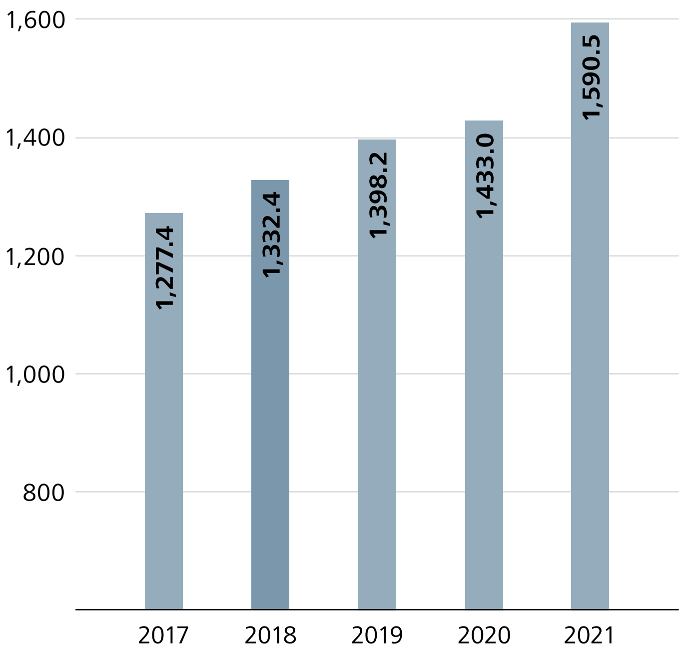
According to information from the EUROCONSTRUCT network, in 2021, the **European construction industry** managed to overcome the slump that had been caused by the coronavirus pandemic. Calculations by the research team showed that the volume of construction had increased by 5.6 % in the 19 member states. At the same time, the cost of services rose dramatically in many locations: in eight countries, construction prices for 2021 were at least 5 % higher than the previous year's level. By the 2021 year end, the construction works figure had exceeded the pre-coronavirus level for 2019 overall, mainly as a result of work on existing housing stock. A two-year comparison of 2021/2019 revealed that this had increased by EUR 19.3 billion. By contrast, construction of new homes in 2021 fell just short of the pre-crisis level and, when it came to the construction of new non-residential buildings, a staggering EUR 15.8 billion less was spent than two years prior. In the case of projects that involved existing non-residential buildings, the chasm was EUR 5.4 billion.

In 2021, there was a cooling-off of the boom in the **Chinese construction sector**. According to GTAI (Germany Trade & Invest), in the first nine months there were 4.5 % fewer construction projects of new buildings when measured in square metres than in the same period of the previous year. In the case of office and commercial space, the decline was in the double digit range. According to GTAI (Germany Trade & Invest), stricter credit limits were the crucial factor here. Right from the start of 2021, these seriously restricted the financial margin of Chinese real estate companies.

In 2021, the construction industry in the **USA** was sustained by a vibrant private residential construction segment. In August, total cumulative construction investments for the preceding twelve months reached a volume of around USD 1.6 trillion according to GTAI (Germany Trade & Invest). Compared to the previous year's value, this represented a rate of growth of 8.9 %. Within this context, record levels of investment and completions were achieved in the area of residential construction. As at August 2021, investments had expanded by 11.5 % in comparison to the previous year. By contrast, the economic situation in relation to office, commercial, and industrial buildings was significantly dampened by the coronavirus pandemic.

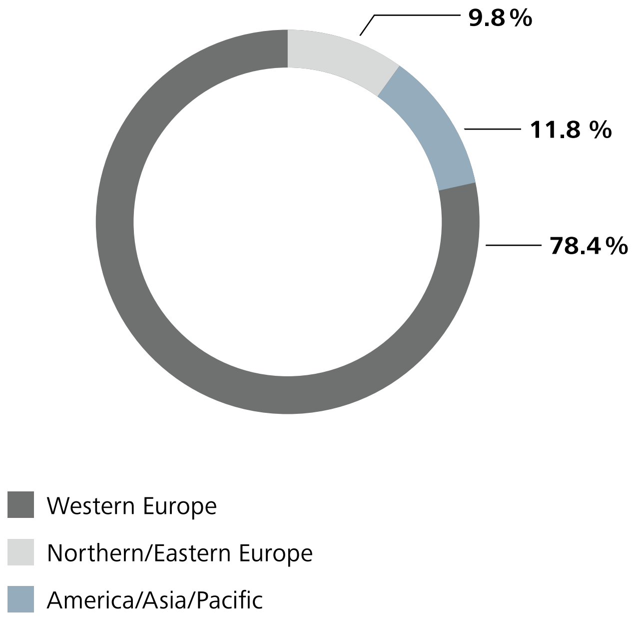
Business performance and development of turnover

Sto Group turnover
in EUR million



In the 2021 fiscal year, Sto was able to increase its **consolidated turnover** considerably compared to the previous year, setting a new record for itself in the process. It rose by EUR 157.5 million – or 11.0 % – to EUR 1,590.5 million (previous year: EUR 1,433.0 million). Of this, organic growth accounted for EUR 133.7 million, with another EUR 25.1 million resulting from first-time consolidation effects and a negative effect of EUR 1.3 million arising from currency translations. When taken as a yearly average, the US dollar and Turkish lira – in particular – were devalued compared to the corresponding period of the previous year, while currencies including the Norwegian krone and Swedish krona saw a positive development. When adjusted for currency translation effects, this corresponds to an increase of 11.1 %; excluding first-time consolidation and currency translation effects, growth in turnover in 2021 was 9.3 %.

Sto Group segment turnover
in %

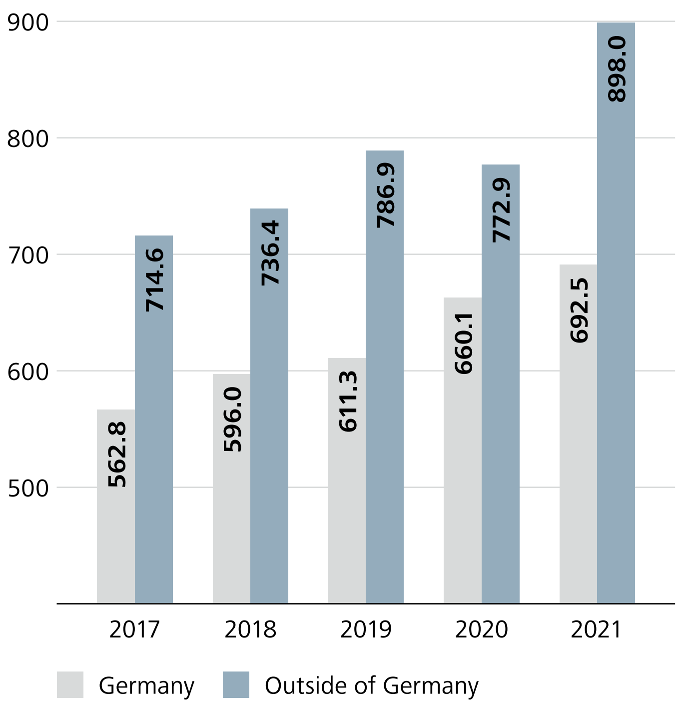


For the **segment of Western Europe**, the Sto Group recorded a 12.1 % growth in turnover to EUR 1,246.5 million in 2021 (previous year: EUR 1,111.7 million). Noticeable catch-up effects were seen in the Western European countries that had been particularly badly affected by the coronavirus pandemic during the previous year. These included Italy and France, for example. In addition, those Sto companies benefited considerably from the governmental measures aimed at supporting energy-efficient building refurbishment. Positive currency translation effects were recorded in the UK and negative ones in Switzerland, which had a net negative impact on segment turnover. Excluding first-time consolidation and currency translation effects, the resulting level of organic growth in Western Europe was 9.9 %.

In **Northern/Eastern Europe**, Sto achieved a rise of 8.4 % to EUR 155.9 million (previous year: EUR 143.8 million). Business development in these regions was mainly solid, with currency translation effects having a positive impact in this regard in the case of some companies in Northern Europe but a noticeably negative impact in other countries, such as Turkey. When calculated on the basis of the respective national currencies, the growth figure is 8.2 %.

In the segment of **America/Asia/Pacific**, consolidated turnover increased overall by 6.0 % to EUR 188.2 million (previous year: EUR 177.5 million), a plus of 6.8 % when adjusted for currency translation effects. Particularly in the USA, growth was curtailed by the development of the US dollar, although some of the other American companies recorded encouraging rates of growth. In the Sto markets in the Asia/Pacific region – which had suffered badly the previous year from the restrictions imposed as a result of the coronavirus pandemic – significant catch-up effects were evident in part. For instance, a further expansion in turnover proved possible in China in spite of the increasingly difficult general conditions there. However, in Australia, considerable restrictions were once again imposed in 2021 due to the coronavirus pandemic, leading to declines in turnover.

Sto Group turnover in Germany and outside of Germany
in EUR million



In **Germany**, turnover within the Sto Group increased by 4.9 % to EUR 692.5 million (previous year: EUR 660.1 million), mainly as a result of first-time consolidations. After encouraging growth rates in the first six months, growth became much less dynamic in the remaining course of the year. Disruptions to supply chains were a major cause of this, along with the resulting delays on construction sites, particularly in relation to upstream construction stages. Excluding the first-time consolidation effects, the Sto Group managed to achieve a slight increase of 1.1 % in Germany in 2021.

Growth **outside of Germany** was significantly higher: there, turnover increased by 16.2 % to EUR 898.0 million (previous year: EUR 772.9 million) in the year under review. Without the currency translation effects, which had a negative impact overall, the increase was actually 16.4 %. Alongside the significant catch-up effects in regions that had experienced declines in 2020 due to the coronavirus pandemic, demand in some countries was boosted – in particular – by government funding programmes for energy-efficient building refurbishment. The percentage of Group turnover generated outside of Germany amounted to 56.5 %, compared to 53.9 % in 2020.

Performance of product groups
In 2021, turnover in the product group of facade systems, which contributed 46.5 % to Group turnover, increased by 10.6 % to EUR 740.0 million (previous year: EUR 668.9 million), with growth in Germany standing at 3.6 %. The companies outside of Germany frequently recorded growth as a result of catch-up effects, particularly in the area of EWIS, and were sometimes also able to benefit from government funding programmes.

Within the product group of facade coatings, turnover – which amounted to EUR 354.6 million – was 10.1 % above the previous year's level overall (previous year: EUR 322.1 million), with the share in Group turnover amounting to 22.3 %. Turnover generated by interior products, which made up 15.6 % of consolidated turnover, increased by 17.2 % to EUR 247.9 million (previous year: EUR 211.5 million). This was primarily attributable to strong demand for interior coating materials.

In the case of the other product groups, turnover increased by 7.6 % to EUR 248.0 million (previous year: EUR 230.6 million). This was mainly generated by the product area of floor coatings, although there were noticeable disruptions to procurement markets.

Income situation

As a consequence of the significant rises in procurement costs, which affected virtually every area and which we have so far not been able to pass on to customers to a sufficient extent via our own price increases, the **cost of material** increased considerably in 2021: standing at a figure of EUR 760.5 million, it was 21.0 % higher than the previous year's value (previous year: EUR 628.4 million). The prices of input materials, such as epoxy resins, dispersions, and titanium dioxide, and of insulants and packaging saw particularly dramatic rises. There were also capacity shortages in the logistics sector, which led to higher freight costs. In long-distance transport, the processes were, for example, sometimes hindered by capacity bottlenecks in silo tankers.

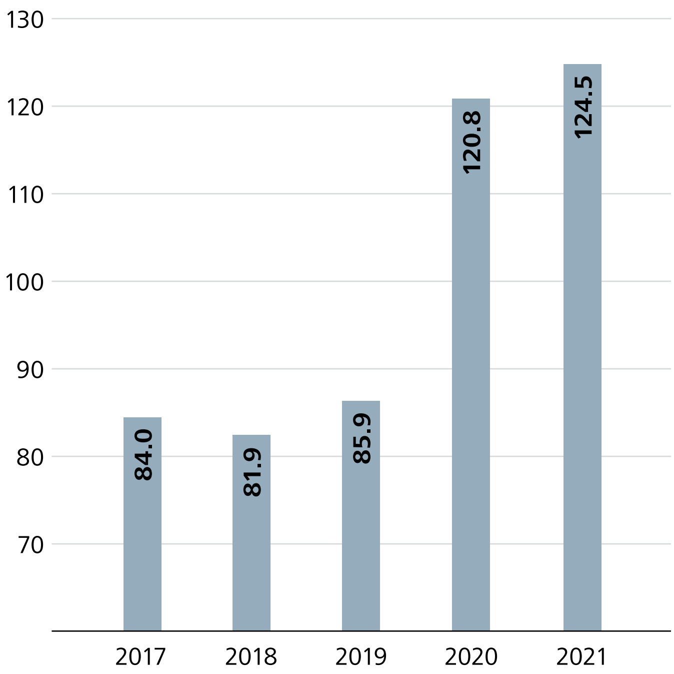
As a result of the increased **total revenues** amounting to EUR 1,604.9 million (previous year: EUR 1,432.9 million), gross profit in the Sto Group rose by 5.0 % to EUR 844.4 million (previous year: EUR 804.5 million). The gross margin rate dropped significantly from 56.1 % to 52.6 %.

In the area of **personnel expenditure**, which increased by 5.4 % to EUR 405.0 million across the Group as a whole (previous year: EUR 384.3 million), the increase in the number of employees, which was mainly due to first-time consolidations, and pay scale effects were not the only factors. There was also a net increase in variable pay, such as the commission paid to the Sto sales force, that also played a clear role.

Other operating expenses rose by 6.7 % from EUR 252.5 million to EUR 269.5 million, partly due to the increased business volume, which – among other things – led to higher freight costs. Furthermore, increased expenditure was recorded for marketing and advertisement as well as user fees for IT infrastructure and software. **Other operating income** increased from EUR 21.4 million to EUR 25.6 million. The balance of **other operating expenses** and **other operating income** within the Group rose from EUR -231.1 million to EUR -243.9 million.

Earnings before interest, taxes, and depreciation/amortisation plus impairment of non-financial assets (**EBITDA**) within the Sto Group increased by 3.2 % to EUR 192.5 million (previous year: EUR 186.5 million) in 2021. Depreciation and amortisation of Intangible fixed assets, Property, plant, and equipment, and Rights of use increased from EUR 65.7 million to EUR 68.1 million. This includes impairment of goodwill in the amount of EUR 10.0 million (previous year: EUR 9.1 million). This resulted in operational earnings before interest and taxes (**EBIT**) of EUR 124.5 million (previous year: EUR 120.8 million). In addition to the considerable growth in turnover, other factors that contributed to the 3.1 % improvement included the earnings-securing measures that were introduced to compensate for the tense situation on the procurement markets and which were gradually intensified in the face of increasing pricing pressure. In addition, we postponed the expensive strategic measures that had originally been planned in order to reduce the cost burden within the Group.

Sto Group EBIT
in EUR million



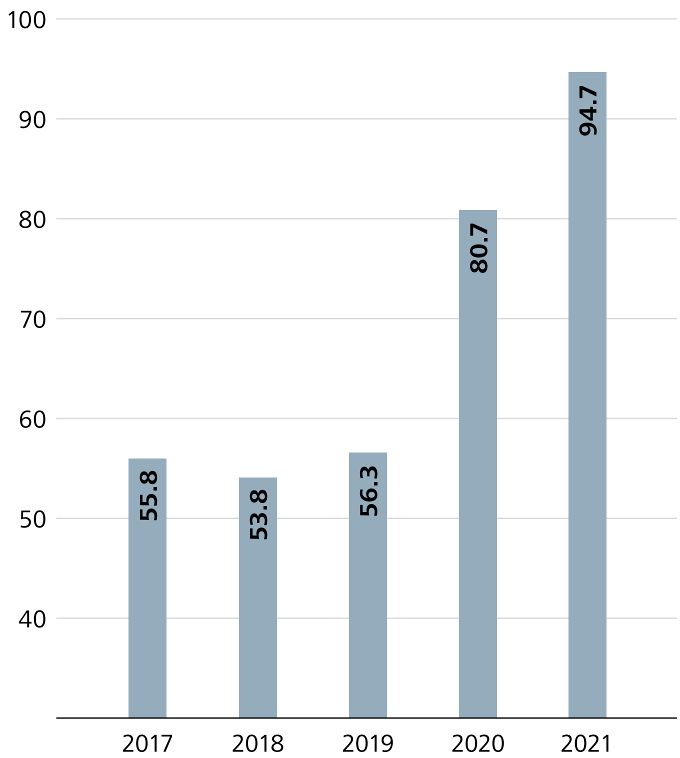
Within the segment of **Western Europe**, EBIT fell from EUR 111.9 million to EUR 102.7 million due to the enormous pressure on the gross profit margin. Meanwhile, growth was recorded in the other segments: in **Northern/Eastern Europe**, earnings rose from EUR 8.5 million to EUR 14.5 million and in the **America/Asia/Pacific** segment, there was an improvement in EBIT to EUR 8.1 million (previous year: EUR 0.3 million).

The Group's **net financial income/expense** increased from the previous year's figure of EUR -1.8 million to EUR 3.5 million, mainly due to the step-by-step corporate acquisition of JONAS Farbenwerke GmbH & Co. KG (now: JONAS Farben GmbH), the new valuation using the equity method associated with this, and the acquisition of the Jonas real estate in February 2021. The deconsolidation of the shares that had previously been accounted for using the equity method resulted in an income of around EUR 3.5 million. Aside from this, the growth in net financial income/expense was also due to the earnings from financial assets accounted for using the equity method and an improvement in net interest income. In the previous year, the syndicated loan that Sto SE & Co. KGaA had taken out in the first half year of 2020 as a precautionary measure in light of the uncertainty surrounding the coronavirus pandemic, led to a higher level of interest expense.

At EUR 127.9 million, Group earnings before taxes (**EBT**) were up by 7.5 % compared to the previous year's value (previous year: EUR 119.0 million) and the return on sales was 8.0 % (previous year: 8.3 %). The tax rate fell to 26.0 % (previous year: 32.2 %). The reduction in the tax rate was facilitated, among other things, by one-time effects during the previous period and – during the year under review – by off-period tax effects, adjustments made to the transfer pricing system of the Sto Group, and differences between local tax rates and the Group tax rate.

Net profit for the year rose by 17.4 % from EUR 80.7 million to EUR 94.7 million. In the 2021 fiscal year, Sto managed to set new records for itself in terms of the earnings key performance indicators of EBITDA, EBIT, and EBT, as well as the net profit for the year.

Sto Group net profit for the year
in EUR million



Diluted and basic earnings were EUR 14.46 per limited preference share (previous year: EUR 12.60) and EUR 14.40 per limited ordinary share (previous year: EUR 12.54).

As at the reference date of 31 December 2021, the **ROCE** (Return on Capital Employed) figure for the Sto Group stood at 18.9 % (31 December 2020: 19.7 %).

Sto SE & Co. KGaA – Dividend
At the parent company Sto SE & Co. KGaA, **earnings before income taxes**, determined in accordance with the German Commercial Code (HGB), fell to EUR 67.9 million (previous year: EUR 97.1 million) and the **net profit for the year** dropped to EUR 46.6 million (previous year: EUR 71.2 million). The financial and asset situation of Sto SE & Co. KGaA remained extremely solid, with an equity ratio of 65.4 % (previous year: 68.5 %).

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 22 June 2022. This means that limited preference shareholders will again receive an ordinary dividend of EUR 0.31 and a bonus of EUR 4.69 per share. Limited ordinary shareholders are likewise to be paid the same as the previous year: an ordinary dividend of EUR 0.25 as well as a 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. Some of the key objectives here 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, and prioritise good credit ratings and long-term business relationships characterised by mutual trust when working with banks.

To ensure a long-term financing scope, we aim to establish a balanced relationship between equity and debt capital. The Group's financial requirements – which fluctuate significantly due to the seasonal nature of the business – are mainly covered using operating cash flow and available liquidity. In addition, unused credit facilities in the amount of EUR 129.4 million (previous year: EUR 123.9 million) were available on the balance sheet date. These credit facilities mainly consist of a syndicated loan agreement, which will come to the end of its term in the summer of 2022. The plan is to renew the syndicated loan in the amount of EUR 100.0 million. At the 2021 year end, the present value of disbursements due from leasing contracts in the future stood at EUR 87.6 million (previous year: EUR 64.7 million).

Foreign currency items are netted within the Group to minimise the effect of exchange rate fluctuations on consolidated earnings. As part of our planning, the expected foreign currency cash flows are determined for the following year and suitable **hedging strategies** are then devised on this basis. Planned cash positions are hedged through instruments congruent with the time and economic state from the area of derivatives.

The Sto Group's liquidity is primarily 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. Any surplus liquidity is invested under conditions that are as favourable as possible. In addition, short- or long-term loans are provided to subsidiaries, particularly for investments.

Solvency is ensured by the **Treasury** department. This involves recording the necessary financial resources for internal and external financing, as well as 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 2021

In 2021, the Sto Group's **cash flow from operating activities** fell from the previous year's value of EUR 177.2 million to EUR 111.4 million, which was primarily due to additional funds of EUR 41.4 million being tied up in net working capital, particularly as a result of building up inventories (previous year: EUR +17.4 million). This was accompanied by a decrease in provisions of EUR 3.6 million following a EUR 5.3 million increase in the previous year. This was contrasted not only by the higher earnings but also, in particular, by the increased depreciation and amortisation of fixed assets, which increased from EUR 65.7 million to EUR 68.1 million. The cash flow margin fell from 12.4 % to 7.0 %.

The **cash flow from investment activities** – which totalled EUR -51.1 million in 2021 (previous year: EUR -123.7 million) – was affected, in particular, by the outflows for the acquisition of consolidated companies and other business units (less acquired cash and cash equivalents) in the amount of EUR 16.6 million (previous year: EUR 0.9 million) that resulted from the acquisition of the remaining shares in JONAS Farbenwerke GmbH & Co. KG (now: JONAS Farben GmbH) as part of a step-by-step corporate acquisition. In the year under review, investments in Property, plant, and equipment, and Intangible assets amounted to EUR 41.9 million compared to EUR 41.7 million the previous year, while payments received from other disposal of Intangible assets, and Property, plant, and equipment amounted to EUR 1.8 million (previous year: EUR 0.5 million). In the area of financial investments, disbursements fell in comparison to the previous year from EUR 121.6 million to EUR 46.4 million, while deposits increased from EUR 39.6 million to EUR 51.7 million. Cash flow from investment activities adjusted for these deposits and disbursements amounted to EUR -56.4 million (previous year: EUR -41.7 million).

Sto Group cash flow statement
in EUR K

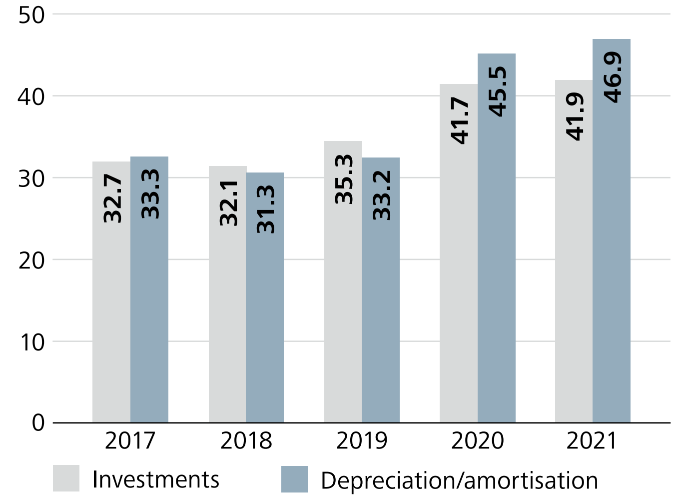
	2021	2020
Cash flow		
from current operating activities	111,402	177,183
from investment activities	–51,067	–123,664
from financing activities	–57,166	–49,186
Change in cash and cash equivalents from changes in exchange rates and impairments in accordance with IFRS 9	3,923	–2,897
Cash and cash equivalents at the beginning of the period	**130,043**	**128,607**
Change in cash and cash equivalents	7,092	1,436
Cash and cash equivalents at the end of period	**137,135**	**130,043**

Cash flow from financing activities amounted to EUR -57.2 million in 2021 (previous year: EUR -49.2 million), with EUR 31.9 million of this making up the dividend payouts (previous year: EUR 26.0 million). Payments for current borrowings decreased from EUR 85.2 million to EUR 2.8 million and the corresponding deposits fell from EUR 83.5 million to EUR 2.1 million. Payments for non-current borrowings remained virtually unchanged at EUR 1.1 million and there were no corresponding deposits in the year under review (previous year: EUR 2.5 million).

At the 2021 year end, net **financial resources** amounted to EUR 137.1 million (previous year: EUR 130.0 million). This took account of changes from exchange rates and from impairments due to anticipated losses on cash and cash equivalents in accordance with IFRS 9 in the total amount of EUR 3.9 million (previous year: EUR -2.9 million). As compared to the same day of the previous year, cash and cash equivalents within the Sto Group increased by EUR 7.1 million (previous year: EUR 1.4 million).

Investments
In the 2021 fiscal year, the Sto Group invested a total of EUR 41.9 million in Property, plant, and equipment, and Intangible assets (previous year: EUR 41.7 million). Among other things, investments were made in the expansion of production capacities at the Villach location in Austria, which was successfully completed at the beginning of the fourth quarter, and in the new logistics building (which is likewise already in operation) at Südwest Lacke + Farben GmbH & Co. KG in Böhl-Iggelheim/Germany. Furthermore, investments were made in the modernisation of a tunnel furnace at Ströher Produktions GmbH & Co. KG – a project which is still ongoing – as well as in the usual replacement and expansion measures. One of the focal points was implementing a digital strategy in our production activities. Due to the restrictions associated with the coronavirus pandemic and the delivery delays incurred, it was not possible to implement certain measures as had originally been planned. Instead, these had to be postponed or dropped as part of the earnings-securing strategy, as did various investment projects. As in the previous year, we did not undertake any investments in financial assets. As at 31 December 2021, acceptance obligations for items of Property, plant, and equipment were recorded in the amount of EUR 12.1 million (previous year: EUR 5.1 million).

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



Across the Group as a whole, EUR 35.1 million of the total investment amount was allocated to the segment of Western Europe (previous year: EUR 36.4 million), EUR 2.5 million to the segment of Northern/Eastern Europe (previous year: EUR 2.5 million), and EUR 4.3 million to the region of America/Asia/Pacific (previous year: EUR 2.8 million).

Asset situation

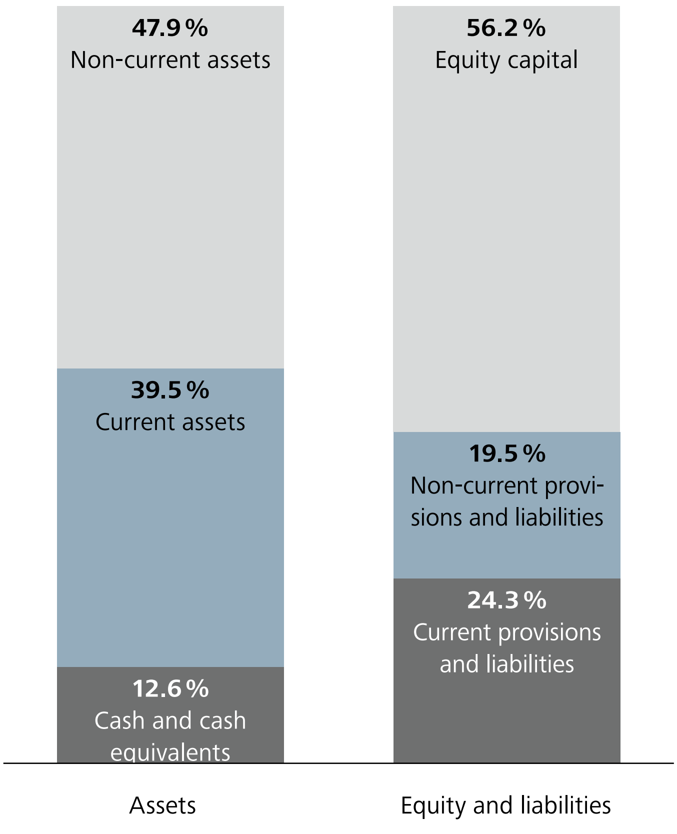
In parallel with the expansion of its business, the Sto Group saw a year-on-year rise in its **balance sheet** of 11.4 % to EUR 1,084.7 million as at 31 December 2021 (31 December 2020: EUR 973.8 million).

The **non-current assets** experienced a net increase of EUR 462.7 million to EUR 518.8 million and, in the area of fixed assets – which increased from EUR 399.7 million to EUR 436.8 million – it was the rights of use, in particular, that exceeded the previous year's value considerably. The long-term rental agreement for the new headquarters of Sto Norge AS in Norway, as well as some other additional rental agreements, such as the one for a new distribution centre for Sto SE & Co. KGaA in Bernburg (Saale)/Germany, were the key factors that caused this item to increase from EUR 63.6 million to EUR 85.9 million. By contrast, the financial assets accounted for using the equity method fell from EUR 11.2 million to EUR 1.9 million due to the minority stake in JONAS Farbenwerke GmbH & Co. KG (now: JONAS Farben GmbH) that had hitherto been included under this item but was removed when the company became fully consolidated as of the beginning of March 2021 following the acquisition of the outstanding shares.

The main aspect reflected in the category of other non-current assets – which increased from EUR 63.0 million to EUR 82.0 million – was the reallocation of current financial assets to non-current financial assets, which was undertaken as part of the financial management optimisation process. Accordingly, the growth in non-current financial assets from EUR 26.3 million to EUR 48.4 million was contrasted by a reduction in the current financial assets item, which fell from EUR 119.4 million to EUR 94.1 million. Non-current trade receivables totalled EUR 1.8 million (31 December 2020: EUR 1.7 million).

At the 2021 year end, total **current assets** within the Sto Group stood at EUR 565.9 million (31 December 2020: EUR 511.1 million). The build-up of inventories from EUR 103.2 million to EUR 158.6 million was due, firstly, to the higher business volume and first-time consolidation effects. Secondly, stocks of raw materials, finished goods, and bought-in products were the main areas that were purposefully increased to safeguard Sto's readiness to deliver in light of the uncertain supply situation that was ongoing. Current trade receivables increased from EUR 128.7 million to EUR 145.8 million due to the considerable business expansion in comparison to the previous year and as a result of first-time consolidation effects. Cash and cash equivalents rose from EUR 130.0 million to EUR 137.1 million.

Sto Group balance sheet structure
as at 31 December 2021



Particularly as a result of the solid income situation, the Sto Group's **equity** increased from EUR 531.4 million to EUR 610.0 million, bringing about a further improvement in the **equity ratio** to 56.2 % (31 December 2020: 54.6 %).

The **non-current provisions and liabilities** increased year-on-year from EUR 204.5 million to EUR 210.9 million, although the post-employment benefit provisions decreased from EUR 132.5 million to EUR 122.2 million. Aside from the higher market interest rate, the reduction was due – particularly in the case of our Swiss subsidiary – to the change of the pension scheme. By contrast, the non-current lease liabilities increased – in parallel with the increase in the rights of use in property, plant, and equipment – from EUR 46.2 million to EUR 67.2 million. Of these liabilities, EUR 48.1 million will become due in one to five years (previous year: EUR 36.4 million) and EUR 19.1 million will become due in five to ten years (previous year: EUR 9.8 million). Non-current borrowings decreased from EUR 5.3 million to EUR 1.9 million.

Within the **current provisions and liabilities**, which rose overall from EUR 238.0 million to EUR 263.8 million, trade payables increased from EUR 51.5 million to EUR 63.3 million and current financial liabilities from EUR 38.7 million to EUR 45.1 million. Other current liabilities increased from EUR 52.5 million to EUR 60.0 million. Other current provisions, which decreased from EUR 49.4 million to EUR 43.5 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.

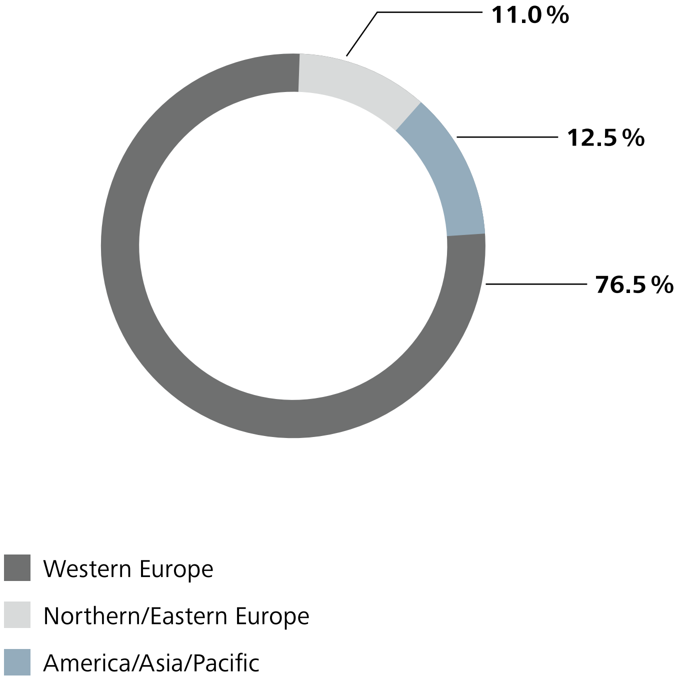
On the reference date, current and non-current borrowings totalled EUR 10.2 million (31 December 2020: EUR 12.9 million). Taking into account cash and cash equivalents of EUR 137.1 million, net financial assets stood at EUR 126.9 million as at the end of December 2021 (31 December 2020: EUR 117.1 million).

C. Other performance indicators

Employees

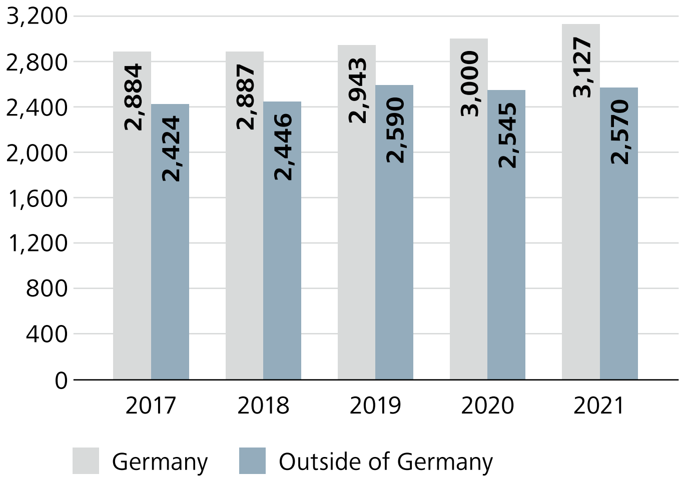
At the 2021 year end, the Sto Group had 5,697 employees worldwide (previous year: 5,545). As compared to the same day of the previous year, this equates to an increase of 152 employees or 2.7 %, which mainly resulted from the step-by-step corporate acquisition of JONAS Farbenwerke GmbH & Co. KG (now: JONAS Farben GmbH). Excluding the workforce of this first-time consolidated company, the number of employees at the Sto Group increased by 60.

Sto Group employees as at 31 December
By segment



In the segment of Western Europe, the number of employees grew by 140 to 4,360 in net terms largely due to first-time consolidations (previous year: 4,220). In Northern/Eastern Europe, it increased by 4 to 623 (previous year: 619) and in the region of America/Asia/Pacific, it rose by 8 to 714 (previous year: 706).

Sto Group employees as at 31 December
Number



As at 31 December 2021, the Sto Group had a total of 3,127 employees in Germany (excluding JONAS: 3,035; previous year: 3,000).

In total, the number of people employed by Sto outside of Germany increased by 25 to 2,570 employees (previous year: 2,545), with new hirings mainly taking place in countries with short and medium-term growth prospects. By contrast, specific adjustments were made in some locations, particularly in regions experiencing difficult general economic conditions. Year-on-year, the percentage of the Group's workforce employed outside of Germany declined slightly from 45.9 % to 45.1 %.

The employees of the Sto Group are a key success factor for the company, which is why Sto positions itself as an attractive employer. Appealing, 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.

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. For this reason, we specifically promote diversity and tolerance in the company and support people regardless of ethnic origin, gender, age, sexual orientation, disability, and religion. In 2021, the proportion of female employees in the Group remained almost unchanged at around 25 %; the average age was 43.7 (previous year: 43.6).

Impact of the coronavirus pandemic
The HR department leads the global 'COVID-19' team. As part of this, it oversees the programme of measures that was established during the previous year in order to protect the health of the workforce and safeguard the company's ability to conduct its business, a programme which continued into 2021 and was adapted in a flexible way in response to the course of the pandemic. The measures include: extensive hygiene regulations; working policy measures, such as working from home, staggered working hours, or restrictions on business trips; compliance with official requirements; intensive communication with the workforce; and the digitisation of training and professional development measures. In addition, new qualification opportunities were organised, such as 'Führen auf Distanz' (Leading from a distance) to equip employees as best as possible for the new working conditions.

HR strategy
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 goals. 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. The activities we undertake to this end are divided into three areas: professional personnel and managerial development, employer attractiveness and securing the next generation of employees, as well as competitive terms of employment.

In 2021, the main focus was on the following projects:
- Supporting process orientation and digitisation within the Sto Group via suitable training, communication, and change measures
- Further development of the pay and remuneration arrangements in conjunction with the works council
- Further development of the corporate culture as part of the strategy implementation process
- Design and piloting of concepts of 'New Work'

Fluctuation
As regards the fluctuation rate – which is defined by considering 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 – we aim to keep it in the lower single-digit percentage range across the Group. In 2021, a very good rate was once again achieved at Sto SE & Co. KGaA, where it was 3.4 % (previous year: 3.3 %). The proportion of voluntary terminations by employees was 1.6 % (previous year: 1.0 %). The average period of employment in the Sto Group remained virtually unchanged at 11.1 years (previous year: 11.0 years).

Occupational safety
Reducing and preventing accidents is a key component of our policy on occupational safety. As a basic 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 2021, this rate at Sto SE & Co. KGaA was 18.3 (previous year: 15.5). In absolute terms, 34 (previous year: 33) work accidents and 7 (previous year: 5) commuting accidents were reported.

Essentially, the incidents – which were analysed in detail – were due to human error. Where necessary, we introduced relevant measures to prevent any reoccurrences. In addition, suitable training and instruction measures were once again offered to employees with a view to increasing occupational safety.

The high standards of health and safety within the Sto Group are substantiated by external certifications: in the USA, all three factories of the Sto Corp. subsidiary have been audited in accordance with the local 'Safety & Health Achievement Recognition Program' (SHARP). This program documents a high level of health and safety – just like the ISO 45001 standard (previously: OHSAS), under which Sto Scandinavia AB (Sweden), Beissier S.A.U. (Spain), Shanghai Sto Ltd. (China), Sto Norge AS (Norway), Sto Danmark A/S (Denmark), and Sto Finexter OY (Finland) are all certified.

The Verotec GmbH and Innolation GmbH subsidiaries 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. In Singapore, the bizSAFE programme ensures the promotion of health and safety in the workplace by recognising measures implemented in the area of occupational safety.

Health management
In the year under review, preventative measures aimed at protecting the workforce against coronavirus infections were, once again, one of the focal points of the health protection measures. The programme that had been introduced in 2020 remained in place and underwent further refinement. In addition, we provided the workforce with comprehensive training in how to implement the measures, conduct risk assessments, and provide safety briefings. On top of this, we also took the new step of offering COVID vaccinations to Sto employees at the Stühlingen and Donaueschingen locations in Germany.

Alongside this, the Sto Group has an extensive and permanently available programme for protecting and improving the health of our employees. The programme includes, for example, offers around the topics of nutrition, sport and protection against the flu. It also covers noise protection, good ventilation, cleanliness, and ergonomics in the workplace.

At the 2021 year end, the Sto Group had a total of 5,697 employees.
Photo: Martin Baitinger, Böblingen/Germany

Further education and training activities
We nurture our employees' abilities with an attractive range of training options that have a systematic structure and have been accessible via digital channels since 2021. The new 'E-learning' online platform has set the course to achieve these aims. Here, we provide all Sto Group learning content and materials in the same format the world over, be they online courses, videos, podcasts, or PowerPoint presentations. We have also incorporated new content to prepare Sto employees for the shift in virtual working conditions and enable them to use digital tools efficiently. Among other things, we ran courses on the topics of communication, presentations, and negotiations, as well as compliance and IT security. In addition, we launched the webinar series called 'Virtuell und menschlich nah' (Remaining close in a virtual world), which looks at various aspects of digital collaboration.

Alongside the newly designed development programme for the next generation of international managers, which was already launched in 2021, new target competencies and concepts were devised as part of the strategy implementation process, including in the areas of process management, and business and market development. In addition, professional development opportunities were offered to help employees adopt new working methods and acquire product know-how, sometimes on the platforms of national companies.

Vocational training at Sto
In September 2021, 81 young people (previous year: 87) started their vocational training at Sto in Germany. At year end, the number of trainees and students employed at German locations on placements from cooperative state universities once again totalled 241. In relation to the total workforce in Germany, this equates to a share of 7.7 % (previous year: 8.0 %). As a result, Sto once again easily exceeded the average training rate of around 4.7 % that was recorded for all the businesses working in the chemical industry in Germany.

In Germany, our vocational training programme encompasses a total of 27 (previous year: 25) industrial and commercial occupations and fields of study. Extensive information about vocational training can be found in the 'Karriere' (Careers) area of the Sto website at www.sto.de.

Research and development

Our intensive research and development work is one of the key bases for achieving our strategic objectives, enabling us to shore up our position as the innovative technology leader we aim to be within our sector, to expand our expertise continuously, and to tap into new markets, customers, and growth areas. Here, our focus is increasingly turning to aspects of sustainability. Other topics

Sto's training rate of 7.7 % is considerably above the average for all the businesses working in the chemical industry in Germany.
Photo: Sto SE & Co. KGaA

currently at the heart of our R&D work are: ability to maintain supply, product portfolio optimisation, and the continuous improvement of product properties.

Within the Sto Group, development work mainly takes place at the Stühlingen location in Germany, which serves as a centre of competence for the entire Group. In addition, subsidiaries inside and outside of Germany have their own R&D departments whose activities are geared towards the respective regional circumstances. In 2021, collaboration with headquarters was further deepened to provide the national companies with even more intensive expert support. Alongside joint development projects, global R&D networks are to be established to a greater extent in the future as part of this.

In the year under review, EUR 14.6 million (previous year: EUR 14.0 million) in research and development costs – or 0.9 % (previous year: 1.0 %) of consolidated turnover – was recorded with an impact on profit and loss within the Sto Group. As at 31 December 2021, 179 people (previous year: 183) were employed at our R&D departments worldwide.

In light of the many and varied challenges on the procurement markets, the aspects that the R&D team particularly had to deal with in 2021 involved ensuring the supply of raw materials. Due to delivery delays in several areas and the restricted availability of quite a few input materials, their main focus was on finding suitable alternatives and getting these checked and approved within a short period. As regards the qualification of new raw materials and the optimisation of product formulations, a high degree of agility was required because these not only have to meet our high quality requirements and satisfy the social and environmental standards applicable along the entire supply chain, but they also have to ensure adequate value for money.

In all R&D projects, sustainability aspects are becoming more and more important – both in terms of the selection and procurement of materials and the manufacture of products. During the year under review, we looked particularly closely at mineral products and insulants, where both sustainability and fire safety criteria have a major role to play.

Personal contact with suppliers, business partners, and customers – which is crucial for the effectiveness of our R&D work – continued to be restricted by the coronavirus pandemic in 2021. Although we were able to maintain communication in principle via virtual meetings, the otherwise usual direct exchange with all those involved in the R&D process was significantly impaired.

One of the main projects in 2021 was the extension of the successful Dryonic® product family, for which we drew on our many years of experience in the area of biomimetics. For more than 20 years, we have been borrowing efficient operating principles from nature in order to enhance our products with intelligent technologies. Alongside our Lotusan® facade paint – which we developed as the first ever biomimetic product

StoColor Lotusan AimS® is a biomimetic facade paint that serves as a top paint coat for the sustainable StoTherm AimS® external wall insulation system. A large proportion of the components of this system are based on renewable resources.
Photo: Martin Baitinger, Böblingen/Germany

to mimic the lotus plant – our StoColor Dryonic® facade paint is another product that helps surfaces to protect themselves. Dew and mist drain away in record time and the facade is also protected against fading or heating when exposed to the sun. Since 2021, it has been possible to apply StoColor Dryonic® to virtually any substrate.

We have expanded our extensive range of external wall insulation systems by adding a particularly sustainable solution. StoTherm AimS® consists of an environmentally friendly base coat and a finishing render, plus a biomimetic facade paint. All system components are based on an extremely high proportion of renewable and sufficiently available raw materials. When used in conjunction with a suitable insulant, the products can therefore be combined to create a fully sustainable external wall insulation system that is certified by the Blue Angel ecolabel. The system helps with environmental protection in two ways: through the conservation of resources, such as crude oil, at the manufacturing stage and, like all insulation systems, through reductions in heating energy consumption during use.

In October 2021, production started up at the mineral products factory in Villach/Austria and, in conjunction with this, we developed some new formulations that would allow the use of local raw materials. The necessary raw materials can now be procured locally in Austria. Compared to the previous situation, whereby the materials had to be supplied from Germany, this change-over saves logistics costs and protects the environment. The development of prefab solutions formed another part of our R&D activities. The industrial sector is the main area where prefabricated facade elements have an opportunity to establish themselves as a trendsetting technology.

Fundamental research

The basis for successful development activities and the creation of new technologies is in-depth fundamental research. At the Sto Group, sustainability issues are coming to play an increasingly important role in this area as well, including – among other things – from the perspective of the recyclability of the systems and the use of recycled raw materials in the products. Fundamental research at Sto is also heavily concerned with topics of the future, such as digitisation and robotics, e.g. the integration of 3D printing solutions, smart functions such as wall paints with additional properties for influencing the surface temperature, and the use of new materials.

Our team regularly works with external researchers and developers, such as research institutes, universities, and start-ups, in order to benefit from the largest possible pool of wide-ranging expertise. In addition to this, continuous dialogue with our suppliers and business partners both inside and outside of Germany helps us to expand our expertise.

Production and procurement

The high quality and value of Sto's products are down to the company's excellence in the area of production. We are continually developing applications and methods, as well as making improvements to production processes, to maintain our high standards and keep on acquiring new knowledge.

Due to the considerable disruptions to global supply chains in 2021, we had to be extremely flexible with our planning, and were frequently forced to make revisions and adjustments at short notice. In spite of this, we largely managed to continue supplying customers in 2021 thanks to the extraordinary commitment of everyone involved in the production process.

In the year under review, processes also continued to be affected by the coronavirus pandemic. The protective hygiene and organisational measures that had been implemented during the previous year were consistently pursued in the year under review. For instance, steps were taken to prevent shift work employees from having any contact with the people from the previous or following shift. Increased cleaning intervals were also maintained. As a result of the extensive measures and the use of rapid testing, we were largely able to keep production running uninterrupted throughout the entire reporting period.

The key products/materials produced in-house at the Sto Group are coating materials such as renders, paints, adhesive and reinforcing compounds as well as floor coatings.

Some of the expanded polystyrene-based (EPS) insulants are produced at the locations of Innolation GmbH in Lauingen/Germany and Amilly/France. 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. Our Swedish subsidiary produces special insulants based on EPS.

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
In the year under review, the Sto Group’s global production network comprised a total of 33 locations, of which 21 were outside of Germany and 12 were in Germany. Production capacity utilisation across the entire Group – sometimes based on two shifts and sometimes on three – was good overall, rising slightly compared to the previous year.

Production equipment at the Sto Group is constantly being modernised or renewed, with process digitisation currently taking centre stage in this regard. The measures implemented in the year under review included the modernisation of the process control system at the German location of Donaueschingen, which was successfully completed at the very beginning of 2021. The new production management system is not only helping to provide digital support for almost every process in the production environment but also for order processing. At the German location of Stühlingen, preparations for the renewal of the process control system were made in the course of the year, with the work being implemented at the turn of the year 2021/2022. In addition, production capacity at the Austrian location of Villach was successfully expanded in July 2021 with the commissioning of a facility for manufacturing mineral products.

With a view to identifying optimisation potential at an early stage and continuously improving performance in the area of production, the non-conforming batch rate is regularly monitored at the production sites. 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 2021, this demanding target was almost universally achieved across all European Sto factories. In order to keep the non-conforming batch rate this low all of the time or reduce it even further, we regularly provide training and run suitable courses for our employees.

Certified quality management
All key production facilities within the Sto Group are registered in the integrated management system, which incorporates all quality, environmental, safety, and energy management systems. The majority of the plants have undergone external certification according to various standards: 26 (previous year: 27) out of a total of 33 locations are certified in accordance with the international quality management standard ISO 9001:2015 and 17 (previous year: 17) in accordance with the environmental management system standard ISO 14001:2015. Continuous further development and optimisation of the locations are ensured, among other things, by carrying out surveillance audits and spot checks against the certification matrix.

In July 2021, production capacity at the Austrian location of Villach was successfully expanded with the commissioning of a facility for manufacturing mineral products.
Photo: Sto Ges.m.b.H.

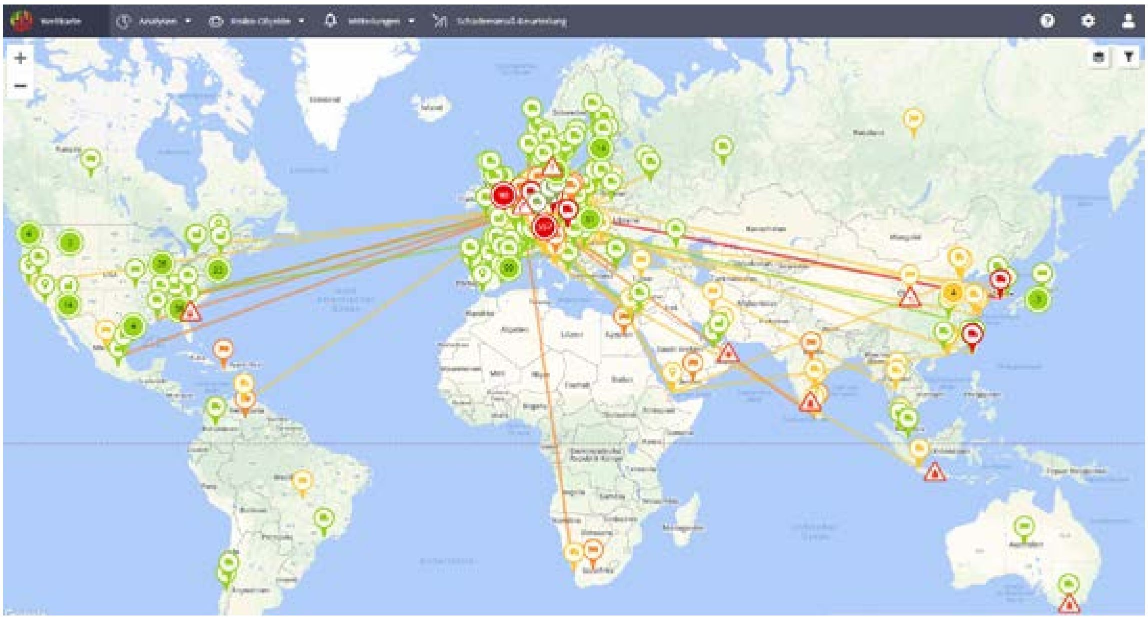
As at the end of 2021, Sto SE & Co. KGaA – with its headquarters in Stühlingen/Germany – and all production sites and SalesCentres in Germany, as well as six subsidiaries, met the requirements of the ISO 50001:2018 standard for improving energy efficiency. The external certifications were supplemented by internal audits at various locations.

The production of EPS insulation boards is a particular focus of quality assurance at Sto. Processes in this area are continuously optimised so that a very high level of quality is maintained at all stages of the manufacturing process and by all the suppliers involved in it, and – where possible – an even higher level is attained. In 2021, insulation board certification procedures took place at the plants in Amilly/France and Lauingen/Germany. In the year under review, Innolation S.A.S. in France was audited in accordance with the French certificate ACERMI (Association pour la CERtification des Matériaux Isolants), which is specifically concerned with quality assurance in the area of building materials and products for the thermal insulation of buildings. As a result, it was awarded the Engagé RSE label. This method is based on ISO standard AFAQ 26000 and is aimed at companies that make a special effort to ensure sustainable development.

Procurement
In 2021, the key raw materials purchased 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. When measured by value, organic binders, epoxy resins, dyestuffs, plastic containers, packaging supplies, and bought-in products such as mesh and insulants were among the main input materials in 2021. In comparison to the previous year there were no significant changes to the procurement portfolio.

The procurement markets were deeply affected by drastic price increases on the global markets in 2021. These were the result of various factors, particularly increased demand in various sectors, which was linked to the economic circumstances, plant stoppages by some manufacturers which led to considerable shortages, and restrictions due to the coronavirus pandemic. The price increases for input materials such as epoxy resins, dispersions, titanium dioxide, and packaging were particularly serious. In some cases, supply bottlenecks occurred. Consequently, the main duties of staff working in the area of procurement included establishing additional sources of supply or finding equivalent materials, incorporating alternative products, and ensuring sufficient quantities. There was a noticeable shortage of dispersions, epoxy resins, and additives in particular and this sometimes resulted in delivery delays. However, bought-in products that rely on plastics were also occasionally affected in the same way, along with packaging and labels.

We countered these challenges – primarily – by relying on predictive stockpiling with a much higher days-of-inventory figure and by implementing an allocation process because ensuring a reliable supply for our customers is the top priority. In addition to introducing a Supply Task Force, which tracked the availability of procurement materials on a daily basis. We also established Sales Task Forces within the individual companies, which were responsible for prioritising customer orders. In addition, we stepped up our strategic early stockpiling of raw materials and bought-in products, expanded our storage capacity, and undertook the qualification of substitute suppliers.



With the help of AI-based risk management software, the purchasing department was able to identify weaknesses in the global supply chain at an early stage and proactively factor these in.
Photo: Sto SE & Co. KGaA

In spite of the countermeasures that were introduced right at the beginning of the year, the on-time and in-full delivery figure dropped noticeably at Sto SE & Co. KGaA during the fiscal year due to the supply bottlenecks in 2021. The average value for the year was 92 % (previous year: 96 %). The development of the situation from April to July had a particularly negative effect but the rate improved considerably again in the second half of the year.

The transport prices rose considerably in the course of 2021 due to supply chain disruptions. Alongside the freight cost rises, which were mainly the result of higher fuel prices, the increasing lack of drivers also had a noticeable impact. In addition, logistics partners had to implement protection and hygiene measures because of the coronavirus pandemic, and the associated expenditure once again led to higher scheduling costs as in the previous year. In the area of overseas transport, the situation was exacerbated by a serious lack of available containers, causing the sea transport prices to rise significantly. In total, the cost of goods sold in relation to the total revenues within the Group increased from 43.9 % to 47.4 % in 2021.

Procurement management

The basis for end-to-end security of supply at the production facilities of the Sto Group is proactive procurement management, which relies on close, long-term relationships with our key 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.

In 2021, the globally strained supply situation meant that the focus was mainly on the resilience of the value chains, which were strengthened in dialogue with our strategic suppliers. With the help of the AI-based risk management software that we introduced across the Group, we were able to identify weaknesses in the global supply chain at an early stage and proactively factor these in.

In 2021, we also expanded the number of supply sources for certain product groups and, together with the R&D department, analysed possible technology changes and alternative product compositions. Moreover, from the perspective of implementing the forthcoming Supply Chain Act, some groundwork was done on the technical systems.

To tackle the volatile developments on the procurement markets as effectively as possible, the projections were optimised at the strategic purchasing department of Sto SE & Co. KGaA and a rolling 3-month forecast was established to run alongside the annual budget. In this way, we were able to improve work in the strategic purchasing department considerably and provide customers with additional security of supply. During the previous year, we had introduced a digitally assisted process to highlight price fluctuations and bottlenecks at an early stage and, in 2021, some additional product groups were added and the process was optimised. Among other things, further forecast calculations from the sales departments of the subsidiaries were incorporated so that monthly delivery schedules could be produced for specific companies and stockpiling could be increased if necessary.

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 in the previous year, Sto SE & Co. KGaA was aiming for a score of 90.0, but the key figure was significantly affected by the challenges associated with the coronavirus pandemic. In actual fact, a score of 85.2 (previous year: 87.4) ended up being achieved in 2021. The main negative factor in this regard was the reduced delivery reliability of certain partners, who were unable to meet their promised deadlines.

Inventory ratios (average stock in relation to annual sales) are agreed with the Sto subsidiaries on an annual basis and, in 2021, these ranged between 3.0 % and 31.0 %. These values depend on whether the company concerned is a production and/or sales company. 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 2021, the agreed inventory ratio targets were sometimes exceeded. Essentially, there were two factors that led to an overall higher inventory ratio within the Group: larger increases in turnover than planned at certain companies and the increased strategic stockpiling of raw materials and packaging supplies due to the critical supply situation.

D. Risks and opportunities report

Risks and opportunities
As an international company, Sto SE & Co. KGaA is regularly confronted with risks and opportunities. In principle, we define opportunities and risks as potential deviations from the planned result. Managing these in a way that focuses on our objectives 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 Executive Board of STO Management SE as personally liable partner lays down a **risk strategy**. This asks for opportunities that arise to be exploited with rigour, while undertaking risks only where a commensurate contribution to earnings can be expected and a threat to the company's existence can largely be excluded.

Internal control system
As a supplement to the Sto Group’s risks and opportunities management system, we have also implemented an **internal control system (ICS)**. This covers all the principles, procedures, and measures that are intended to ensure the effectiveness, economic efficiency, and correctness of the Group accounting, as well as compliance with the relevant legal regulations. In addition, the ICS incorporates an internal monitoring system comprising in-process elements and elements independent of the process concerned. One example of an important measure is the dual control principle, which is supplemented by automated IT process controls.

The roles and responsibilities within the accounting process – such as accounting at Sto SE & Co. KGaA and its subsidiaries, Group accounting, and investment controlling – are clearly separated and defined.

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.

The regular management meetings that take place between the management of the company and the managers in charge of the subsidiaries and/or sales regions are another important element of the ICS.

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 main features of our Compliance Management System are internally published in accordance with the recommendations of the 2019 version of the Deutscher Corporate Governance Kodex (German Corporate Governance Code, DCGK). 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 risk management and internal control systems is regularly examined in accordance with the relevant statutory requirements. Internal audits are carried out by Central Investment Controlling, by Group Accounting – which checks, for example, whether the accounting guideline is being applied and also checks the budget – and by the Internal Audit department. The latter examines the internal control system and risk management system from the perspective of the described structures and processes, particularly as part of regular audits. The results of the audits are reported to the Executive Board of STO Management SE as the personally liable partner.

Audits completely independent of the processes concerned are also carried out by the Audit Committee of the Supervisory Board.

As regards the accounting process, this is checked externally by our Group auditor who, among other things, examines the inventory and reviews the disclosure and valuation of assets and liabilities as part of the legally required annual audit. Until now, implementation of the accounting standards has been monitored by the Deutsche Prüfstelle für Rechnungslegung e.V. (German Financial Reporting Enforcement Panel), Berlin, but in the future this will be the task of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin). Compliance with the tax regulations is checked by the audit authorities.

The Supervisory Board and, in particular, the Audit Committee receive regular information from the Executive Board of STO Management SE as well as from the auditor and the Internal Audit department.

Despite every care being taken, 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 internal control and risk management systems. 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.

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, to assess the expected effects on the assets, financial, and income situation, and – where necessary – to introduce appropriate countermeasures.

The most important component of the RMS is the **reporting system**, which records all operational activities in the Group both quantitatively and qualitatively in accordance with a specified scheme. Defined key figures are constantly monitored so that 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, directives for assessing risks, and procedural instructions for every Group company. This manual is binding throughout the Group. Risks are managed and administered efficiently and transparently using a piece of risk management software that was implemented in 2021.

A new aspect introduced in 2021 was the determination and analysis of the company's **risk-bearing capacity**. This is the maximum level of risk that the company is able to withstand without endangering its own continued existence over time. In order to be able to assess whether a threat to the company's continued existence exists from the perspective of the assets, financial and income situation, the risk-bearing capacity has to be determined across the entire Group in relation to the overall risk position. The overall risk position across the entire Group is calculated as the gross risk less the effect of the risk management measures. The risk-bearing capacity was defined on the basis of KPIs (key performance indicators) and threshold values that would indicate possible over-indebtedness or insolvency. The existing risk management and early warning systems were enhanced to trigger prompt alerts on the basis of KPIs and threshold values should the overall risk position reach critical levels in relation to the risk-bearing capacity. The aim here is to ensure that the company can take countermeasures in good time to keep the overall risk within an acceptable range. In order to determine the overall risk position of the Sto Group, the individual companies are asked to provide details of their quantified risk reduction measures. These are then deducted from the gross overall risk to give the overall risk position. In 2021, the overall risk position of the Sto Group – as determined via the risk inventory – was below the threshold values defined for indicating a problem in relation to the risk-bearing capacity.

Once a year, a **risk inventory** is carried out in order to categorise and document all current risks on a timely basis. To represent the significance of the possible effects that risks could have on our company, we create risk classes for both quantitative and qualitative individual risks. Risks assigned to risk class 1 are deemed to pose the highest level of risk. When classifying risks in the risk matrix, we consider both the probability of occurrence and the possible extent of loss or damage assuming the gross risk. 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.

Explanation of probability of occurrence

Low	< 5 %
Moderate	5 % to 20 %
High	20 % to 50 %
Very high	50 % to 100 %

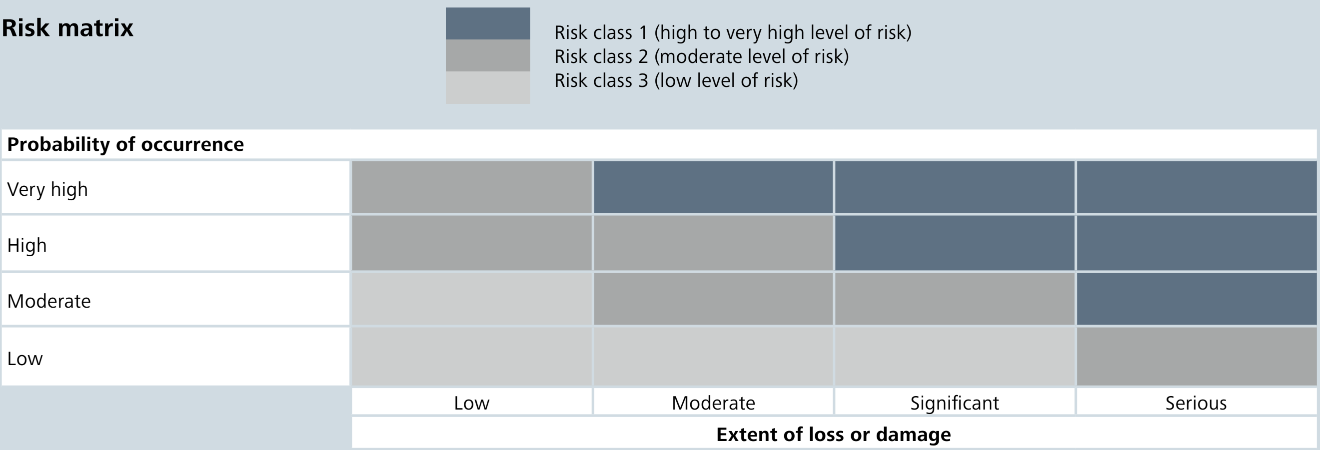
Explanation of extent of loss or damage

Extent of loss or damage		Definition of extent of loss or damage
Serious	> EUR 52 million	Significantly negative impact on earnings
Significant	EUR 25 million to EUR 52 million	Noticeable negative impact on earnings
Moderate	EUR 13 million to EUR 25 million	Negative impact on earnings
Low	< EUR 13 million	Slightly to moderately negative impact on earnings

Significant risks

Risk area	Risk class	Development
Risks in procuring raw materials, bought-in products, and energy	1	↑
Dependence on weather conditions	1	→
Risks arising from the coronavirus pandemic	2	↓
Sales risks	2	↑
Geopolitical and country risks	2	↑
Warranty-related and legal risks	2	→
Financial risks	2	→
IT risks	3	→
Human resources risks	3	↑
Risks concerning processes and added value	3	→
Overall economic and industry-specific risks	3	→
Climate and environmental risks	3	→
Tax-related risks	3	→

Risk matrix



We have assigned each of our risk areas to a risk class. The development of each individual risk area is also stated. The development of the respective risk area is categorised in comparison to the previous year by describing it as unchanged, reduced, or increased.

The risks described below and their possible effects on our company are not an exhaustive list of the risks to which we are exposed. Even risks that were unknown or seemed insignificant at the time when this report was drawn up could have a detrimental impact on our business activities in the future.

Risks in procuring raw materials, bought-in products, and energy
Due to the general conditions, the risk is currently classed as significantly higher than the previous year overall.

To manufacture its products, the Sto Group uses raw materials such as lime, marble, and quartz sands, as well as dyestuffs and binders such as cement or dispersions. Risks could arise from concentration trends on the procurement markets, from a lack of capacity or plant availability on the part of suppliers, from insufficient availability of starting materials or relevant energy sources, such as natural gas, for the production of raw materials or bought-in products and products that we make ourselves, from political unrest, from acts of war – particularly the current Russia-Ukraine conflict, from increasing trade barriers or natural disasters, and the resulting delays or disruptions to supplies for Sto. As well as this, a rise in demand for certain raw materials and goods could cause supply shortages.

The supply of goods to Sto could also be detrimentally affected by obstructions or disruptions in the logistics chain, for example due to border traffic difficulties, a lack of transport capacities or containers, such as sea containers, and restricted or non-existent fuel supplies. As raw materials, bought-in products, packaging, and energy get diverted to other priority customers – such as those in the medical, hygiene, and food sectors – supplies could be disrupted or interrupted. Disruptions to Sto's goods and energy supplies could restrict or completely destroy its manufacturing capabilities. For instance, the manufacturing capabilities of Innolation GmbH, Innolation S.A.S., Liaver GmbH & Co. KG, Ströher Produktions GmbH & Co. KG, and Verotec GmbH would be directly affected by the restriction and suspension of gas supplies. The problems could result in supply bottlenecks or even the suspension of deliveries of affected Sto products, in turn leading to negative consequences for the Sto Group's turnover and income situation. In addition, such bottlenecks may trigger recourse claims from our contractual partners.

The use of AI-based risk management software, which we introduced across the Group in 2020, helps us to identify weaknesses and risks at an early stage, and enables us to take proactive countermeasures. This has significantly improved the transparency of the supply chain and the effectiveness of risk management overall.

We tackle the detected risks through predictive procurement planning, by concluding contracts with our partners and suppliers early on, by consistently relying on the multiple-supplier principle, by sourcing internationally, and by adjusting our stocks according to the situation. 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. We examine the options for substituting energy sources and, where possible, implement them promptly. Where risks specifically emerge, task forces appropriate for the situation are established without delay. Working in a highly focused manner, these teams define and implement suitable measures to minimise the impact of the risks that have arisen.

An imbalance between supply and demand in the case of the materials and resources required by Sto could, depending on the extent of the imbalance, also lead to drastic changes in procurement prices and, in turn, have corresponding consequences for the income situation.

Overall, a highly volatile trend in procurement prices has increasingly been seen over the past few years and this is often linked to global supply and demand. Price dependency can be observed in the case of raw materials and bought-in products that are made from substances based on crude oil. For example, these include dispersions and polystyrene insulation boards, or even plastic containers such as the Sto pails. In general, price interdependencies are due to the energy price level associated with energy-intensive processes for producing raw materials or bought-in products (such as cement or insulants made from mineral wool) or the resulting impact on the costs of transporting homogeneous bulk goods such as lime and sand. 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.

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 may cause the cost of goods sold to rise and reduce the Sto Group's earnings before taxes (EBT) substantially.

In view of the number of items we handle and our procurement volume, bought-in products are becoming increasingly important to Sto. To handle quality assurance for these products, an independent group has therefore been established and is to be gradually expanded. In addition to actually monitoring the quality of bought-in products, further

measures are being implemented, such as the conclusion of quality agreements with specific terms and the carrying out of supplier audits.
(Risk class 1)

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. Relevant factors are the absence of precipitation and the presence of appropriate temperatures. 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 the earnings of the Sto Group.
(Risk class 1)

Risks arising from the coronavirus pandemic
In the 2021 fiscal year, the coronavirus pandemic continued to have a detrimental effect on national and international business, and once again pushed up expenditure. The coronavirus pandemic is still not over. 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. 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 is the potential reduction in production capacity due to sickness or the complete cessation of production if employees are infected with the coronavirus or sites are closed as part of national or regional lockdowns. 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 have been improved to reduce risks. These include, for example, separate shifts that do not cross each other, staggered working hours, increased cleaning intervals, and intensive employee training.

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.

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.

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 2022 was already hedged at the end of 2021 by currency forwards.

The plans for securing earnings, which had already been developed as part of the annual planning for 2022, 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.

As at the reference date of 31 December 2021, Sto is in a strong financial position with very positive net financial assets and currently has a syndicated loan in the amount of EUR 100.0 million with its term ending in the summer of 2022. The plan is to renew the syndicated loan in the amount of EUR 100.0 million.

Our current assumption is that the coronavirus pandemic will develop into an endemic thanks to progress in the area of vaccinations and that further mutations of the virus will not lead to a renewed increase in infections along with drastic restrictions affecting the economy.

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.
(Risk class 2)

Sales risks
Overall, we generally expect risks in the sales area to increase rather than decrease in the medium to long term.

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. In Germany, these feelings of uncertainty have been fuelled further by conflicting and, in some cases, highly exaggerated media reports. The level of demand is also determined by energy prices, particularly the price of crude oil and natural gas, and the impact that this has on the time it takes for energy investment measures to pay off. This means that there is a risk for the entire industry that the existing sales potential cannot be fully exploited if energy prices continue to fall or remain low. However, due to the current general conditions, this is an unlikely risk for the 2022 fiscal year. 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-efficient 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 that are particularly prevalent in Germany 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 and a certain trend towards serial and modular construction and refurbishment by continually developing the quality, safety, environmental compatibility, and cost effectiveness 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 drawn up a comprehensive digitisation programme, which covers virtually every process 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.

Disruptions in the supply chain can result in other trades on a construction or refurbishment project not being carried out or completed. As a result, there is a risk of Sto products or systems not getting delivered to the construction site on time or even at all because these (preceding) construction stages have to be finalised before our products and systems can be applied.

The risk is spread thanks to increasing internationalisation, the breadth and depth of the range, as well as the large customer base.
(Risk class 2)

Geopolitical and country risks
Possible political conflicts or military wars could hamper the market conditions or access to the affected markets, the supply of relevant raw materials and bought-in products from these regions, and the use of transport routes – or render all of the above completely unfeasible.

Sto continuously monitors developments in critical countries and reviews the investment and market cultivation strategy in the affected regions in order to minimise risks.

Due to the escalation of the conflict between Russia and Ukraine and the resulting acts of war, the geopolitical risks have increased significantly overall. The raw materials and bought-in products that Sto purchases directly from Russia and Ukraine are negligible in terms of their extent. In 2021, the share of turnover generated by the Sto Group in Russia and Ukraine was less than 1 % of consolidated turnover. Sto has suspended deliveries to Russia until further notice. The continued existence of our Russian subsidiary is threatened by possible insolvency. The impact of the potential insolvency, liquidation, or nationalisation of our Russian subsidiary is currently classed as negligible for the Sto Group.

The consequences of the war and the sanctions immediately imposed as a result started having a noticeable effect on the German economy in the very first quarter of 2022. Considerable negative effects on the global economy may be seen in the remaining course of the year. In particular, the substantial increase in energy prices and the procurement prices in general, the inflation risk, and the disruption or complete collapse of supply chains – along with the ensuing restricted availability of goods and resources – could all become drastically worse.

The future development of the situation cannot be reliably assessed at the current time. Significant losses of growth could occur. In addition, the conflict and resulting sanctions are giving rise to new geopolitical scenarios, with the result that we could see a serious overall increase in the uncertainty surrounding the negative impact on the further development of the global economy and international capital markets, e.g. as a result of recession scenarios. This particularly applies if the conflict should spread geographically to a significant degree or extend over a long period of time, neither of which can be ruled out.

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 to spread our business risk and compensate for fluctuations in individual countries to a certain extent.
(Risk class 2)

Warranty-related and legal risks
The general risks to which we are potentially exposed include, for example, 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 adherence to 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 2021 was continued at the European Court.

In order to limit the risks of liability, we engage the services of external advisors 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.
(Risk class 2)

Financial risks
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. 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. We regularly review the insurance coverage within the Sto 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.

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. In selected markets, this risk of defaults on receivables is additionally countered by the use of commercial credit insurance. 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. The default risk of financial assets in the form of trade receivables was taken into account by means of impairments.

As a result of the internationalisation of its business activities, Sto is exposed to currency risks. To control these, we carry out currency forwards that usually have a term of up to one year. 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 focus is on the currencies of countries with which we maintain regular supply and cash flows necessary to maintain business operations. In 2021, this applied to Switzerland, Sweden, and Poland, among others. In specific cases and where necessary, we perform additional hedging. The changes in fair value were recognised in the statement of profit and loss with an impact on profit and loss in the year under review.

As a result of seasonal variability, the demand for liquidity to finance current business at Sto is subject to significant fluctuations. There is a particular need for cash in the first few months of a calendar year, whereas cash inflows dominate during the second half of the year. Risks arising from these fluctuations in payment flows are limited at Sto by the available liquid funds. In addition, Sto has at its disposal an adequate and contractually guaranteed variable credit facility as part of a syndicated loan agreement, amounting to EUR 100.0 million. The term of this agreement ends in summer 2022. 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. The plan is to renew the syndicated loan, that expires in summer 2022, in the amount of EUR 100.0 million.

In connection with the investment of cash and the portfolio of derivative financial assets, there generally are default risks due to the risks of financial institutions or issuers failing to honour their obligations. The resulting risk was controlled by means of diversification and the careful selection of counterparties. 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.

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 directive with a modular structure have been sketched out, with step-by-step expansion and implementation of the guideline set to take place. Within the framework of this directive, 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.
(Risk class 2)

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 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 and initiated. Several measures were successfully implemented in 2021. Of the defined projects regarding IT security the essential ones will have been completed by the end of 2022. Another project completion is planned for 2023.

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 benefits from the cloud service providers' very high IT security standards and professional back-up concepts.

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 state-of-the-art, in-house data centre was put into operation. In the meantime, essential, operational IT services have been made available in the cloud. Another step into the cloud will be the planned change-over to the SAP version S/4 HANA so that fewer and fewer relevant services are provided through our own computing centre.

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. Due to the significant increase in threats such as those posed by phishing, ransomware, and trojans, the training measures for employees regarding cyber security were intensified. 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 current 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.
(Risk class 3)

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. Furthermore, Sto carries out measures to increase efficiency which helps to reduce a lack of human resources.
(Risk class 3)

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.
(Risk class 3)

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, it has become increasingly difficult to recruit new personnel, especially in the trade. This could potentially lead to restricted capacities of trade enterprises. We are doing everything we can to counter these risks through the varied activities of the Sto Foundation and the Sto Group that are aimed at arming Sto customers with the qualifications they need.
(Risk class 3)

Climate and 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'.

The increasing awareness of the serious consequences of climate change will lead to a different consumption and investment behaviour.

The general climate change and environmental damage caused by humans create risks for the macroeconomy and for Sto. Apart from singular extreme weather events such as regional heat and dry spells, flooding, or natural disasters, climate change also leads to a long-term transformation of the general conditions. This includes, for example, the frequency and amount of precipitation, weather fluctuations, and an increase in average temperatures. These conditions could make working on construction sites temporarily impossible and would have an impact on the company's development of business.

The impact of climate change is a topic of concern for society, politics and the economy worldwide. This means that sustainability, environmental protection, and climate change are no longer niche topics. The emerging need for transformation to an increasingly decarbonised economy may result in far-reaching political, legal and technical changes that can have a significant impact on our markets to meet climate protection requirements and to cater to the adaptation to climate change. Depending on the type, speed and focus of these changes, this can result in different, distinctive financial and reputational risks, but also opportunities for Sto.

Political measures to reduce climate-related damage could be, for example, a price increase or shortage of fossil energy sources. In terms of sales, the Sto Group would in turn benefit from these measures due to its business activities. As part of our planning processes we regularly monitor external early indicators and initiate appropriate measures in order to account for these changes.

At Sto, measures and products that contribute to decarbonisation and hence to the reduction of CO_2 emissions make up an essential part of the business model. The company gears its organisation towards sustainability in a consistent manner. The Sto Group provides its customers with resource-efficient solutions that make a direct contribution to reducing energy consumption and CO_2 emissions, and continuously works on reducing its own CO_2 footprint.
(Risk class 3)

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. Due to the increasing size and complexity of the Sto Group's business, the transfer price system was refined in the 2021 fiscal year. This was done together with an experienced consulting firm with an international network. From the perspective of the Organisation for Economic Co-operation and Development (OECD) and against the backdrop of the 'arm's length principle', the remuneration for intragroup services and assets provided must adequately reflect the functions performed, the assets used and the risks assumed by the parties to the transaction. A central component for determining appropriate remuneration was a functional and risk analysis/value added analysis across all intercompany transactions. Both the old and the new model meet the requirements of the OECD on an international and national level. The new model, introduced in 2021, is regarded as more future-oriented with regard to further growth of the Sto Group. All company-internal transactions that are subject to transfer price regulations have to undergo regular checks and assessments.

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.
(Risk class 3)

Overall risk exposure
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 lasting and significant adverse consequences for the asset, income, and financial situation of the Sto Group.

The Executive Board of the personally liable STO Management SE is aware that the presented risks for the business activities are based on current evaluations which might turn out as incorrect in the future.

Opportunities report

Over the long term, we believe that due to our business activities, the opportunities will outweigh the risks, as the need for energy-efficient building refurbishment is set to rise even more in the future. The ecological and economic advantages of a good building insulation that saves a lot of CO_2 emissions, energy and hence costs, result in a large sales potential worldwide. In particular, as a result of the internationally defined climate action targets, a surge in demand is expected, from which Sto, as the leading supplier of external wall insulation systems, should benefit to a greater than proportionate extent.

In order to achieve the climate action targets, government subsidy programs have been launched in several countries to promote thermal insulation of buildings and, in particular, the renovation rate. However, for these incentive measures to be effective, they need to be designed in a transparent way that is tailored to the relevant target groups.

In Germany, for example, energy-efficient building refurbishment for owner-occupied housing has been tax-deductible for private homeowners and apartment owners since 1 January 2020. According to our estimates, this stimulation should have a positive impact on the EWIS market in the medium term. A possible reorganisation of the subsidies for energy-efficient refurbishment in Germany, with a stronger focus on existing buildings, could considerably boost Sto's further business development due to its high level of expertise in providing solutions for refurbishment projects. Italy and France also have government funding programmes which already created a very positive growth momentum in 2021. In the UK, the Energy Company Obligation (ECO) required the major energy suppliers to carry out a certain number of insulation measures per year in socially disadvantaged households, which is also expected to lead to an increase in demand for building insulation.

At EU level, the Green Deal, in particular, is expected to drive demand for external wall insulation systems. This package of measures from many different areas, which aims to make Europe climate-neutral by 2050, could spur a surge in renovation in the building sector, as around 75 % of existing buildings in the EU do not currently meet modern energy standards. In Germany, around 74 % of existing buildings fall into the energy efficiency classes D or worse.

The economic advantages of facade systems increase in line with rising prices for important fossil energy sources. This also creates additional sales potential for Sto as the currently high gas and heating oil prices have made the amortisation of energy efficiency measures on the facade significantly more attractive.

Opportunities for organic growth arise especially due to general economic conditions in the markets important to Sto as long as the economy in regions for which we planned very conservatively, develop better than expected. Moreover, targeted internationalisation of our activities allows us to enter new markets and to intensify the development of business in countries in which we are already represented.

E. Outlook report

The Outlook report contains future-oriented statements that are based on the currently available information as well as the current assumptions and forecasts of the personally liable partner of Sto SE & Co. KGaA. These forecasts are subject to uncertainties and can hence deviate from the actual development to a significant extent.

The chapter 'Risks and opportunities report' contains opportunities and risks that are not part of the Outlook report and that could lead to clearly negative or positive deviations from the forecast development.

Global economy
At the beginning of 2022, the global economy continued to be very unstable. In addition, the growth outlook was clouded by renewed restrictions due to the COVID-19 omicron variant, rising energy prices and supply bottlenecks, continuing inflation in many countries, and the relatively weak economy in China. As a result, the International Monetary Fund (IMF) revised its original forecast for the global economy downward and now expects growth of only 4.4 % in its World Economic Outlook Update of January 2022. This value is 0.5 percentage points less than had been assumed last autumn. The IMF lists numerous risks affecting the development: above all, the possible emergence of new coronavirus variants, disruptions to global supply chains, continued shortage of raw materials and pre-products, volatile energy prices, and increasing inflationary pressure. In addition, geopolitical tensions are heightened and the risk of natural disasters is increasing as a result of climate change.

The escalation of the Russia-Ukraine conflict in February 2022, which could have a significant impact on global politics, but also on the economic situation and the supply of materials, as well as further increasing geopolitical tensions in other regions of the world, seriously increase the uncertainty surrounding the forecast of future developments.

The impact of the Russia-Ukraine conflict is not yet included in the following assessment and could have a negative impact on the development of the global economy in the forecast period.

In industrial nations, the gross domestic product for 2022 is expected to expand by 3.9. % according to the IMF. In the USA, GDP is expected to grow by 4.0 % and in the eurozone by 3.9 %. A total plus of 4.8 % is expected for developing and emerging countries, driven mainly by India and the smaller Asian countries. The development in China is likely to be noticeably gloomier, with growth of 4.8 % (2021: 8.1 %).

In January 2022, the IMF lowered its forecast for Germany by 0.8 percentage points to a growth rate of 3.8 %. In particular, the great importance of foreign trade and the associated vulnerability to supply chain disruptions increasingly weighed on the German economy.

Trends for the international construction industry
For the construction industry in **Germany**, the General association for the German construction industry (HDB) and the German Construction Confederation (ZDB) forecast a nominal increase of 5.5 % in construction-related turnover in the current year. The experts assume that the supply bottlenecks will ease in the first half of the year. Construction price increases are also likely to become more restrained, but further increases are expected for the year as a whole. Turnover growth in real terms is expected to be around 1.5 % in 2022. A nominal increase of 7 % (real terms: 3 %) is forecast for residential construction, while turnover in commercial construction is expected to rise by 6 % (real terms: 2 %). In public construction, the associations expect a nominal increase of 2 %, resulting in a price-adjusted production minus of 2 %.

For 2022, the Verband der deutschen Lack- und Druckfarbenindustrie e.V. (Association of the German Paint and Printing Ink Industry) expects demand for building coating materials to remain at the previous year's level. Slight growth in the professional sector is likely to be offset by a decline in the DIY sector. Within the EWIS market, the market research institute B+L Marktdaten GmbH is anticipating a slightly decreased volume growth of 2.2 % as compared to the previous year.

According to EUROCONSTRUCT, the **European construction industry** is going to experience further growth in 2022. In its November 2021 forecast, the network expects production in its 19 member states to increase by 3.6 %. According to EUROCONSTRUCT, this assessment and the forecasts on economic development on which it is based are subject to the further course of the pandemic. EUROCONSTRUCT expects growth in France to slow to 3.8 % after the significant increase in 2021 (2021: 6.7 %), while it expects production in the construction sector in Italy to increase by a total of 5.6 % in 2022 (2021: 15.1 %).

In **China**, the business climate deteriorated significantly in many sectors at the turn of the year, mainly due to a noticeable economic slowdown, international supply bottlenecks and new coronavirus infections. According to the GTAI, representatives of the construction industry expect a difficult year in 2022. Following the real estate developer Evergrande, other construction companies could also face insolvency.

For the construction industry in the **USA**, the high demand in residential construction is likely to lead to further growth in this sector, according to the management consultancy and investment bank FMI. In June 2021, the majority of companies active in building construction were optimistic about the future according to the Construction Index of the U.S. Chamber of Commerce. The main reasons were the vaccination campaign against COVID-19, which had been successful until then, and the very good order situation in residential construction. In contrast, FMI does not expect any investment growth in non-residential construction in 2022. Here, the low is not expected to be reached until the following year, while infrastructure construction was massively supported by government fiscal measures at the end of 2021.

Projected performance of the Sto Group
The start to the 2022 fiscal year was very positive with regard to the Sto Group's development of turnover due to favourable weather conditions and high demand in important markets. As compared to the same period the previous year, a significant growth in turnover was achieved. The enormous pressure on Sto's gross profit margin continued at the beginning of the 2022 fiscal year.

Assuming normal weather conditions and not taking into account the impact of the Russia-Ukraine conflict, Sto expects a continuing positive business development and, despite major challenges, a Group turnover of around EUR 1.74 billion for the 2022 fiscal year. Broken down by segment, growth in turnover in Western Europe is likely to fall into the higher single-digit percentage range, in Northern/Eastern Europe into the mid-single-digit range, and in America/Asia/Pacific into the lower end of the two-digit percentage range.

Sto forecasts consolidated earnings before interest and taxes (EBIT) to fall between EUR 114 million and EUR 134 million, with earnings before taxes (EBT) between EUR 112 million and EUR 132 million. The resulting return on sales is hence likely to be between 6.4 % and 7.6 %. Return on capital employed (ROCE) is expected to reach a value of between 15.9 % and 18.7 %.

The forecast is based on an average weather pattern and an economic development in line with expectations in Sto's key markets. In addition, the forecast is based on the assumptions that the euro exchange rate will remain largely stable and that the impact of the coronavirus pandemic, which remains unpredictable, will not intensify in 2022. Rapidly progressing coronavirus mutations in particular could lead to further disruptions in process chains and closures of construction sites. A further key assumption is that the Russia-Ukraine conflict will not lead to any significant impairment of demand in the markets relevant to Sto, to any impairment of the conduct of Sto's business activities, or to any impairment of the supply of raw materials, purchased products and energy at Sto.

The supply bottlenecks on the world markets, the limited availability of raw materials and bought-in products as well as the price increases on the **procurement markets** continued at the beginning of 2022. In addition, there were significant increases in energy prices. As described in the risk report, it is currently not possible to reliably assess further developments and, in particular, the specific effects of the currently escalating Russia-Ukraine conflict on the Sto Group's future business performance. The aim is to at least compensate for the cost increases on the procurement side by increasing our own sales price, which the sales department must adequately implement in the course of 2022.

In 2022, the planned **volume of investments** in Property, plant, and equipment, and Intangible assets amounts to EUR 63.0 million Group-wide. A substantial part of this is attributable to the expansion of the production capacity at our location in Ilmenau/Thuringia, Germany. The investment measure regarding a second rotary kiln is expected to be completed in 2023. Moreover, investments will once again be made in the long-term measures that have been developed as part of our 'Retrofit' programme for modernising/ replacing the production equipment.

The **number of employees** within the Sto Group is expected to further increase in 2022 in relation with the growing business volume. The size of the workforce is likely to grow moderately in countries with growth prospects. Meanwhile, targeted adjustments will also be made in regions battling difficult general economic conditions if necessary.

In the area of **financing**, the plan is to renew the syndicated loan, that will expire in summer 2022, in the amount of EUR 100.0 million.

New strategic orientation
At the middle of 2021, Sto started to implement the measures derived from the strategy review. These focus on three key objectives: accelerating growth, increasing profit, and expanding our core competence. The implementation of the 14 core initiatives initiated for this purpose was delayed in 2021 due to the difficult situation on the procurement markets and the ongoing coronavirus pandemic. In the current year, the Sto organisation will continue to focus primarily on managing the associated disruptions and the challenging task of ensuring customer satisfaction, so that some planned measures may be pushed back further in time.

One of the key contents of the realignment is the topic of sustainability, which has always been a pillar of Sto's framework of values. Sustainability was defined as a core competence of the Group during the strategy review and is included as an important aspect in several initiatives. Our business model already makes a major contribution to climate and environmental protection, which has gained enormous importance in social and economic life. Our products contribute substantially to reducing the negative environmental impact of buildings, for example, through energy-saving insulation measures.

We also strive to minimise the effects of our corporate activities on the environment, for instance, by increasing our energy efficiency, harnessing renewable energy, making careful use of resources, and avoiding waste. When developing products, we are increasingly addressing new requirements that arise due to sustainable building concepts and focussing our efforts on the recycling economy.

General statement on future development

Overall, the Executive Board is very optimistic for 2022 and the years to come.

Sto is one of the leading providers of high-quality facade systems and coatings and has an excellent brand. We have a clearly worded strategy that we pursue in a targeted manner. The development of business is supported especially by global trends such as climate protection. We offer attractive solutions for increasing energy efficiency as well as for minimising carbon dioxide emissions in buildings. We are in a good position to tap into the existing global sales potential.

We are also prepared for future requirements for products and systems. Our broad, optimally coordinated range of services serves the needs of all target groups and allows building owners the highest degree of individual design freedom. In addition, Sto supplements its high-quality product and system range with digital tools, thus creating the prerequisite for convincing overall solutions.

The factors that reinforce the success we have had in our corporate development include our solid international presence as well as the extensive sales base and customer-focused approach to logistics.

Risks relating to the future development of business arise in particular from further possible supply bottlenecks, material price increases, the unclear development of the coronavirus pandemic, and the consequences of the Russia-Ukraine conflict, which currently cannot be accurately estimated in quantitative terms. Against this backdrop, we expect a turnover in the order of EUR 1.74 billion and EBIT of between EUR 114 million and EUR 134 million in the 2022 fiscal year.

We fundamentally rely on the contribution of our employees to implement our strategic initiatives and achieve our goals. In 2021, our employees have already impressively demonstrated that they are able to implement the desired goals even under the most difficult conditions with heartfelt commitment, mutual support, improvisation skills and ultimately the willingness to put their own needs aside. They showed an outstanding team performance so that we were able to end the year with very good results. We appreciate this performance, want to promote it and honour it appropriately.

As a long-term goal, the Sto Group is aiming for a turnover of EUR 2.1 billion and a return on sales of 10 % in relation to EBT by 2025.

Stühlingen/Germany, April 2022
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 2021, 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 2021 fiscal year, the Group, which is listed on the regulated market of the German stock exchange, had 5,697 employees in 50 operating companies as well as their places of operation worldwide and achieved a consolidated turnover of EUR 1,590.5 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**.

The business activities of the Sto Group are divided into the segments of **Western Europe**, **Northern/Eastern Europe** and **America/Asia/Pacific**. Our corporate management is primarily focused on these segments.

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 systems have been installed on around 670 million m^2 of buildings worldwide, saving an estimated 120 billion litres of heating oil up to and including 2021, with the year under review accounting for around 6.5 billion litres of this figure alone. The resulting reduction in CO_2 emissions amounts to an equivalent of around 390 million tonnes in total, including approx. 21 million tonnes in 2021. In this way, Sto products make 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.

Thermal insulation helps to protect the environment

The energy savings from the use of Sto facade insulation systems correspond to around **120 billion litres of heating oil**

x 30 million oil tanks | **x 4.3 million tanker lorries** | **x 480 oil tankers**

Between 1965 and 2021, facade insulation systems from Sto played a direct role in saving precious energy in the construction sector. Extrapolation of this amounts to a saving of up to 120 billion litres of heating oil. With this, Sto has made a notable contribution to global climate protection: to put it another way, around 390 million tonnes of CO_2 were not even released into the atmosphere in the first place thanks to the facade insulation systems from the southern Black Forest. In 2021 alone, Sto products reduced emissions of this combustion gas by a potential 21 million tonnes.

Sustainability strategy
In order to strengthen the topic of sustainability in our strategic orientation and in order to professionalise activities and bundle measures, we established the Sustainability function at Group level in 2012. This function reports directly to the Executive Board of the personally liable partner STO Management SE. We are thus not only fulfilling our self-imposed claim, which is anchored in our Guiding Principles, but we are also meeting the increased demands of our stakeholders, especially customers, employees, shareholders, the state as the legislator, suppliers, and the interested public.

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 and adopted in 2021 – along with a corresponding package of measures and an adequately planned budget. A key component of this is additional communication measures to meet the increased interest and need for information on the part of our stakeholders and to take account of the increasing importance of political climate action targets. In addition to this report, a separate Sustainability report for the Sto Group will therefore be published in 2022, which is based on the international Global Reporting Initiative (GRI) standard and is aimed in particular at interested parties from the financial sector.

In principle, 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 2021, 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'
- The EU Taxonomy Regulation
- Energy efficiency as a cornerstone of the move towards renewable sources of energy and climate protection plans
- Support schemes, such as the funding programmes for energy-efficient refurbishment of buildings in Germany and those of other countries in Europe
- 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 Act on Corporate Due Diligence Obligations in Supply Chains (Lieferkettensorgfaltspflichtengesetz, LkSG)
- The health and well-being of employees, applicators, and users
- Qualification and training in order to combat a shortage in young talent and skilled workers
- 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 catered our disclosure structure to 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.

Since 2010 we have been conducting annual surveys among all Sto companies on selected CSR topics. This survey covers the relevant trainings 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, the non-discrimination rule, measures for occupational safety, climate, 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. This software is used to create, document and evaluate the 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. Our new Sustainability report, which will be published in 2022, will provide a more comprehensive presentation and communication of the relevant key figures and activities in the five main areas of sustainability. We defined the following topics as key areas: 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 (governance, sustainability in the supply chain, compliance, donations). The report will be supplemented by a chapter on Sto's business activities, a chapter on the company's sustainability strategy, and a chapter on the fields of action with direct relevance to employees.

In 2021, as part of their 'StoClimate' sustainability initiative, our Austrian company Sto Ges.m.b.H. also published its third comprehensive sustainability report about their CSR activities. It was drawn up in accordance with the Global Reporting Initiative guidelines (GRI - four core and extended requirements) and refers to fiscal years 2018 to 2020 in the Austrian market. In addition, our Scandinavian subsidiary Sto Scandinavia AB has produced an annual sustainability report since 2019 ('Hållbarhetsrapport'), 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 2021, our Italian subsidiary Sto Italia Srl also prepared its own sustainability report for the first time ('Report di Sostenibilità'), which is also based on the GRI standard and covers the fiscal years of 2019 and 2020. Innolation S.A.S. in France carried out a sustainability audit based on ISO 26000. A certificate from the French standardisation body AFNOR attests to Innolation S.A.S.'s contribution to sustainable development. Already during the initial audit, Innolation S.A.S. achieved the sustainability maturity level 3 (confirmed) of a maximum of 4 with more than 600 points. Level 4 (exemplary) applies from 701 points.

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 you to the sustainability reports of the respective subsidiaries.

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 2021, 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. In Austria, for example, Sto Ges.m.b.H. is a member of '**respACT** – austrian business council for sustainable development', the leading business platform for Corporate Social Responsibility (CSR) and sustainable development in Austria.

At Sto SE & Co. KGaA, the specifications of external frameworks are complemented by company-internal directives. In particular, these include the Sto Group's Code of Conduct as well as 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.

EU Taxonomy

Objective of the EU Taxonomy
The EU Taxonomy is a key component of the EU Action Plan for Sustainable Finance. It aims to redirect financial flows towards more sustainable activities in order to be able to finance the transformation of the economy towards sustainability. As a uniform classification system, the EU Taxonomy is to define which economic activities can be declared sustainable and which criteria must be fulfilled for this. The aim is to create a uniform understanding and prevent greenwashing. To this end, the Taxonomy Regulation pursues six environmental goals (two climate-related goals and four other environmental goals).

For the first-time reporting in 2022, Article 10 of the Delegated Act supplementing Article 8 of the Taxonomy Regulation provides for relief regulations for non-financial undertakings. Accordingly, for the 2021 fiscal year, capital-market-oriented companies must determine which economic activities can be classified as Taxonomy-eligible with regard to the first two environmental objectives ('Climate change mitigation' and 'Climate change adaptation'), and how high the share of sales revenue, capital expenditure (CapEx) and operating expenditure (OpEx) associated with these activities is in the respective total value of the company.

From the 2022 fiscal year onwards, the extent to which Taxonomy-eligible activities are also Taxonomy-compliant, i.e. they contribute to one of the environmental goals to a defined extent and do not significantly impair any of the other six environmental goals, must be reviewed.

Procedure for identifying Taxonomy-eligible activities based on an impact analysis
In order to determine the Taxonomy-eligible economic activities, all corporate activities of the Sto Group were examined with regard to sales revenue, CapEx and OpEx in accordance with the descriptions of the activities in Annex 1 and 2 of the Delegated Regulation. Within OpEx, the focus was placed in particular on research and development as well as non-revenue-generating activities from the areas of real estate, vehicle fleet and energy efficiency measures. The expertise of the relevant specialist departments was obtained for this purpose.

Identified Taxonomy-eligible activities
As a manufacturer and marketer of functional systems for energy-efficient building equipment, Sto SE & Co KGaA and a large number of its subsidiaries carry out Taxonomy-eligible activities from Annex 1 (environmental objective: 'Climate change mitigation') in their core business. These mainly relate to the product segments of external wall insulation systems (EWIS) and rainscreen cladding facades (RSC). All related sales revenues, CapEx and OpEx were classified as Taxonomy-eligible, as they are directly attributable to the core business.

In this regard, given the significant contribution to climate change mitigation, the following Taxonomy-eligible activity was identified in accordance with the Annex and forms the basis for the disclosure of our Taxonomy-eligible revenue, CapEx and OpEx:

- 3.5 'Manufacture of energy efficiency equipment for buildings', in particular with the technical assessment criterion 'External wall system'.

All other activities listed in Annex 1 of the EU Taxonomy are not related to the core business of the Sto Group. No Taxonomy-eligible activities were identified for Annex 2 (Environmental objective: 'Climate change adaptation').

In addition, as part of the so-called third pillar, those investments (CapEx) and operating expenses (OpEx) that relate to the acquisition of products from Taxonomy-eligible economic activities and to individual measures through which the target activities are carried out in a manner that is low in CO_2 are to be classified as Taxonomy-eligible.

As such, further activities beyond the activities of the core business area were identified in Annex 1 and Annex 2 respectively. These relate in particular to investments in the construction of new buildings (activity 7.1), the purchase of products from the manufacture of low carbon technologies for transport – in our case in particular electric and hybrid vehicles (activity 3.3) –, the renovation of existing buildings (activity 7.2) and electricity generation using solar photovoltaic technology (activity 4.1).

It was ensured that the investments (CapEx) and operating expenses (OpEx) recorded according to the third pillar were not also recorded in the determination of the investments (CapEx) and operating expenses (OpEx) related to the Taxonomy-eligible sales revenue.

Taxonomy key figures
According to the EU Taxonomy, reporting companies have to report the share of Taxonomy-eligible sales revenue, CapEx and OpEx ('numerator') in the respective total value ('denominator'). The derivation of the numerator is described above under the identified Taxonomy-eligible activities. According to the IFRS consolidated financial statements, the respective denominators are sales revenue, CapEx for Intangible assets, Property, plant and equipment as well as Rights of use, and for OpEx, expenses for research and development, for repairs and maintenance as well as leasing expenses for short-term leases in accordance with IFRS 16.

Taxonomy key figures

in EUR K	Total*	Taxonomy-eligible	Taxonomy-eligible share	Taxonomy non-eligible share
TURNOVER	1,590,529	851,874	53.6%	46.4%
CapEx	118,526	53,313	45.0%	55.0%
OpEx	38,931	8,635	22.2%	77.8%

* Sales revenue: see Consolidated statement of profit and loss: 1. Sales revenue; CapEx see Notes on the consolidated statement of the financial position under (13) Intangible assets, (14) Property, plant, and equipment, and (15) Rights of use, in each case Additions and Changes to companies consolidated

Key sustainability factors

In addition to the Chemie[3] sustainability check (at company level) and our own evaluation matrix for the sustainability of our products, which is based on the five key areas from the sustainability strategy, we also use our **Sustainability Compass** for the concrete evaluation of individual sustainability activities. 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 2021 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. Furthermore, in 2021, Sto supported the Architecture Biennale in Venice for the third time, which focused on the global problems of our time under the motto 'How will we live together?'.

Based on an analysis we conducted in 2017 and as part of the strategy development revised in 2020, 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 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 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. The stakeholder analysis, updated as part of the 2020 strategy revision, revealed, for example, that rating agencies and analysts in the financial sector, which request corporate information and non-financial key figures in accordance with internationally applicable standards as part of ESG ratings, are playing an increasingly important role in the implementation of key figures and reporting.

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 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 Chemie^3 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.

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 Blue Angel, 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'.

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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 22 different languages were available for around 400 Sto products as at the end of 2021. 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 materials 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 2020 and 2021. For the most part, these will be gradually replaced by model EPDs of the European umbrella organisations to ensure pan-European deployment. In 2021, 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 started the Product Environmental Footprint (PEF) project and initiated various pilot projects between 2013 and 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 the implementation of 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
In June 2021, the Act on Corporate Due Diligence Obligations in Supply Chains (LkSG) was resolved by the German Bundestag (Federal Parliament) and finalised by the German Bundesrat (Federal Council). The Act aims to improve the international human rights situation by setting requirements on the responsible management of supply chains, with due diligence obligations graded according to the companies' or branches' ability to exert influence. The Act is to be applied from 1 January 2023 for companies based in Germany and companies with a branch pursuant to Section 13d of the German Commercial Code (HGB) with at least 3,000 employees in Germany.

The Act on Corporate Due Diligence Obligations in Supply Chains contains an exhaustive catalogue of eleven internationally recognised human rights conventions. From the legal rights which are protected therein, behavioural requirements or prohibitions for corporate activities are derived in order to prevent a violation of protected legal positions. These include in particular the following prohibitions: child labour, slavery and forced labour, disregard for occupational health and safety, withholding of an appropriate wage, disregard for the right to form trade unions or employee representatives, denial of access to food and water, and the unlawful deprivation of land and basis of existence.

Honouring international human rights is of great importance to Sto. The OECD guidelines and the four ILO Core labour standards in particular form the basis for defining the relevant human rights. The aim of our measures is to ensure global observance of human rights and to improve the international human rights situation. To this end, we have defined requirements and responsibilities within the company, especially in supply-chain management.

Our corporate obligations include the following six elements to ensure due diligence in the field of human rights in the supply chain: risk management, risk analysis, preventive measures, grievance mechanism, remedial measures, and reporting.

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 globally uniform.

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 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 decisions 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 the 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 in order to monitor the entire process. This AI-based risk management software 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 was rolled out comprehensively to all Sto subsidiaries. We also make use of industry-specific support such as that of the chemical industry's Chemie³ 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 preferably using renewable energy sources, 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 observing 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** underlines the efforts to achieve climate neutrality for Germany by 2045. 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. With energy-efficient new buildings and the energy-efficient refurbishment of existing buildings, CO_2 emissions are to be further reduced to only 67 million tonnes by 2030. This reduction target of 65 % compared to 1990 is part of the amendment to the Climate Protection Act, which came into force on 31 August 2021. Improved tax depreciation options, repayment subsidies and low-interest loans give homeowners financial incentives to build energy-efficiently or to renovate existing buildings to make them more energy-efficient.

The regulatory and financial framework for better climate protection has also been created at a European level. With the European Green Deal, the 27 EU member states want to reduce greenhouse gas emissions by at least 55 % by 2030 compared to the 1990 levels, and become climate-neutral by 2050. The EU plan envisages doubling the annual renovation rate of buildings and providing comprehensive funds from the EU budget for climate protection.

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 assumes that around 35 million buildings could be renovated by 2030 and that an extra 160,000 jobs could be created in the building industry.

At the **UN Climate Conference 2021** in Glasgow, the countries of the world completed the rulebook to implement the Paris Convention. This will enable the international community to initiate a rapid reduction in greenhouse gas emissions in order to prevent global warming from exceeding 1.5 degrees Celsius.

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 2021, the headquarters of Sto SE & Co. KGaA in Stühlingen/Germany, all production locations and Sales-Centres in Germany as well as five subsidiaries had a certification in accordance with ISO 50001:2018.

The systems that have been implemented ensure that measures for reducing energy consumption are identified and implemented, 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. Parallel to the energy savings, the corresponding potential for reducing CO_2 emissions is determined.

We have defined the optimisation of energy-related services as an important goal in the Sto Group. To achieve these values, individual projects have been defined and action plans drawn up. Yearly consumption values that are recorded and analysed monthly, form the basis for the determined key figures. Measured across the audited units, we have been able to achieve total energy savings of at least one percent per year in the ISO 50001 certified companies in Germany since 2014, hence successfully decoupling production growth from energy consumption.

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 2021. This included 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 implementing further cost-saving measures, strategic actions were also decided for the year of 2022, such as carrying out the energy-efficient refurbishment of existing buildings or partially switching to electric vehicles within the car fleet. As things currently stand, approximately one EUR has to be invested in order to reduce energy consumption by one kilowatt-hour. 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 2021, the technical, strategic, and organisational activities were presented and discussed in depth in the context of the energy management action plan resulting from the ISO 50001 action plans. 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. With the help of the software, consumption data can be collected and evaluated in detail and subsequently used as a basis for improvement measures. In 2021, the network was officially expanded to include the topic of climate protection, and the initiative was renamed 'Initiative Energieeffizienz- und Klimaschutz-Netzwerke' (Initiative Energy Efficiency and Climate Protection Networks) (https://www.effizienznetzwerke.org/). Since Sto has always placed great importance on climate protection measures in its company-internal network, we very much welcome this expansion.

Initiative
Energieeffizienz- und
Klimaschutz-Netzwerke

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 since 2018 already. It records its CO_2 emissions which cannot be avoided in the areas of procurement, production, administration and logistics, throughout the entire company, and compensates for them by purchasing corresponding certificates. By acquiring certificates for the emission of 10,000 tonnes of CO_2, Sto Ges.m.b.H. was climate-neutral from 2018 to 2021. 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 Danmark A/S, Sto Finexter OY, Sto Norge AS, and Sto Scandinavia AB have determined their operational CO_2 emissions and have partially offset them through certificates. In 2021, corresponding certificates were obtained to compensate for 1,700 tons of CO_2 emissions generated in Denmark and Sweden, thereby helping to support selected projects according to the international 'Gold Standard'. Furthermore, our subsidiary Sto Italia Srl calculated and offset its CO_2 emissions for the first time in 2021. Certificates to offset a yearly amount of 340 tonnes of CO_2 emissions were acquired for reforestation projects in Brazil and Uruguay.

In Germany, based on the CO_2 balance sheet prepared for 2018, certificates for the years 2021 and 2022 were acquired for all ISO 50001-certified locations in order to make the relevant companies climate-neutral. With the certificates acquired for the German companies for 22,000 tonnes of CO_2 annually, we support a wind power project in Turkey, a well project in Zimbabwe and a solar park project in India, each certified by the Gold Standard. We also support a reforestation project in Uruguay and a solar cooker project in China, certified under the sovereignty of the Verified Carbon Standard. The aim is for the entire Group to become climate-neutral by 2025.

In this regard, Sto 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), 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.

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 this significantly across the whole Sto Group. 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.

In the area of waste, Sto SE & Co. KGaA, as a partner of Cycle4green Recycling, was able to have 36.7 tonnes of carrier waste paper recycled in 2021. This corresponds to a reduction of 70 tonnes of CO_2.

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 2021, 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 1,900 tons of CO_2 by purchasing corresponding certificates.

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 October 2021, the most cutting-edge plant of the Sto Group for producing mineral products was put into operation at the Austrian subsidiary in Villach. This plant is equipped with its on solar power station. The new processes and more regional procurement options are expected to prevent 2,800 truck loads and 500 tonnes of CO_2 emissions per year. The photovoltaic system prevents an additional 100 tonnes of CO_2 emissions per year.

Another way to reduce emissions in the Sto Group is the composition of the vehicle fleet (cars, trucks, utility vehicles). 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 selection of appropriate 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 in 2021 was again around 20 % lower than in the years prior to the outbreak of the coronavirus pandemic. The mean value of CO_2 emissions for vehicles available for selection when ordering a new vehicle was reduced by around 19 % from 166 g/km in 2014 to 134 g/km in 2021. Over the same period, the fuel consumption of Sto's own passenger car fleet was reduced by around 13 % from an average of 6.9 l/100 km to approx. 6.0 l/100 km.

In 2021 we also worked on changing over to electric mobility. 17 electric vehicles were ordered for Sto SE & Co. KGaA, and the infrastructure of charging stations at our locations in Germany was gradually expanded. As at the end of 2021, there were 20 charging points at the main location in Stühlingen/Germany and another charging point in Lauingen/Germany. More than 20 additional charging points are planned at five locations in 2022/2023. In Stühlingen, these charging points are not only available to Sto employees and visitors, but also to tourists. The charging stations are supplied with hydroelectricity. 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. As in the year prior, these solutions particularly have yet again proved their worth in light of 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 4,013 tonnes of CO_2 in 2021 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.

Environmental management systems

An important element of corporate environmental protection are our established environmental management systems. As at the end of 2021, around half (17 out of 33) of our production sites worldwide had been externally certified in accordance with the 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 26 (ISO 9001:2015) and 17 (ISO 14001:2015) production sites, no deviations from legal requirements were identified during the internal audits conducted in 2021. 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 2021, 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 for preservative-free products that are equivalent in terms of functionality and durability has increased. 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 2021. In 2019, the European Commission decided to classify titanium dioxide in powder form as 'probably carcinogenic by inhalation' (category 2) and make it subject to compulsory labelling. This classification also applies to titanium dioxide that is 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.

Titanium dioxide is one of the most researched pigments worldwide. Health studies have shown no evidence of a carcinogenic effect in humans. The use of Sto products containing titanium dioxide is harmless, as the particles are firmly bound into a so-called matrix in all applications, such as painting or varnishing, and cannot be easily released. The EU only wants to take precautions and requires warning notices for special applications. For example, if paints and lacquers are sprayed across a surface or if they are sanded. Breathing-air filters, which are prescribed for this work anyway in occupational health and safety, protect against inhalation of the particles produced in the process. Applying paints with a brush is harmless since the titanium oxide particles stay bound in the binding agent of the paint or lacquer.

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.

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 often exceeded. 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 better to dismantle and recycle have again formed a focal point in 2021. 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. Among others, these include stainless steel and aluminium in RSC sub-constructions. In addition, packaging materials and uncontaminated, HBCD-free EPS and mineral wool 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 and processed into our own highly recyclable products – at a consistently high quality and to the benefit of the environment.

In 2019, we set up a group working on 'Sustainable Packaging Management'. The group devotes a considerable amount of effort to these issues in order to reduce, recycle or replace packaging with more ecological materials. The solutions developed serve the implementation of legal requirements, environmental and climate protection and at the same time have the objective of being able to be operated economically.

We attach special importance to developments in dismantling and recycling methods in the area of external wall insulation systems. In this context, Sto actively subsidises various research projects. In cooperation with RWTH Aachen University, for example, research was conducted into ways of effectively dismantling an external wall insulation system with mineral wool. For this purpose, manual and mechanical methods were compared, with the result that the render and the insulation material can be separated relatively well with both methods. Sto also supports and accompanies the Münster University of Applied Sciences in its attempt to recycle a dismantled external wall insulation system with EPS in a cement plant. The mineral fractions are used as substitutes in the production of bricks and the EPS fractions as substitute fuel. Compared to the current typical disposal route for EWIS with EPS, which is the thermal energy recovery in waste-to-energy plants, this thermal material recovery is more economical and also has a better CO_2 balance.

For the recycling of EPS insulation materials, the first plant with a solvent-based process was taken into operation in the Netherlands in 2021 as part of the PolyStyreneLoop Cooperative. Furthermore, in 2021, we supported our own development project focusing on the recycling of highly calorific plastic waste, such as EPS, at Innolation GmbH at our location in Lauingen/Germany. 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.

In order to optimise information on building products in the event of dismantling, Sto is participating in an online platform for storing building and material data. The data collected on the platform creates a solid basis for carrying out building-specific analyses of the value, reuse and recycling potential of the materials used, and thus for promoting the recycling of building materials.

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, which is also available online through the company's website. We also require our suppliers to observe the Global Compact principles.

The transparency required for the increasingly complex corporate processes is ensured by the Compliance Officer together with the Internal Audit division. The Compliance Officer takes account of the growing compliance requirements and 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, suspicious incidents can be recorded anonymously at any time any day from anywhere in the world. The whistle-blower system is open to employees, managers, customers, suppliers, and other stakeholders alike. 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 landing page of the reporting system on our website at www.sto.de by selecting 'Unternehmen/Über uns – Compliance' (Company/About us – Compliance).

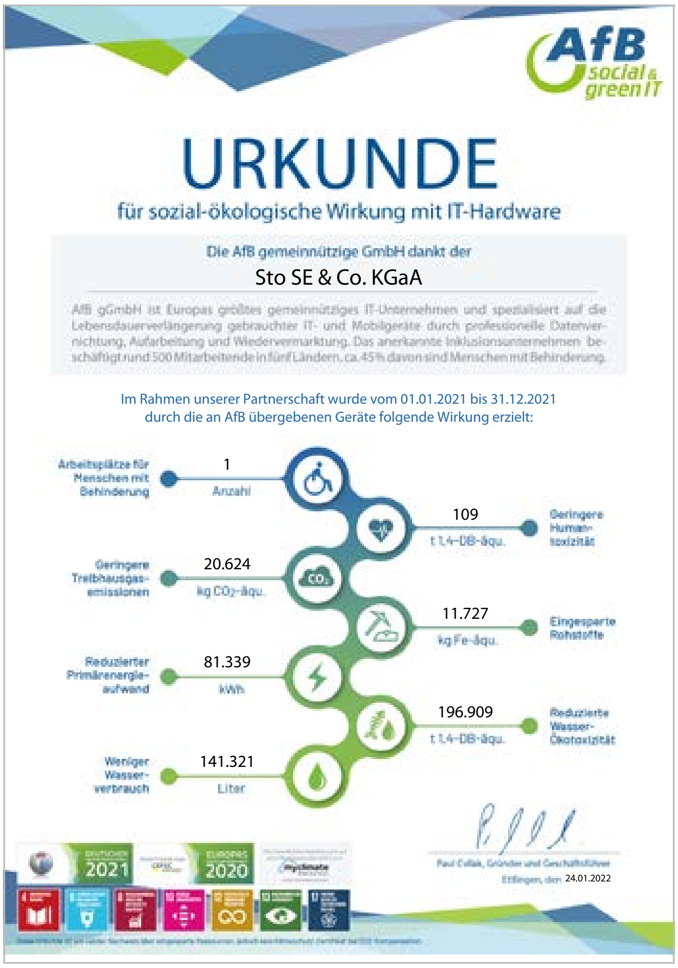
Since the end of 2019, a General Works Council agreement covering compliance has been in place between the Management Boards and General Works Councils of both Sto SE & Co. KGaA and StoCretec GmbH. In this agreement, the management of each company and the General Works Council have laid down basic principles 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 2021, 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 grants from 2021 are used for running classes, acoustic measures as well as tables and chairs for the classrooms in order to improve the educational conditions.



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 2021, 157 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. 144 (92 %) of these devices were suitable for remarketing; 13 devices had to be dismantled and recycled because they were defective. The total weight of the materials amounted to 569 kg. As a result, the process of remarketing the devices managed to save the equivalent of 11,727 kg of iron, 20,624 kg of CO_2 equivalents, as well as 81,339 kWh of primary energy and 141,321 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.

One focus of our activities in 2021 was the donation of materials to the regions in Germany affected by the flood disaster in spring 2021. Sto provided supplies to four aid organisations that are helping the Ahr valley. In addition, larger donations went to an aid organisation that supports people in need in Moldova. A total of 140 tonnes of material from various Sto SE & Co. KGaA locations were donated to these aid organisations. Furthermore, donations were made to the town of Stühlingen for flood victims in the Grimmelshofen district.

The sponsorships of the Jung & Alt association in Stühlingen, which is dedicated to organised neighbourhood assistance, and the Caritas workshops Hochrhein also have a regional connection to our main location. Our 2021 donation to the Jung & Alt association is intended in particular to improve the mobility of older people and those in need of help in rural areas. We supported the Caritas workshops with donations of materials for their creative group.

'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 with two flower sponsorships: a wildflower patch with a size of 17,000 m^2 was created by two farmers in the Stühlingen region and the Schwarzwald-Baar district with our support. This provides a vital habitat for bees and other insects, and encourages biodiversity.

In autumn 2021, the trainee project 'Insect Hotel' started at the SalesCentre in Hamburg-Oststeinbek. A total of ten trainees from five SalesCentres in the North of Germany designed and built a greened insect hotel on the premises of the SalesCentre in Hamburg-Oststeinbek. The objective is to create a

Trainees from five SalesCentres in the North of Germany designed and built a greened insect hotel on the premises of the SalesCentre in Hamburg-Oststeinbek.
Photo: Sto SE & Co. KGaA

safe space that especially endangered insects can retreat to, and hence make a regional contribution to the preservation of biodiversity.

The annual trainee project at the Sto location in Stühlingen in 2021 was the completion of a 'Geo Park' along the pond on the premises. The rocks, e.g. lime, tuff, granite, and marble, weigh between 2.5 and 3.8 tonnes and were sponsored by suppliers. The rocks are intended to give colleagues and visitors an understanding of the raw materials and minerals contained in Sto products.

With the help of a horticultural company, Sto trainees built a 'Geo Park' on the factory premises with various rocks.
Photo: Sto SE & Co. KGaA

In addition, the grounds adjacent to the sponsored wildflower patch were redesigned in 2021 by incorporating insect-friendly plants and native trees.

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 helpinghands@sto team launched an initiative three years ago to support individuals, families or institutions in emergency situations and provide financial assistance.

Sto Stiftung

Sto Foundation: Broadening the horizons of students and trainees

The Sto Foundation focuses on supporting young people and imparting knowledge. Through many activities, the Foundation provides the famous 'view beyond one's own nose': Theoretical learning is to be complemented by joint action. This is why the personal exchange between young people is a central focus of the Foundation's activities. However, those responsible at the Sto Foundation are also concerned with recognising economically difficult conditions for young talent and rewarding top performance. This holistic view of the development of young adults has been the guiding principle since the Foundation was established in 2005 and is a commitment for the future.

The fact that young talent in the finishing trades – painters and plasterers – as well as students of architecture and civil engineering have again benefited from the Foundation's commitment in 2021 is demonstrated by the results of the many successful projects. In the year under review, the Sto Foundation provided a total of EUR 900,000 in funding to support almost 60 (inter)national trade and architecture projects. These include, for example, students' self-build projects sponsored by the Sto Foundation as part of the 'DesignBuild Project'. In 2021, the 'Experience in Action' exhibitions on the theme of 'Design Build' at the ArchitekturSalon Hamburg (AIT) and the Deutsches Architektur Zentrum (DAZ) in Berlin demonstrated the projects' appeal and variety.

The Sto Foundation sponsors students' self-build projects as part of the 'DesignBuild Project'. The result of the project is the 'Impulshaus' by the Carinthian University of Applied Sciences which was designed for homeless people and which was even awarded the Human Rights Prize.
Photo: Carinthian University of Applied Sciences

A special 'DesignBuild Project', which was awarded the Human Rights Prize by the Austrian Federal Province of Carinthia, is the 'Impulshaus' (impulse house). The architecture course at the Carinthian University of Applied Sciences designed the building as a home for unsheltered people. The Sto Foundation supported another social project together with the International Building Exhibition and the TU Berlin where students converted a former shop into a village hub.

Direct financial support via scholarships is particularly important for students. To this end, the Sto Foundation is able to draw on a network of renowned partners with whom it carries out joint programmes. Four scholars were selected for the AIT scholarship (Interior Scholarship) of the Sto Foundation in 2021. The personal award ceremony took place in August 2021 at the ArchitekturSalon in Hamburg.

In 2021, at the 'Denkmalcamp' in Romania, 20 enthusiastic participants demonstrated just how attractive and varied a career in one of the trades can be. This project is also funded by the Sto Foundation.
Photo: Christoph Große, Berlin/Germany

The Foundation Council of the Sto Foundation (from left): Prof Ralf Pasel (Foundation Council member – Architecture), Jochen Stotmeister (former Deputy Chairperson of the Foundation Council, Chairperson of the Supervisory Board of STO Management SE), Till Stahlbusch (Chairperson of the Supervisory Board), Carlo Stotmeister (Deputy Chairperson of the Foundation Council), Gregor Botzet (Foundation Council member – Trade), Anne Bambauer (Foundation Council member – Communications), and Christoph M. Stolz (Board member and Treasurer).
Photo: Sto Foundation | stand.art

The students who were able to convince the jury each receive a monthly living allowance of EUR 500 so that they can devote themselves fully to their studies.

Another highlight supported by the Sto Foundation for those interested in architecture was the 'November Talks 2021' in Paris, Prague, Stuttgart, Venice, Vienna, and London. The top-class architect lectures were presented live and via streaming formats.

The multi-level 'Educational Pyramid' is the Sto Foundation's training model for young tradespeople starting out in the painting and plastering trades. As part of a best of the best competition, the Sto Foundation primarily supports economically eligible, talented and committed trainees 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. In addition, 15 journeymen and -women of the painting and varnishing trades received an iPad last year. At sponsorship levels two and three, the Sto Foundation makes scholarships available for students to undertake further training to become a paint and lacquer technician or study at a college.

In 2021, at the 'Denkmalcamp' in Romania (a residential course for learning about the preservation of monuments and historic buildings), 20 enthusiastic participants demonstrated just how attractive and varied a career in one of the trades can be. This is also a project funded by the Sto Foundation. The trainee painters from Germany, Austria, and Switzerland gained experience in church painting, restoration, and protection of historical buildings and monuments in the Romanian town of Metiș. Under the guidance of recognised specialists, they learned about special craft techniques, the associated building history and building culture.

Since its establishment in 2005, the Sto Foundation has invested a total of EUR 6.5 million in more than 500 national and international projects and in the training of tomorrow's skilled workers.

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 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 total budget of one million euros at its disposal. In this way, both Sto SE & Co. KGaA and the Stotmeister families have been making a substantial contribution to promoting young talent in the fields of architecture and the finishing trade for 17 years now. Since the foundation of Sto, the Sto Group has been closely associated with both fields.

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 new Foundation Council consists of Prof Ralf Pasel, Jochen Stotmeister, Till Stahlbusch, Carlo Stotmeister, Gregor Botzet, Anne Bambauer, and Christoph M. Stolz.

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

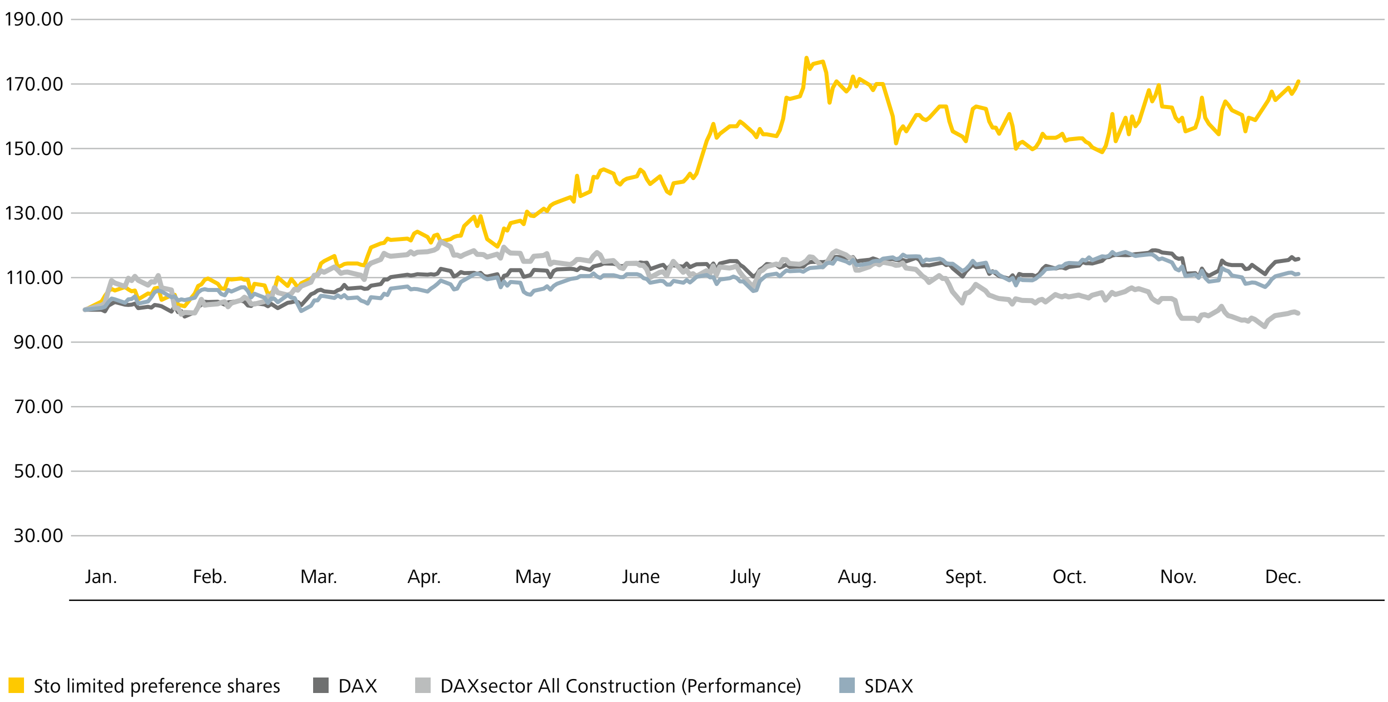
2021 on the stock markets

International share markets experiencing upswings

The mood at the international stock exchanges was mainly positive in 2021. In the first half of the year in particular, the progress made in vaccinations to combat the coronavirus pandemic and the prospects of a comprehensive fiscal package in the USA, among other things, led to noticeable price gains. As the year progressed, the upward trend was slowed down by various factors. In addition to new coronavirus variants and the general worsening of the coronavirus pandemic situation, the stock exchanges reacted especially to the worldwide raw material shortages and supply disruptions as well as the permanently rising inflation. Nevertheless, over the year as a whole, important indices recorded significant gains.

The German share market also ended 2021 with gains. The DAX, the leading index, was expanded to 40 stocks in the year under review, and rose by almost 16 %. The MDAX rose by about 14 %, and the SDAX by about 11 %. By contrast, there were slight declines in the construction values, with the Construction sector index on the Frankfurt Stock Exchange losing around 1 % in value year-on-year.

Share price trend for 2021
(indexed on 30 December 2020 = 100)



Sto share gains almost 71 per cent
The Sto share, which was included in the secondary value index SDAX in 2021, saw a significant price increase as the year progressed. After a subdued start in line with the market as a whole, the share price rose almost continuously from March onwards and, at EUR 230.50, reached its annual high in the electronic XETRA system of the Frankfurt Stock Exchange on 4 August 2021. In the course of the slowdown in growth in the third quarter, the value subsequently fell somewhat, but was able to stabilise again in the last two months. At the 2021 year end, a Sto share cost EUR 221.00, which corresponded to an increase of 70.8 % as compared to the 2020 closing price (EUR 129.40).

The market capitalisation of around 2.538 million Sto limited preference shares increased from EUR 328.4 million to EUR 560.9 million at the end of the year under review.

Improvement in consolidated earnings
In 2021, despite the pressure on the gross profit margin which had been increasing significantly throughout the year, consolidated earnings of Sto SE & Co. KGaA improved and the financial basis of the company was further strengthened. Earnings before interest and taxes (EBIT) increased by 3.1 % to EUR 124.5 million and the consolidated net profit for the year by 17.4 % to EUR 94.7 million. Diluted and basic earnings were EUR 14.46 per limited preference share and EUR 14.40 per limited ordinary share.

Dividend
Pursuant to the accounting principles of the German Commercial Code (HGB), the parent company Sto SE & Co. KGaA reported earnings before income taxes of EUR 67.9 million (previous year: EUR 97.1 million) and a net profit for the year of EUR 46.6 million (previous year: EUR 71.2 million) in 2021.

The Executive Board of the personally liable partner STO Management SE will propose an unchanged dividend payout of EUR 31,896,720.00 to the Annual General Meeting on 22 June 2022. This means that limited preference shareholders will receive an ordinary dividend of EUR 0.31 and a bonus of EUR 4.69 per share. Limited ordinary shareholders are to be paid an ordinary dividend of EUR 0.25 as well as a bonus of EUR 4.69 per share. Based on the 2021 closing price of EUR 221.00, the proposal would result in a dividend yield of 2.3 % per limited preference share.

Trading volume in 2021
During the 2021 fiscal year, a total of 1,933,284 Sto SE & Co. KGaA limited preference shares were traded in the XETRA electronic system of the Frankfurt Stock Exchange, compared with 703,247 shares in the previous year.

Sto limited preference share key figures

	2021	2020
Earnings per preference share	14.46	12.60
Cash flow from current operating activities	17.34	27.58
Equity capital	94.93	82.70
Dividend payout per limited preference share Dividend Bonus*	 0.31 +4.69	 0.31 +4.69
Share price at year end**	221.00	129.40
Year high**	230.50	129.40
Year low**	130.80	72.20
PER (31 Dec)	15.28	10.27
PER (high)	15.94	10.27
PER (low)	9.04	5.73
Capitalisation of preference shares on 31 Dec (in EUR millions)	560.9	328.4

Values per share in EUR

* 2021: proposal by the personally liable partner STO Management SE and the Supervisory Board
** XETRA closing price

Shareholder structure
As at 31 December 2021, 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)

Sto SE & Co. KGaA, Stühlingen/Germany
Consolidated statement of profit and loss for 2021

in EUR K	Notes	2021	2020
1. Revenue	(1)	1,590,529	1,433,000
2. Changes in product inventories		14,303	−156
3. Other internally generated assets capitalised	(2)	63	68
Total revenues		**1,604,895**	**1,432,912**
4. Other operating income	(3)	25,561	21,420
5. Cost of material	(4)	−760,515	−628,424
6. Personnel expenditure	(5)	−404,972	−384,337
7. Other operating expenses	(6)	−269,537	−252,465
8. Impairment (net) of financial assets	(7)	−2,897	−2,609
EBITDA (earnings before interest, taxes, depreciation and amortisation)	(8)	**192,535**	**186,497**
9. Depreciation and amortisation of Intangible assets, Property, plant and equipment as well as Rights of use	(8)	−68,067	−65,711
EBIT (earnings before interest and taxes)		**124,468**	**120,786**
10. Earnings from financial assets accounted for using the equity method	(9)	1,779	605
11. Interest and similar income	(10)	648	811
12. Interest and similar expenditure	(10)	−2,420	−3,208
13. Other financial income	(10)	3,461	0
EBT (earnings before taxes)		**127,936**	**118,994**
14. Taxes on income and earnings	(11)	−33,277	−38,326
EAT (earnings after taxes)		**94,659**	**80,668**
of which:			
Share of minority interests		1,941	−97
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA		92,718	80,765
Earnings per share basic/diluted in EUR			
Limited ordinary share	(12)	14.40	12.54
Limited preference share	(12)	14.46	12.60

Sto SE & Co. KGaA, Stühlingen/Germany

Consolidated statement of comprehensive income 2021

in EUR K	2021	2020
EAT (earnings after taxes)	**94,659**	**80,668**
FVOCI valuation		
Valuation changes recognised in equity	−18	0
Deferred taxes	5	0
FVOCI valuation after taxes	**−13**	**0**
Currency translation		
Currency translation differences	5,285	−7,587
Earnings to be reclassified in the statement of profit and loss in future periods	**5,272**	**−7,587**
Revaluation of post-employment benefit obligations		
Gains/losses from the revaluation of defined benefit plans	13,178	−5,942
Deferred taxes	−2,985	1,650
Earnings not to be reclassified in the statement of profit and loss in future periods*	**10,193**	**−4,292**
Other earnings after taxes	**15,465**	**−11,879**
Total comprehensive earnings after taxes	**110,124**	**68,789**
of which:		
Share of minority interests	1,947	−111
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA	108,177	68,900

*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/Germany
Consolidated statement of financial position as at 31 December 2021

in EUR K	Notes	31 Dec 2021	31 Dec 2020
Assets			
A. Non-current assets			
I. Intangible assets	(13)	61,616	55,748
II. Property, plant and equipment	(14)	287,397	269,123
III. Rights of use	(15)	85,944	63,590
IV. Financial assets accounted for using the equity method	(16)	1,830	11,230
Fixed assets		**436,787**	**399,691**
V. Non-current trade receivables	(18)	1,823	1,685
VI. Non-current financial assets	(19)	48,358	26,308
VII. Other non-current assets	(20)	1,608	1,717
VIII. Deferred tax assets	(11)	30,197	33,291
Other non-current assets		**81,986**	**63,001**
Total non-current assets		**518,773**	**462,692**
B. Current assets			
I. Inventories	(17)	158,631	103,208
II. Current trade receivables	(18)	145,760	128,728
III. Current income tax receivables		3,413	1,917
IV. Current financial assets	(19)	94,088	119,413
V. Other current assets	(20)	26,906	27,792
VI. Cash and cash equivalents	(21)	137,135	130,043
Total current assets		**565,933**	**511,101**
Total assets		**1,084,706**	**973,793**

in EUR K	Notes	31 Dec 2021	31 Dec 2020
Equity and liabilities			
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)	529,987	453,254
Share attributable to the shareholders of Sto SE & Co. KGaA		**605,347**	**528,614**
IV. Share of minority interests	(23)	4,702	2,755
Total equity		**610,049**	**531,369**
B. Non-current provisions and liabilities			
I. Provisions for post-employment benefits and similar liabilities	(24)	122,204	132,466
II. Other non-current provisions	(25)	18,347	19,198
III. Non-current borrowings	(26)	1,915	5,269
IV. Non-current lease liabilities	(27)	67,209	46,153
V. Non-current financial liabilities	(29)	214	225
VI. Other non-current liabilities	(30)	24	3
VII. Deferred tax liabilities	(11)	986	1,140
Total non-current provisions and liabilities		**210,899**	**204,454**
C. Current provisions and liabilities			
I. Other current provisions	(25)	43,488	49,432
II. Current borrowings	(26)	8,240	7,654
III. Current lease liabilities	(27)	20,406	18,583
IV. Current trade payables	(28)	63,250	51,480
V. Current income tax liabilities		23,283	19,654
VI. Current financial liabilities	(29)	45,102	38,664
VII. Other current liabilities	(30)	59,989	52,503
Total current provisions and liabilities		**263,758**	**237,970**
Total debt capital		**474,657**	**442,424**
Total equity and liabilities		**1,084,706**	**973,793**

Sto SE & Co. KGaA, Stühlingen/Germany
Statement of changes in equity as at 31 December 2021

in EUR K	Equity attributable to the shares of the parent company			
	Subscribed capital	Capital reserves	Revenue reserves	Currency translation reserve
Notes	(22)	(22)	(22)	(22)
As at 1 January 2020	**17,556**	**57,804**	**472,048**	**4,983**
EAT (earnings after taxes)	0	0	80,765	0
Other earnings (after taxes)	0	0	0	−7,587
Total comprehensive earnings	**0**	**0**	**80,765**	**−7,587**
Dividend payout	0	0	−26,049	0
Changes to the companies consolidated	0	0	51	0
Minority shares from corporate acquisition	0	0	−428	0
As at 31 December 2020	**17,556**	**57,804**	**526,389**	**−2,604**
As at 1 January 2021	**17,556**	**57,804**	**526,389**	**−2,604**
EAT (earnings after taxes)	0	0	92,718	0
Other earnings (after taxes)	0	0	0	5,285
Total comprehensive earnings	**0**	**0**	**92,718**	**5,285**
Dividend payout	0	0	−31,897	0
Changes to the companies consolidated	0	0	0	0
Other	0	0	453	0
Minority shares from corporate acquisition	0	0	0	0
As at 31 December 2021	**17,556**	**57,804**	**587,663**	**2,681**

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

					Share of minority interests	Total equity
Reserve for pensions	Reserve for FVOCI valuation	Treasury stock	Total			
(22/24)	(22)	(22)			(23)	
−43,198	**0**	**−23,055**	**486,140**		**393**	**486,532**
0	0	0	80,765		−97	80,668
−4,278	0	0	−11,865		−14	−11,879
−4,278	**0**	**0**	**68,900**		**−111**	**68,789**
0	0	0	−26,049		0	−26,049
0	0	0	51		0	51
0	0	0	−428		2,473	2,045
−47,476	**0**	**−23,055**	**528,614**		**2,755**	**531,369**
−47,476	**0**	**−23,055**	**528,614**		**2,755**	**531,369**
0	0	0	92,718		1,941	94,659
10,187	−13	0	15,459		6	15,465
10,187	**−13**	**0**	**108,177**		**1,947**	**110,124**
0	0	0	−31,897		0	−31,897
0	0	0	0		0	0
0	0	0	453		0	453
0	0	0	0		0	0
−37,289	**−13**	**−23,055**	**605,347**		**4,702**	**610,049**

Sto SE & Co. KGaA, Stühlingen/Germany
Consolidated cash flow statement for 2021

in EUR K	Notes	2021	2020
Cash flow from current operating activities			
EAT (earnings after taxes)		**94,659**	**80,668**
Reconciliation of EAT (earnings after taxes) and cash flow from operating activities			
Taxes on income and earnings	(11)	33,277	38,326
Net financial income/expense	(9 / 10)	−3,468	1,792
EBIT (earnings before interest and taxes)		**124,468**	**120,786**
Depreciation of fixed assets	(8)	68,067	65,711
Earnings from disposal of fixed assets		−752	35
Other non-cash expenses/income		−2,945	0
Income taxes paid		−32,417	−31,982
Change in provisions		−3,648	5,274
Change in net current assets		−41,371	17,359
Cash flow from current operating activities		**111,402**	**177,183**
Cash flow from investment activities			
Investments in Property, plant and equipment, and Intangible assets	(13 / 14)	−41,933	−41,746
Payments for the acquisition of consolidated companies and other business units (less acquired cash and cash equivalents)		−16,602	−944
Payments received from other disposal of Intangible assets and Plant, property and equipment		1,768	502
Interest payments received		347	534
Disbursements for financial investments		−46,389	−121,592
Deposits from financial investments		51,742	39,582
Cash flow from investment activities		**−51,067**	**−123,664**
Cash flow from financing activities			
Disbursements for the repayment portion of the lease liabilities	(27)	−22,003	−21,096
Deposits for non-current borrowings	(26 / 32)	0	2,494
Payments for non-current borrowings	(26 / 32)	−1,135	−1,055
Payments received for current borrowings	(26 / 32)	2,077	83,479
Payments for current borrowings	(26 / 32)	−2,765	−85,198
Dividend payout	(12)	−31,897	−26,049
Payments of interest		−1,443	−1,761
Cash flow from financing activities		**−57,166**	**−49,186**
Change in cash and cash equivalents from changes in exchange rates		3,946	−2,833
Changes in cash and cash equivalents due to expected losses on cash and cash equivalents in accordance with IFRS 9		−23	−64
Cash and cash equivalents at the beginning of the period	**(21)**	**130,043**	**128,607**
Change in cash and cash equivalents		**7,092**	**1,436**
Cash and cash equivalents at the end of the period*	**(21)**	**137,135**	**130,043**

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/Germany

Notes to the consolidated financial statements as at 31 December 2021

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. The Stotmeister families hold equal shares in Stotmeister Beteiligungs GmbH via four Vermögensverwaltungs GmbH & Co. KGs (asset management limited partnership with a limited liability company as a general partner). There is a syndicate and pool agreement for the uniform exercise of voting rights and thus a control group.

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 on 08 April 2022 by the personally liable partner STO Management SE and will be forwarded to the Supervisory Board of Sto SE & Co. KGaA on 13 April 2022 for approval at the Supervisory Board meeting on 21 April 2022.

2. Basis of preparation

Sto SE & Co. KGaA has prepared its consolidated annual financial statement of the Sto Group for the year 2021 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 2021 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 2021, are an exception.

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 – Phase 2	Reforms of the benchmark interest rate	1 January 2021	Insignificant

The amendments to IFRS 16 relate to the rent concessions in the form of deferments or payment breaks. The lessee has an option to account for rent concessions that fall under the application of the standard as if they were not amendments to the rental agreement, which often results in the recognition of variable lease payments in the period in which they are received. If this option is exercised, companies must indicate this and describe the nature of the contracts concerned. In addition, the amount recognised in the statement of profit and loss as a result of the rent concessions must be disclosed.

If the lessee has made a decision in the past regarding the application of the relief, this decision shall be retained.

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 relate to exemptions in the application concerning the effects of changes to the benchmark interest rate. The effects resulting from discounting with a changed benchmark interest rate on the cash flows of financial assets and liabilities are not recognised in the statement of profit and loss. In addition, the exemptions mean that most of the hedge accounting relationships affected by the IBOR reform will be continued in accordance with IAS 39 and IFRS 9.

Affected companies are obliged to publish information on the nature and extent of the risks caused by the IBOR reform. Furthermore, information on the management of the risks as well as the progress in the transition to an alternative benchmark interest rate shall be provided.

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

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

Accounting standards not applied early

The IASB and IFRIC have adopted further standards and interpretations which were not applied in the reporting period because either recognition by the EU had still been pending or the application had not yet been mandatory.

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

Standards/ Interpretations	Title	Applicable	Effects
Amendments to IAS 16	Property, plant and equipment	1 January 2022	Insignificant
Amendments to IAS 37	Provisions, Contingent Liabilities, Contingent Receivables	1 January 2022	Insignificant
Amendments to IFRS 3	Reference to the framework concept	1 January 2022	Insignificant
IFRS improvements 2018 – 2020	Amendments to 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 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. In addition, there is a clarification of the definition of functional tests. Costs and revenues 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 concern the clarification that the fulfilment costs of a contract include all costs directly attributable to the contract. These include the additional costs incurred to fulfil the contract, e.g. direct labour and material costs as well as an allocation of other costs that are directly related to the fulfilment of the contract. Before creating a provision, impairments of assets that relate to the fulfilment of the contract must be recognised.

The amendments to IFRS 3 relate to references to the conceptual framework of the IFRS and additionally contain the exception that an acquirer must apply the regulations for recognising liabilities and contingent liabilities when identifying assumed liabilities within the scope of IAS 37. Furthermore, the amendments relate to an explicit prohibition of recognition for acquired contingent receivables.

The IFRS improvements 2018 to 2020 concern the selective revision of IFRS 1, IFRS 9, IFRS 16, and IAS 41. The amendments to IFRS 1 allow subsidiaries whose assets and liabilities are accounted for at their carrying amounts at the parent company to also take over the currency translation differences from the balance sheet of the parent company. With regard to IFRS 9, it is clarified which fees are included in the '10 per cent' test when derecognising financial liabilities, and the new regulations of IFRS 16 relate to the amendment of an example contained therein.

The amendments to IAS 1 clarify that liabilities are to be classified as either current or non-current depending on existing rights at the end of the reporting period. The classification is independent of the company's or management's expectations. The corresponding accounting is to be carried out with retrospective effect in accordance with the regulations of IAS 8.

The amendments to IAS 1 and the IFRS Practice Statement relate to the disclosure of material rather than significant accounting policies, including the definition of materiality and the explanation of how to identify material accounting information. The publication of intangible accounting information is to be refrained from, especially if it distracts from relevant information.

The amendments to IAS 8 relate to the distinction between changes in accounting estimates and changes in accounting policies. The main difference is the orientation towards the future of changes in estimates versus the orientation towards the past of changes in accounting policies.

IFRS 17 will replace the regulations stipulated in IFRS 4. IFRS 17 requires a valuation model in which estimates are to be reassessed in each reporting period. Contracts are to be valued on the basis of probability-weighted cash flows, an explicit risk discount and a contractual service margin that recognises the profit from the contract not yet due in the statement of profit and loss. The effects from changed discount rates can be shown either in the statement of profit and loss or alternatively in the statement of comprehensive income. For insurance contracts with a short term, a premium can optionally be spread over the remaining term in the case of liabilities for reasons of simplification.

In the general valuation model, there is a change for contracts where the holder of the insurance policy profits from the income related to the underlying asset. The company's share of the change in value of the underlying asset is already included in the contractual service margin.

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 as well as joint ventures.

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

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 2021 as well as the planning result for 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, floor coatings for parking structures, and sports floor coatings. 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 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 equity and liabilities	**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 the expertise of the acquired employees 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. In the fiscal year, sales revenues 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 2019)	−126
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity 2020)	2,556
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**

Corporate acquisitions in the year under review

On 28 February 2021, through Sto BT GmbH, Stühlingen/Germany, which is a subsidiary of Sto SE & Co. KGaA, a community of property owners acquired the remaining 50.2 % of the equity shares and voting rights of Jonas GmbH, Wülfrath/Germany, and of JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany, as well as the remaining 50.2 % of the co-ownership shares of the Jonas real estate. The purchase price was EUR 17.4 million. By owning 100 % of the shares, Sto BT GmbH has acquired control resulting in the incorporation into the consolidated annual financial statement of the Sto Group. Subsequently, JONAS Farbenwerke GmbH & Co. KG was merged with Sto BT GmbH before the latter was renamed JONAS Farben GmbH.
Jonas GmbH, Wülfrath/Germany, was renamed Sto BTF GmbH in April 2021.

The JONAS company 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. Furthermore, the company has developed into a specialist for private-label paints. The transfer of the shares by the sellers is agreed in the sales contract. All purchase agreement conditions precedent were fulfilled at the time of acquisition.

The fair value of the investments accounted for using the equity method and the proportionate share of the operating premises directly before the time of acquisition amounted to EUR 15,962 K. In comparison to the amortised acquisition costs of EUR 12,501 K this results in a profit of EUR 3,461 K. The fair values of identifiable assets and liabilities at the time of acquisition were as follows:

in EUR K	Fair value as at the time of acquisition
Intangible assets	5,045
Property, plant and equipment	16,243
Inventories	5,522
Trade receivables	2,247
Other receivables and financial assets	537
Cash and cash equivalents	1,165
Total equity and liabilities	**30,759**
Provisions	221
Trade payables	1,064
Other financial liabilities	5,793
Other liabilities	882
Tax liabilities	125
Deferred tax liabilities	993
Total liabilities	**9,078**
Total identifiable net assets at fair value	**21,681**
Minority shares evaluated at the value of the net assets	0
Acquired shares evaluated at the value of the identifiable net assets	**21,681**
Goodwill from corporate acquisition	11,706
Transferred consideration	**33,387**

The consideration transferred consists of the at-equity investment given in an exchange plus the proportionate share of the operating premises of EUR 15,962 K and the purchase price of EUR 17,425 K for the remaining 50.2 % of the shares in Jonas GmbH as well as JONAS Farbenwerke GmbH & Co. KG and the remaining 50.2 % of shares in the operating premises. The goodwill from the company acquisition was based on the expertise of the acquired employees as well as growth opportunities. The goodwill deductible for tax purposes amounted to EUR 13,284 K. Please refer to Note (11) for information on deferred taxes.

The net amount of the receivables of EUR 2,247 K corresponds to the fair value thereof. This takes into consideration impairments amounting to EUR 53 K, which reflect the irrecoverable cash flow.

in EUR K	Cash outflow due to corporate acquisition
Transaction costs of corporate acquisition (contained in the cash flow from operating activity)	−574
Cash and cash equivalents acquired with the subsidiary (contained in the cash flows from investment activity)	1,165
Other transaction costs (contained in the cash flows from investment activity)	−342
Outflow of cash and cash equivalents (contained in the cash flows from investment activity)	−17,425
Actual cash outflow due to corporate acquisition	**−17,176**

In the 2021 fiscal year, a turnover of EUR 30,737 K with losses after taxes of EUR 7,639 K was achieved. After the acquisition, a turnover of EUR 25,263 K with losses after taxes of EUR 7,764 K was achieved. This includes an impairment of EUR 10,009 K.

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 only to Inotec GmbH.

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
- JONAS Farben GmbH, Wülfrath/Germany
- Sto BTN GmbH, Stühlingen/Germany
- Liaver GmbH & Co. KG, Ilmenau/Germany
- Südwest Lacke + Farben GmbH & Co. KG, Böhl-Iggelheim/Germany
- Ströher Produktions GmbH & Co. KG, Dillenburg/Germany
- Gefro Verwaltungs-GmbH & Co. KG, Stühlingen/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 to the nearest thousand euros (EUR K).

The accounting and valuation policies relevant for 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:

EUR 1 =		Closing rate on		Average annual rate	
		31 Dec 2021	31 Dec 2020	2021	2020
AED	United Arab Emirates	4.1769	4.4928	4.3464	4.1970
AUD	Australia	1.5615	1.5896	1.5749	1.6549
BRL	Brazil	6.3101	6.3735	6.3779	5.8943
CAD	Canada	1.4393	1.5633	1.4826	1.5300
CHF	Switzerland	1.0331	1.0802	1.0811	1.0705
CLP	Chile	968.8944	870.3068	899.0200	902.8294
CNY	People's Republic of China	7.1947	8.0225	7.6282	7.8747
COP	Columbia	4,628.4039	4,187.0135	4,479.8295	4,264.4541
CZK	Czech Republic	24.8600	26.2450	25.6400	26.4550
DKK	Denmark	7.4364	7.4409	7.4370	7.4542
GBP	Great Britain	0.8403	0.8990	0.8596	0.8897
HUF	Hungary	369.1900	363.8900	358.5200	351.2500
MXN	Mexico	23.1438	24.4160	23.9852	24.5194
MYR	Malaysia	4.7184	4.9340	4.9015	4.7959
NOK	Norway	9.9888	10.4703	10.1633	10.7228
PAB	Panama	1.1372	1.2232	1.2078	1.1672
PLN	Poland	4.5994	4.6148	4.5652	4.4430
RUB	Russia	84.0695	90.6824	87.1527	82.7248
SEK	Sweden	10.2503	10.0343	10.1465	10.4848
SGD	Singapore	1.5279	1.6218	1.5891	1.5742
TRY	Turkey	15.2335	9.1131	10.5124	8.0547
USD	USA	1.1326	1.2271	1.1827	1.1422

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 within other operating expenses. 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 recognised in the statement of profit and loss. 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 the surplus of the consideration transferred and the shares without a controlling influence on the identifiable 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). In case of a lack of recoverability, the corresponding impairment is recognised accordingly. If the consideration transferred is less than the fair value of the net assets acquired, then the difference must be recognised with an impact on profit and loss.

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
In accordance with IFRS 16, for all material leases, assets are recognised for rights to use leased assets and liabilities at present values for payment obligations incurred. The option created in IFRS 16.4 to exclude Intangible assets from the scope of IFRS 16 is generally used. 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;
- any penalty payments due to early termination of the lease.

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 of the lessee. 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 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. The useful life and the residual carrying amount of open-ended contracts are evaluated every 2 years on the basis of the 5-year plan.

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
Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and additionally if there are indications of impairment, and are impaired if necessary.

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.

To determine impairments, the carrying amount of the cash-generating unit (CGU), which is the smallest identifiable group of assets that generates cash inflows which 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, which, in turn, was determined on the basis of discounted future cash flows. 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 of the CGU is greater than the goodwill, the exceeding impairment is distributed across the remaining assets of the CGU taking into consideration the fair values of the assets as the lower value limit.

A 5-year plan as at 31 December 2021 for the fiscal years of 2022 to 2026 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, moderate growth rates of 1.0 % (previous year: 1.0 %) were assumed for the period beyond the planning horizon, as this adequately reflects the increasing uncertainty of future periods.

For the CGUs Sto, Beissier S.A.S. 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 with regard to steady turnover growth in the single-digit percentage range as well as increases in gross profits on the basis of the 5-year plan.

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 7.4 % and 11.5 % (previous year: 6.1 % to 10.0 %).

The following pre-tax interest rates were used for CGUs which are key CGUs in the sense of goodwill: Sto 9.1 % (previous year: 7.7 %), Beissier S.A.S. 10.5 % (previous year: 8.7 %), Unitex 9.6 % (previous year: 7.9 %).

During the impairment test of the CGU, JONAS Farben GmbH, a recoverable amount of EUR 28,347 K was determined. The carrying amount of the CGU was reduced to the recoverable amount through an impairment of goodwill of EUR 10,009 K. Accordingly, every additional reduction of the recoverable amount due an adjustment in assumptions would lead to further impairment. The recoverable amounts of the CGUs Skyrise and Ströher, which were impaired the previous year, amounted to EUR 2,443 K and to EUR 26,479 K respectively. For all other CGUs, sensitivity analyses have shown that there is no need for impairment of goodwill even if the assumptions deviate.

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. In the year under review, research and development costs of EUR 14.6 million (previous year: EUR 14.0 million) were recognised with an impact on profit and loss.

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 and incidental acquisition costs including import duties and non-refundable purchase taxes as well as any costs less acquisition cost discounts 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 of sale, 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 the reasons for an impairment no longer exist or if the impairment has decreased, an appreciation in value is recognised as income. No reversal is made to an impairment of goodwill.

Financial assets accounted for using the equity method
These financial assets related to a joint venture for which there is a contractual agreement regarding the joint control of the company.

The shares are accounted upon addition at their cost of acquisition. Then the carrying amount of the shares is adjusted annually to recognise the share of earnings, 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.

If the reasons for an impairment no longer exist or if the impairment has decreased, an appreciation in value is recognised with an impact on profit and loss.

Trade receivables and other financial assets
Trade receivables and other financial assets, with the exception of derivative assets and cash investments held for sale, are recognised 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. When valuating impairments on trade receivables, the simplified approach was chosen, which allows for taking the expected impairment over the entire term into account.

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 longer-term analysis period with the inclusion of country-specific and macroeconomic data combined with the continuity of the business model led to the anticipatory recognition of historical default rates for the future. The default risk for trade receivables increases significantly if they are more than one year overdue. The default risks 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, approval of further deliveries was usually only given after an examination of the specific case.

The determination of the impairment of other financial assets was based on the stage model. As the other assets are highly rated cash investments with a correspondingly low default risk, they were classified as Level 1 and evaluated on the basis of the expected credit losses.

Inventories
Inventories were assessed as follows:
- Raw materials, processing aids, operating materials, and trading goods – Weighted average price
- Finished products and work in progress – 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.

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.

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

The impairment 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. Impairments are made on the basis of the expected-credit-loss method by anticipating future payment defaults already on the balance sheet date or by recognising specific risks through an individual impairment.

Financial assets are categorised as follows:
- Financial instruments measured at 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 (= FAAC)

Financial liabilities are categorised as follows:
- 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 is designed to sell the financial assets in the near future and if the cash flows do not solely consist of interest and principal payments. Subsequently, these financial instruments are examined to determine whether the intention to sell still exists. Profits and 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.

Financial instruments measured at fair value with no impact on profit and loss
Financial assets are measured at fair value with no effect on profit and loss if the business model is designed to hold and sell the assets to generate cash flows and if cash flows 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 accrued profits 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 equity without reclassification.

Financial assets at amortised costs of acquisition
In case of financial instruments measured at amortised acquisition costs, the business model is designed to hold assets to generate cash flows which consist exclusively of interest and principal payments and for which 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. Profits and losses are recognised through profit and loss when a financial asset is derecognised or impaired as well as through the amortisation process.

Financial instruments are classified upon initial recognition. Permissible and necessary reclassifications are carried out at the end of the fiscal year.
The Group expects a significant increase in the default risk for trade receivables if contractual payments are more than 365 days overdue. In addition, an increased probability of default is assumed if internal or external information indicates that the contractually outstanding amounts will not be paid in full after taking all loan collateral into account. In this case, the financial asset will be impaired.

Receivables and liabilities are netted if the requirements for offsetting as stipulated in IAS 32 are met.

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 did not make 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. Derecognition is carried out 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 are used for hedging currency risks in order to hedge the risk arising from fluctuations in the cash flow of highly probable future transactions.

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. To that end, an asset or a liability is recognised in connection with an expense or income.

In the fiscal year of 2021, 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 as part of defined-benefit commitments 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.

If the interest effect has a significant impact in connection with the settlement of the obligation, the provisions are recognised at the present value of the expected expenses, which also includes expected cost increases. The discounting 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.

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 is probable. 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 valuated taking into account the national income tax rates as at the date of realisation as well as on the basis of the tax law applicable at that 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.

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.

For an insignificant part of the projects, income and expenses are recognised according to the degree of completion over their term. Income and expenses are recognised according to the costs incurred up to the balance sheet date in relation to the total incurred costs.

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. These are separate performance obligations 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. 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 or, respectively, 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.
In principle, 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. In this regard, the Group makes use of the relief regulation of IFRS 15 and waives the discounting of the consideration.

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. It is reported in the statement of profit and loss as part of the financial result.

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

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.

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, Northern/Eastern Europe, and America/Asia/Pacific in line with internal corporate governance and the internal reporting that follows this governance.

The financial assets include financial instruments that meet the business model condition and the cash flow condition. They were classified at amortised acquisition costs or, respectively, as financial instruments at fair value with no impact on profit and loss.

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 impact of the coronavirus pandemic, among others on inventories and receivables from customers as well as significant assumptions regarding goodwill and intangible assets, was carefully monitored.

- **Impairment of non-financial assets**
  If the carrying amount exceeds the value in use, the value in use is compared with the fair value 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 discount rate 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.

- **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 relied for guidance on the interest rates of corporate bonds in the respective currency with at least an AA rating; these interest rates were 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 age of retirement is determined on the basis of the experience specific to the company as well as future expectations.

- **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 parameters included in the model are based on observable market data as far as possible.

- **Receivables**
  Impairments and individual impairments are made for receivables in accordance with IFRS 9 in order to recognise 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.

- **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. In case of warranty provisions these parameters are based on empirical values for complaints and claims 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.

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.

Group segment reporting as at 31 December 2021

Information on geographic segments by sales markets	Western Europe		Northern/Eastern Europe	
in EUR K	**2021**	**2020**	**2021**	**2020**
External revenues	1,246,458	1,111,656	155,891	143,813
Inter-segment revenues	45,748	38,839	2,082	1,758
Segment turnover	**1,292,206**	**1,150,495**	**157,973**	**145,571**
EBITDA	156,658	158,273	22,220	15,595
Depreciation/amortisation	53,939	46,409	7,761	7,084
EBIT (earnings before interest and taxes)	**102,719**	**111,864**	**14,459**	**8,511**
Interest income	1,059	1,158	89	117
Interest expenses	2,739	3,402	222	253
EBT (earnings before taxes)	**101,039**	**109,620**	**14,326**	**8,375**
Segment assets	**807,462**	**723,709**	**114,601**	**102,876**
Investments	**35,081**	**36,422**	**2,481**	**2,524**
Employees as at the balance sheet date	**4,360**	**4,220**	**623**	**619**

Segment reporting is explained in Note (33).

America/Asia/Pacific		Reconciliation/consolidation booking entries		Group	
2021	**2020**	**2021**	**2020**	**2021**	**2020**
188,180	177,531	0	0	1,590,529	1,433,000
51	111	−47,882	−40,708	0	0
188,232	**177,642**	**− 47,882**	**−40,708**	**1,590,529**	**1,433,000**
14,514	12,490	−857	139	192,535	186,497
6,366	12,218	0	0	68,067	65,711
8,148	**272**	**−857**	**139**	**124,468**	**120,786**
316	325	−815	−789	648	811
274	342	−815	−789	2,420	3,208
8,189	**255**	**4,382**	**744**	**127,936**	**118,994**
129,033	**111,999**	**33,610**	**35,209**	**1,084,706**	**973,793**
4,370	**2,799**	**0**	**0**	**41,930**	**41,745**
714	**706**	**0**	**0**	**5,697**	**5,545**

Notes on the statement of profit and loss

(1) Revenue

For the purposes of segment reporting, revenues are broken down by geographic sales markets. The Group's sales revenues by product group are as follows:

in EUR K	2021	2020
Facade systems	739,966	668,882
Facade coatings	354,606	322,054
Interior	247,938	211,509
Other product groups	248,019	230,555
Total revenues	**1,590,529**	**1,433,000**

(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	2021	2020
Income from the reversal of provisions and accrued liabilities	7,094	5,252
Income from changes in exchange rates	6,966	7,011
Proceeds from derecognised receivables	466	489
Income from the disposal of assets	1,041	266
Income from recharged expenses to third parties	4	531
Funding from the public sector	2,960	2,632
Other operating income	7,030	5,239
Total other operating income	**25,561**	**21,420**

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 will meet the conditions imposed.

(4) Cost of material

in EUR K	2021	2020
Raw materials, processing aids, and operating materials	379,675	292,634
Goods purchased	369,670	324,334
Total expenses for raw materials, processing aids, operating materials, and goods purchased	**749,345**	**616,968**
Temporary staff	6,113	3,672
Commission production	5,057	7,784
Total expenses for services purchased	**11,170**	**11,456**
Total expenses for materials	**760,515**	**628,424**

(5) Personnel expenditure

in EUR K	2021	2020
Wages and salaries	330,195	315,528
Social security contributions	44,602	40,613
Expenses for social security contributions, and for support	30,175	28,196
Total personnel expenses	**404,972**	**384,337**

Expenditure on post-employment benefits and support primarily comprise contributions to the statutory pension funds and additions to post-employment benefit provisions, as stated in Note (24).

Annual average headcount

Number	2021	2020
Employees	5,478	5,385
Trainees	242	236
Total no. of employees	**5,720**	**5,620**

(6) Other operating expenses

in EUR K	2021	2020
Selling and marketing costs	131,412	119,016
Administration costs	55,898	58,529
Rental and lease payments including overheads	14,479	12,205
Operating costs	36,743	33,460
Losses from the derecognition of financial assets	1,758	1,610
Other staff costs	7,520	6,316
Expenses due to changes in exchange rates	8,041	7,341
Losses from the disposal of non-current assets	289	301
Other expenses	13,397	13,687
Other operating expenses in total	**269,537**	**252,465**

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	2021	2020
Expenses for impairments of financial assets	−8,280	−6,827
Income from the reversal of impairments for financial assets	5,383	4,218
Total impairment (net) of financial assets	**−2,897**	**−2,609**

(8) Depreciation/amortisation

This item includes depreciation and amortisation as well as impairments on non-financial assets. EBITDA before interest, depreciation and amortisation, and impairment on non-financial assets is calculated accordingly.

The amortisation and impairment 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 JONAS Farben GmbH of EUR 10,009 K. In the previous year, 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.

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 8.73 % for JONAS Farben GmbH. The reason for these impairments are the lower turnover expectations and increased equity costs.

(9) Earnings from financial assets accounted for using the equity method

In the year under review, earnings from assets accounted for using the equity method amount to EUR 1,779 K (previous year: EUR 605 K) and includes an appreciation in value of the stake in Inotec GmbH in the amount of EUR 1,142 K. The appreciation in value was determined on the basis of a DCF model and a 5-year plan. A WACC before tax of 9.3 % and a growth rate of 1 % were used as a basis. This resulted in a value in use of EUR 6,954 K. Accordingly, the impairment recognised in previous years was fully reversed.

(10) Net interest income as well as Other financial income

in EUR K	2021	2020
Other interest and similar income	648	811
Interest and similar expenses	−1,018	−1,372
Interest expense on post-employment benefit obligations	−680	−1,090
Compounding interest of other non-current provisions and liabilities	−107	−142
Interest expense for leases	−615	−604
Total net interest income	**−1,772**	**−2,397**

Furthermore, the net financial income/expense includes Other financial income in connection with the step acquisition of JONAS in the amount of EUR 3,461 K (previous year: EUR 0 K).

(11) Taxes on income and earnings

Breakdown of tax expense

in EUR K	2021	2020
Actual tax expense in Germany	22,476	27,618
Actual tax expense outside of Germany	12,272	13,621
Actual tax expense	**34,748**	**41,239**
of which off-period tax expense	−45	919
Expense/income from reversal of tax liabilities (off-period)	−566	−152
Actual taxes on income and earnings	**34,182**	**41,087**
Deferred tax income/expense in Germany	−819	−2,770
Deferred tax income/expense outside of Germany	−86	9
Deferred tax income/expense	**−905**	**−2,761**
Income tax expense reported	**33,277**	**38,326**

In the 2021 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 29.1 % (previous year: 29.0 %).

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 38,783 K (previous year: EUR 40,408 K). Tax loss carryforwards of EUR 19,863 K (previous year: EUR 26,546 K) are available for an indefinite period, while EUR 5,980 K (previous year: EUR 4,036 K) may only be utilised within five years, as well as EUR 2,574 K (previous year: EUR 1,239 K) only within ten years, and EUR 10,366 K (previous year: EUR 8,587 K) only within 20 years.

Of the tax loss carryforwards, a sum of EUR 24,658 K (previous year: EUR 23,214 K) is assumed to not be available for the time being. Of these, EUR 7,789 K (previous year: EUR 9,448 K) are available for an indefinite period, while EUR 4,387 K (previous year: EUR 4,036 K) may only be utilised within five years, as well as EUR 2,116 K (previous year: EUR 1,143 K) only within ten years, and EUR 10,366 K (previous year: EUR 8,587 K) only within 20 years.

Of the tax loss carryforwards rated available, EUR 358 K (previous year: EUR 4,902 K) were attributable to companies whose earnings for the year of 2021 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 1,623 K (previous year: EUR 2,474 K) were from temporary differences.

No deferred taxes were recognised for temporary differences of EUR 8,220 K on the profits retained by subsidiaries (previous year: EUR 6,319 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.

Deferred tax assets related to temporary differences were impaired in the amount of EUR 140 K (previous year: EUR 1,061 K).

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 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Intangible assets	2,163	337	1,966	1,094
Property, plant and equipment	1,090	907	4,773	3,612
Rights of use	596	603	19,509	14,212
Financial assets accounted for using the equity method	0	83	0	0
Non-current trade receivables	0	120	0	120
Non-current financial assets	16	16	94	94
Other non-current assets	0	0	429	471
Inventories	2,299	2,112	224	177
Current trade receivables	2,179	1,666	649	451
Current financial assets	37	316	484	335
Other current assets	439	489	151	118
Cash and cash equivalents	4,637	4,454 *	0	15
Special tax items	0	0	14	14
Provisions for post-employment benefits and other liabilities	22,343	24,894	18	14
Other non-current provisions	295	313	67	0
Non-current borrowings	0	0	179	172
Non-current lease liabilities	14,910	9,884	0	0
Other current provisions	1,840	1,807	424	429
Current borrowings	238	464	4,598	4,397 *
Current lease liabilities	4,470	3,993	0	0
Current trade payables	179	26	3	0
Other current liabilities	1,925	1,571	0	11
Loss carryforwards	3,137	3,832	0	0
Gross amount	**62,793**	**57,887**	**33,582**	**25,736**
Balancing	32,596	24,596 *	32,596	24,596 *
Balance sheet recognition	**30,197**	**33,291**	**986**	**1,140**

*The previous year's value was adjusted by EUR 4,397 K.

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		Total
	Statement of profit and loss	**Equity capital**	
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 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	3,907 *	0	3,907
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 current provisions	595	0	595
Current borrowings	−4,105 *	0	−4,105
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**

*The previous year's value was adjusted by EUR 4,397 K and by EUR −4,397 K respectively.

Change in deferred taxes

in EUR K	Consideration in		Total
	Statement of profit and loss	Equity capital	
Deferred taxes as at 1 January 2021	**14,871**	**17,280**	**32,151**
Intangible assets	1,949	0	1,949
Property, plant and equipment	−911	0	−911
Rights of use	−5,167	0	−5,167
Financial assets accounted for using the equity method	−83	0	−83
Non-current financial assets	0	0	0
Other non-current assets	42	0	42
Inventories	123	0	123
Current trade receivables	297	0	297
Current financial assets	−461	33	−428
Other current assets	−73	0	−73
Cash and cash equivalents	3	0	3
Special tax items	0	0	0
Provisions for post-employment benefits and similar liabilities	340	−2,985	−2,645
Other non-current provisions	−86	0	−86
Non-current borrowings	−7	0	−7
Non-current lease liabilities	4,916	0	4,916
Other current provisions	23	0	23
Current borrowings	−231	0	−231
Current lease liabilities	443	0	443
Current trade payables	151	0	151
Other current liabilities	329	0	329
Loss carryforwards	−718	0	−718
Effects from first-time consolidation and deconsolidation	0	−993	−993
Currency translation effects	60	66	126
Deferred taxes as at 31 December 2021	**15,810**	**13,401**	**29,211**

Reconciliation of expected and reported income tax expense

in EUR K	2021	2020
Earnings before income taxes	127,936	118,994
Expected income tax expenses (tax rate: 29.1 %; previous year: 29.0 %)	**37,217**	**34,456**
Reconciliation: Tax-free income and permanent differences	431	3,412
Changes in tax rate	−9	−90
Deviations of local tax rates from Group tax rate	−3,601	−2,809
Deferred tax income on tax loss carryforwards capitalised for the first time	−350	−19
Tax reduction for tax loss carryforwards not yet capitalised	−283	46
Effects of non-recognition of tax loss carryforwards	488	2,381
Off-period taxes	−611	766
Other effects	−5	183
Income tax expense reported	**33,277**	**38,326**
Effective tax rate (%)	26.0	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 2021 and 31 December 2020, there were no potential shares. Hence, undiluted earnings per share correspond to diluted earnings per share.

Limited ordinary shares		
Number	**2021**	**2020**
Weighted average number of shares outstanding – basic/diluted	**3,888,000**	3,888,000

Limited preference shares		
Number	**2021**	**2020**
Weighted average number of shares outstanding – basic/diluted	**2,538,000**	2,538,000

in EUR K	**2021**	**2020**
Share of earnings attributable to the shareholders of Sto SE & Co. KGaA	92,718	80,765
Earning per share – basic/diluted of which		
Limited ordinary shares	56,006	48,774
Limited preference shares	36,712	31,991

in EUR	**2021**	**2020**
Earnings per share – basic/diluted		
Limited ordinary shares	14.40	12.54
Limited preference shares	14.46	12.60

In the fiscal year of 2021, the following dividend was paid out from the earnings of 2020: EUR 4.94 (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 4.69 (previous year: EUR 3.78), as well as EUR 5.00 (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 4.69 (previous year: EUR 3.78).

In the fiscal year of 2021, a total of EUR 19,207 K was paid out to ordinary shareholders (previous year: EUR 15,669 K) and an amount of EUR 12,690 K was paid out to preference shareholders (previous year: EUR 10,380 K). The total payout amount was EUR 31,897 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 outside the scope of application of IFRS 7 (equity investments)

Net earnings from financial assets categorised in accordance with IFRS 9

in EUR K	**2021**	**2020**
Assets		
Financial assets at fair value through profit and loss (FVTPL)	−226	1,440
Financial assets measured at fair value with no impact on profit and loss (FVOCI)	−64	−32
Financial assets at amortised cost (FAAC)	−3,793	−4,010
Equity and liabilities		
Financial liabilities at amortised cost (FLAC)	−200	−297
Financial liabilities at fair value through profit and loss (FLTPL)	−1,036	−1,048

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	**2021**	**2020**
Interest income	585	674
Interest expenses	1,363	1,768
Net interest income	**−778**	**−1,094**

Notes on the consolidated statement of financial position

(13) Intangible assets

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
Appreciations	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**

Changes in Intangible assets from 1 January until 31 December 2021

in EUR K	Industrial property rights and licences including software	Goodwill	Payments made on account	Total
Cost of acquisition/production				
1 January 2021	**49,173**	**54,086**	**2,430**	**105,689**
Additions	942	0	950	1,892
Changes to the companies consolidated	5,045	11,706	0	16,751
Disposals	795	0	0	795
Transfers	1,992	0	−1,992	0
Exchange rate differences	238	548	3	789
31 December 2021	**56,595**	**66,340**	**1,391**	**124,326**
Cumulative depreciation and impairment losses				
1 January 2021	**36,751**	**13,190**	**0**	**49,941**
Depreciation for the year	2,727	0	0	2,727
Impairment losses	261	10,009	0	10,270
Disposals	795	0	0	795
Transfers	0	0	0	0
Appreciations	0	0	0	0
Exchange rate differences	104	463	0	567
31 December 2021	**39,048**	**23,662**	**0**	**62,710**
Net carrying amount as at 31 December 2020	**12,422**	**40,896**	**2,430**	**55,748**
Net carrying amount as at 31 December 2021	**17,547**	**42,678**	**1,391**	**61,616**

Goodwill

Goodwill reported, amounting to EUR 42,678 K (previous year: EUR 40,896 K), breaks down as follows:

Cash Generating Units in EUR K	**31 Dec 2021**	**31 Dec 2020**
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	3,348	3,289
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 Épitöanyag Kft., Dunaharaszti/Hungary	1,764	1,764
JONAS Farben GmbH, Wülfrath/Germany	1,697	0
VIACOR Polymer GmbH, Rottenburg am Neckar/Germany	1,445	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	1,000	974
Miscellaneous under EUR 1,000 K	3,542	3,542
Total goodwill	**42,678**	**40,896**

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

(14) Property, plant, and equipment

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	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
Appreciations	0	0	0	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**

Changes in property, plant and equipment from 1 January to 31 December 2021

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	Equipment under construction	Total
Cost of acquisition/production					
1 January 2021	**369,837**	**228,902**	**211,693**	**23,477**	**833,909**
Additions	8,234	6,993	13,251	11,563	40,041
Changes to the companies consolidated	9,951	5,237	866	189	16,243
Disposals	7,079	1,607	10,375	8	19,069
Transfers	9,818	11,538	1,297	−22,653	0
Exchange rate differences	2,368	3,104	1,309	114	6,895
31 December 2021	**393,129**	**254,167**	**218,041**	**12,682**	**878,019**
Cumulative depreciation and impairment losses					
1 January 2021	**214,130**	**180,951**	**169,409**	**296**	**564,786**
Depreciation for the year	9,600	11,289	13,005	0	33,894
Impairment losses	0	0	0	0	0
Disposals	1,676	1,514	9,766	0	12,956
Transfers	91	−2	−89	0	0
Appreciations	−542	0	0	0	−542
Exchange rate differences	1,816	2,621	988	15	5,440
31 December 2021	**223,419**	**193,345**	**173,547**	**311**	**590,622**
Net carrying amount as at 31 December 2020	**155,707**	**47,951**	**42,284**	**23,181**	**269,123**
Net carrying amount as at 31 December 2021	**169,710**	**60,822**	**44,494**	**12,371**	**287,397**

Property, plant and equipment in the amount of EUR 29,282 K (previous year: EUR 30,916 K) are encumbered with land charges which serve to secure payables to banks. The value amounted to EUR 1,302 K (previous year: EUR 1,693 K).

(15) Rights of use

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
Impairment losses	0	0	0	0	0
Disposals	0	468	303	2,353	3,124
Transfers	0	0	0	0	0
Appreciations	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**

Development of rights of use from 1 January to 31 December 2021

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 2021	**466**	**75,843**	**1,174**	**22,039**	**99,522**
Additions	0	36,126	22	7,451	43,599
Changes to the companies consolidated	0	0	0	0	0
Disposals	40	1,890	134	3,803	5,867
Transfers	0	11	0	− 11	0
Exchange rate differences	1	1,207	0	78	1,286
31 December 2021	**427**	**111,297**	**1,062**	**25,754**	**138,540**
Cumulative depreciation and impairment losses					
1 January 2021	**178**	**24,907**	**576**	**10,271**	**35,932**
Depreciation for the year	96	14,191	237	6,652	21,176
Impairment losses	0	0	0	0	0
Disposals	23	1,311	133	3,537	5,004
Transfers	0	0	0	0	0
Appreciations	0	0	0	0	0
Exchange rate differences	0	446	0	46	492
31 December 2021	**251**	**38,233**	**680**	**13,432**	**52,596**
Net carrying amount as at 31 December 2020	**288**	**50,936**	**598**	**11,768**	**63,590**
Net carrying amount as at 31 December 2021	**176**	**73,064**	**382**	**12,322**	**85,944**

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 2021, the carrying amount of shares accounted for using the equity method stands at EUR 1,830 K (previous year: in EUR 11,230 K).

The change to the carrying amount mainly results from the acquisition of the remaining share in JONAS as well as the appreciation in value of the stake in Inotec GmbH.

The investments accounted for using the equity method generated a positive result of EUR 1,779 K (previous year: EUR 605 K). This includes an appreciation in value of EUR 1,142 K, see Notes (9).

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.

Further explanations can be found in the general section in Chapter 4 – Companies consolidated.

(17) Inventories

Inventories are measured at the lower of acquisition/production cost and the net realisable amount. The impairment included therein amounted to EUR 12,069 K (previous year: EUR 9,439 K). The impairments are mainly based on overstocking.

in EUR K	31 Dec 2021	31 Dec 2020
Raw materials, processing aids, and operating materials	46,364	26,132
Work in progress	8,237	7,523
Finished products and goods	102,968	68,372
Payments made on account	1,062	1,181
Total inventories	**158,631**	**103,208**

Inventories with a carrying amount of EUR 2,698 K (previous year: EUR 2,564 K) serve to secure liabilities to banks. The value amounted to EUR 7 K (previous year: EUR 311 K).

(18) Non-current and current trade receivables

The fair values of trade receivables equal their carrying amounts. Impairments of EUR 25,203 K (previous year: EUR 23,887 K) were taken into account. Trade receivables with a carrying amount of EUR 1,702 K (previous year: EUR 1,385 K) serve to secure liabilities to banks. The value amounted to EUR 1 K (previous year: EUR 220 K).

in EUR K	current	non-current	**Carrying amount as at 31 Dec 2021**	current	non-current	**Carrying amount as at 31 Dec 2020**
from						
Third parties	145,759	1,823	147,582	128,726	1,685	130,411
Companies accounted for using the equity method	1	0	1	2	0	2
Total trade receivables	**145,760**	**1,823**	**147,583**	**128,728**	**1,685**	**130,413**

(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 of EUR 110 K (previous year: EUR 208 K). Receivables from suppliers also included in the financial assets amounted to EUR 5,509 K (previous year: EUR 4,336 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 2021**	current	non-current	**Carrying amount as at 31 Dec 2020**
Financial assets from third parties	93,407	48,358	141,765	117,693	26,308	144,001
Other receivables and financial assets from companies accounted for using the equity method	256	0	256	1,380	0	1,380
Positive fair value of derivative financial instruments	425	0	425	340	0	340
Total financial assets	**94,088**	**48,358**	**142,446**	**119,413**	**26,308**	**145,721**

(20) Other non-current and current assets

Other receivables due from third parties include current insurance refund claims from sales risks of EUR 9,198 K (previous year: EUR 15,506 K).

Other tax reimbursement claims include VAT reimbursement claims of EUR 4,126 K (previous year: EUR 2,756 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 2021**	current	non-current	**Carrying amount as at 31 Dec 2020**
Other receivables from third parties	11,716	4	11,720	17,002	4	17,006
Other tax reimbursement claims	4,784	0	4,784	3,105	0	3,105
Prepaid expenses	10,055	1,604	11,659	7,375	1,713	9,088
Other payments made on account	351	0	351	310	0	310
Total other assets	**26,906**	**1,608**	**28,514**	**27,792**	**1,717**	**29,509**

(21) Cash and cash equivalents

in EUR K	**31 Dec 2021**	**31 Dec 2020**
Credit balances with banks	136,514	129,689
Cheques, cash in hand	621	354
Total cash and cash equivalents	**137,135**	**130,043**

Cash and cash equivalents include impairments due to IFRS 9 of EUR 192 K (previous year: EUR 169 K).

(22) Equity

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

Subscribed capital
As at 31 December 2021, 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 2021 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.

- Reserve for FVOCI valuation:
  The reserve for the FVOCI valuation includes the changes in the valuation of financial instruments at fair value with no effect on profit and loss.

- Treasury stock:
  As at 31 December 2021, 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 2021 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 47,130 K (previous year: EUR 71,421 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 4.69) to form a total of EUR 4.94 (previous year: EUR 4.94), and EUR 0.31 (previous year: EUR 0.31) plus a bonus of EUR 4.69 (previous year: EUR 4.69) to form a total of EUR 5.00 (previous year: EUR 5.00) per limited preference share, and hence a total payout amount of EUR 31,897 K (previous year: EUR 31,897 K).

It is also proposed to retain EUR 15,000 K (previous year: EUR 39,000 K) as revenue reserves and to carry the remaining amount of EUR 233 K (previous year: EUR 524 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 2021	31 Dec 2020	Change in %
Equity attributable to the shareholders of Sto SE & Co. KGaA	**605,347**	**528,614**	**14.5 %**
Current borrowings	8,240	7,654	7.7 %
Non-current borrowings	1,915	5,269	−63.7 %
Less cash and cash equivalents	137,135	130,043	5.5 %
Net assets	**126,980**	**117,120**	**8.4 %**
% of equity	21.0 %	22.2 %	
Equity ratio	56.2 %	54.6 %	
Return on Capital Employed (ROCE)*	**18.9 %**	**19.7 %**	

* 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 liabilities

In the fiscal year of 2021, the equity attributable to the shareholders of Sto SE & Co. KGaA rose by 14.5 % 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

As in the previous year, the shares of equity on the part of minority interests 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. 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 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. The present value of the performance-oriented liabilities of EUR 167,998 K (previous year: EUR 171,864 K) were netted against the fair value of the plan asset of EUR 45,794 K (previous year: EUR 39,398 K). Post-employment benefit provisions amounted to EUR 122,204 K (previous year: EUR 132,466 K).

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 1,098 K (previous year: EUR 1,081 K). Contributions to statutory pension funds came to EUR 23,003 K (previous year: EUR 21,377 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	2021	2020
Pension plan of the Euro companies	118,222	121,609
Pension plan of Sto AG, Switzerland	3,982	10,857
Total	**122,204**	**132,466**

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 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**

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 2021	**132,606**	**10,997**	**121,609**
Current service cost	4,449	0	4,449
Interest expense/income	723	59	664
Expenses for/income from post-employment benefit obligations recognised through profit and loss	**5,172**	**59**	**5,113**
Pension benefits paid	**−2,839**	**−361**	**−2,478**
Actuarial gains and losses from changes in demographic assumptions	5	0	5
Actuarial gains and losses from changes in financial assumptions	−5,183	272	−5,455
Experience-based adjustments	55	0	55
Profit/loss from reassessment recognised in other earnings	**−5,123**	**272**	**−5,395**
Other	−453	0	−453
Employer contributions	**0**	**174**	**−174**
As at 31 December 2021	**129,363**	**11,141**	**118,222**

Current service costs are included in personnel 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 reinsurance policies. The contributions to the plan assets for the following fiscal year are expected to amount to EUR 166 K (previous year: EUR 136 K).

The calculation of post-employment benefit provisions was based on the following assumptions.

Germany

	2021	2020
Discount rate as at 31 December in %	1.10	0.55
Future pension increases in %	1.80	1.23
Age of retirement in years	65	65

Outside of Germany

	2021	2020
Discount rate as at 31 December in %	1.10	0.55
Future pension increases in %	2.40	2.40
Age of retirement in years	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 20.46 years (previous year: 20.98 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 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**

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 2021	**39,258**	**28,401**	**10,857**
Currency differences	**1,683**	**1,515**	**168**
Current service cost	1,347	0	1,347
Interest expense/income	59	43	16
Past service costs	89	0	89
Expenses for/income from post-employment benefit obligations recognised through profit and loss	**1,495**	**43**	**1,452**
Pension benefits paid	**−3,954**	**−3,954**	**0**
Actuarial gains and losses from changes in demographic assumptions	−2,495	0	−2,495
Actuarial gains and losses from changes in financial assumptions	−412	−297	−115
Revaluation of plan assets	0	4,836	−4,836
Experience-based adjustments	7	0	7
Profit/loss from reassessment recognised in other earnings	**−2,900**	**4,539**	**−7,439**
Employer contributions	**0**	**1,056**	**−1,056**
Employee contributions	**3,053**	**3,053**	**0**
As at 31 December 2021	**38,635**	**34,653**	**3,982**

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. Due to a change of provider, the plan assets were revalued in the fiscal year. This lead to an increase in fair value of the plan assets of EUR 4,836 K.

The contributions to the plan assets for the following fiscal year are expected to amount to EUR 1,081 K (previous year: EUR 1,049 K).

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

Switzerland

	2021	2020
Discount rate as at 31 December in %	0.30	0.15
Future salary increases in %	1.00	1.00
Age of retirement in years	65	65

The BVG 2020 Generation Life Table was used as the biometric base for calculation for the first time. In the previous year, the BVG 2015 Generation Life Table had been used. The change resulting from the switch in the biometric calculation basis is reflected in the actuarial result from changes in demographic assumptions.

The running period of the performance-oriented liability averages at 12.20 years at the end of the reporting period (previous year: 14.60 years).

The following shows a quantitative sensitivity analysis of the most important assumptions as at 31 December 2021:

Effects on the performance-based obligation of the Euro countries

in EUR K	31 Dec 2021	31 Dec 2020
Discount rate		
Decline by 0.5 %	14,241	15,261
Increase by 0.5 %	−12,553	−12,944
Pensions		
Decline by 1.0 %	−15,040	−15,374
Increase by 1.0 %	17,907	18,940
Life expectancy		
Decrease by 1 year	−5,206	−5,054
Increase by 1 year	4,848	5,266
Retirement age		
Decrease by 1 year	2,305	2,327
Increase by 1 year	−3,013	−2,473

Effects on the performance-based obligation of Sto AG Switzerland

in EUR K	31 Dec 2021	31 Dec 2020
Discount rate		
Decline by 0.5 %	2,564	3,083
Increase by 0.5 %	−2,272	−2,708
Salary adjustments		
Decline by 0.5 %	−184	−243
Increase by 0.5 %	181	239
Life expectancy		
Decrease by 1 year	−476	−598
Increase by 1 year	460	577

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 2021.

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

Expected disbursements

in EUR K	as at 31 Dec 2021	as at 31 Dec 2020
Within the next 12 months	5,871	4,721
Between 1 and 5 years	23,486	23,355
Between 5 and 10 years	36,712	32,396
Expected disbursements within the next 10 years	**66,069**	**60,472**

(25) Non-current and current provisions

in EUR K	Human resources division	Production division	Sales division	Other provisions	Total
As at 1 January 2020	**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**
Currency differences	76	0	−344	5	−263
Consumption	−3,192	−119	−7,855	−2,058	−13,224
Additions/formation	1,771	1,063	7,320	1,782	11,936
Changes to the companies consolidated	3	0	207	10	220
Reclassification	0	0	0	0	0
Compounding of interest	39	12	54	1	106
Reversal	−1,994	−3	−3,007	−566	−5,570
As at 31 December 2021	**7,331**	**2,498**	**47,640**	**4,366**	**61,835**
of which current	**3,231**	**1,418**	**34,944**	**3,895**	**43,488**
of which non-current	**4,100**	**1,080**	**12,696**	**471**	**18,347**

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 19,526 K (previous year: EUR 25,019 K) is contrasted by an insurance refund of EUR 9,198 K (previous year: EUR 15,506 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 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**

in EUR K	current	non-current	**Carrying amount as at 31 Dec 2021**
Liabilities to banks	5,586	1,888	7,474
Other borrowings	2,654	27	2,681
Total borrowings	**8,240**	**1,915**	**10,155**

(27) Non-current and current lease liabilities

in EUR K	current	non-current	**Carrying amount as at 31 Dec 2020**
Liabilities from leases	18,583	46,153	64,736

in EUR K	current	non-current	**Carrying amount as at 31 Dec 2021**
Liabilities from leases	20,406	67,209	87,615

The current and future payments from lease liabilities can be seen in the following tables:

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 current leases	4,085	1,198	0	0	1,198
Payments for low-value leases	378	134	226	0	360

in EUR K	**2021**	up to 1 year	1–5 years	5–10 years	**31 Dec 2021**
Lease payments	22,618	21,472	50,356	20,589	92,417
Interest portions	615	1,066	2,231	1,505	4,802
Carrying amount/present value of lease liabilities	**22,003**	**20,406**	**48,125**	**19,084**	**87,615**
Payments for current leases	5,747	673	0	0	673
Payments for low-value leases	385	172	337	4	513

Total lease payments in the current year amounted to EUR 28,750 K (previous year: EUR 26,163 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	2021	2020
From extension and termination options	4,983	6,915
From contracts with residual value guarantees	0	110
From contracts not yet active	2,067	1,038

Current earnings include the following additional expenses relating to leases:

in EUR K	2021	2020
Expense for short-term leases	5,747	4,085
Expense for leases of low value	385	378
Expenses (income) from variable lease payments	26	–47
Amortisation of rights of use	21,176	20,289

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 2021**	current	non-current	**Carrying amount as at 31 Dec 2020**
from						
Third parties	63,157	0	63,157	51,421	0	51,421
Companies accounted for using the equity method	93	0	93	59	0	59
Total trade payables	**63,250**	**0**	**63,250**	**51,480**	**0**	**51,480**

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 2021**	current	non-current	**Carrying amount as at 31 Dec 2020**
Negative fair values of derivative financial instruments	786	0	786	938	0	938
Other liabilities						
towards customers	25,337	0	25,337	20,447	0	20,447
towards employees	1,564	0	1,564	1,258	0	1,258
Other	17,415	214	17,629	16,021	225	16,246
Total financial liabilities	**45,102**	**214**	**45,316**	**38,664**	**225**	**38,889**

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 2021**	current	non-current	**Carrying amount as at 31 Dec 2020**
Advance payment received on orders	3,508	0	3,508	1,775	0	1,775
Other liabilities						
from other taxes	10,357	0	10,357	10,381	0	10,381
social security liabilities	4,631	0	4,631	4,254	0	4,254
towards employees	34,252	0	34,252	29,772	0	29,772
Other	7,241	24	7,265	6,321	3	6,324
Total other liabilities	**59,989**	**24**	**60,013**	**52,503**	**3**	**52,506**

(31) Further notes on financial instruments in accordance with IFRS 7

Reconciliation of balance sheet items with financial instrument categories 2020

in EUR K	Measurement category in accordance with IFRS 9	**Carrying amount 31 Dec 2020**	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
			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
Holding and trading of financial investments	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
Equity and 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

Reconciliation of balance sheet items with financial instrument categories 2021

in EUR K	Measurement category in accordance with IFRS 9	**Carrying amount 31 Dec 2021**	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
			Carrying amount	Fair value			
Assets							
Trade receivables	FAAC	147,583	147,583	147,583	0	0	0
Financial assets							
Other investments	FVTPL	4	0	0	4	0	0
Holding and trading of financial investments	FVOCI	69,136	0	0	69,136	0	0
Derivative assets without hedge relationship	FVTPL	425	0	0	425	0	0
Other financial assets	FAAC	8,301	8,301	8,301	0	0	0
Financial assets – Associated companies	FAAC	255	255	255	0	0	0
Financial investments	FAAC	64,325	64,325	64,210	0	0	0
Total financial assets		142,446	72,881	72,766	69,565	0	0
Cash and cash equivalents	FAAC	137,135	137,135	137,135	0	0	0
Equity and liabilities							
Borrowings	FLAC	10,155	10,155	10,256	0	0	0
Lease liabilities	NA	87,615	0	0	0	87,615	0
Trade payables	FLAC	63,250	63,250	63,250	0	0	0
Financial liabilities							
Derivative liabilities without hedge relationship	FLTPL	786	0	0	786	0	0
Other financial liabilities	FLAC	44,530	44,530	44,530	0	0	0
Total financial liabilities		45,316	44,530	44,530	786	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 2021**	**31 Dec 2020**
Financial assets measured at fair value through profit and loss (FVTPL)	429	344
Financial assets measured at amortised cost (FAAC)	357,599	380,939
Financial assets measured at fair value through other comprehensive income (FVOCI)	69,136	24,894
Financial liabilities measured at amortised cost (FLAC)	117,935	102,354
Financial liabilities measured at fair value through profit and loss (FLTPL)	786	938

Balance sheet items measured at fair value

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
· Others	4	0	0	4
Financial assets measured at fair value with no impact on profit and loss				
· Holding and trading of financial investments	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**

in EUR K	31 Dec 2021	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit and loss				
· Derivatives with no hedge relationship	425	0	425	0
· Others	4	0	0	4
Financial assets measured at fair value with no impact on profit and loss				
· Holding and trading of financial investments	69,136	69,136	0	0
Financial assets measured at fair value	**69,565**	**69,136**	**425**	**4**
Financial liabilities measured at fair value through profit and loss				
· Derivatives with no hedge relationship	786	0	786	0
Financial liabilities measured at fair value	**786**	**0**	**786**	**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 with an impact on profit and loss of the portfolio of financial instruments at fair value as at 31 December 2021 resulted in net expenses of EUR 361 K (previous year: EUR 598 K). The valuation result from fair-value measurement with an impact on profit and loss is a component of Other operating income (Note 3) and Other operating expenses (Note 6). No netting takes place.

Financial instruments recognised at fair value with no impact on profit or loss are measured on the basis of market values as at the reference date

Development of impairments of financial instruments measured at amortised acquisition costs (trade receivables, and financial assets):

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**

in EUR K	Trade receivables	Financial assets FAAC
As at 1 January 2021	**23,887**	**345**
Exchange rate differences	302	6
Additions	8,145	71
Consumption	−1,868	0
Reversals	−5,263	−120
Changes to the companies consolidated	0	0
As at 31 December 2021	**25,203**	**302**

Impairments in the reporting period

The bases of assessment shown below for determining provisions for loss in relation to age structure ranges in accordance with IFRS 9 result from the underlying gross receivables less recoverable VAT, held collateral from customers, and credit-insured amounts.

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 trade receivables as at 31 December 2021:

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	68,509	10,258	4,411	1,938	939	1,168	745	806	1,642	**90,416**
Risk coefficient	2 %	3 %	6 %	12 %	15 %	20 %	26 %	85 %	95 %	
Provisions for loss	1,370	308	265	233	141	234	194	685	1,560	**4,988**

As at the balance sheet date, individual impairments of EUR 20,215 K (previous year: EUR 16,696 K) are recognised based on the gross receivables of EUR 25,869 K (previous year: EUR 21,561 K). Together with the recoverable VAT of EUR 15,690 K (previous year: EUR 13,821 K), the held collateral of EUR 8,371 K (previous year: EUR 6,512 K) as well at the credit-insured amounts of EUR 32,440 K (previous year: EUR 25,332 K) this results in total gross receivables of EUR 172,786 K (previous year: EUR 154,300 K).

IFRS 9 Provisions for loss on financial assets as at 31 December 2020:

in EUR K	Basis of assessment	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

IFRS 9 Provisions for loss on financial assets as at 31 December 2021:

in EUR K	Basis of assessment	Discount in %	**Provisions for loss**
Financial investments, and cash and cash equivalents (FAAC)	201,742	0.14 %	282
Financial investment at fair value OCI (FVOCI)	69,136	0.14 %	97
Other financial assets – Associated companies (FAAC)	255	0.13 %	0
Other financial assets – Third parties (FAAC)	8,311	0.12 %	10

The total impairment expense, including individual impairments, amounts to EUR 8,145 K (previous year: EUR 6,713 K) for Trade receivables and to EUR 71 K (previous year: EUR 81 K) for Financial assets (FAAC). Of these, all impairments are fully in recovery measures, as in the previous year.

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 2021, excluding financial instruments which typically barely differ between carrying amount and fair value:

in EUR K	**Carrying amount 31 Dec 2021**	Fair value 31 Dec 2021	Fair-value level
Financial assets			
Non-current			
Investments	4	4	Level 3
Financial investments FVOCI	21,068	21,068	Level 1
Financial investments FAAC	25,599	25,646	Level 2
Other financial assets	1,687	1,687	Level 2
Total non-current financial assets	**48,358**	**48,405**	
Current			
Financial investments FVOCI	48,068	48,068	Level 1
Financial investments FAAC	38,726	38,565	Level 2
Forward exchange contracts	425	425	Level 2
Other financial assets	6,869	6,869	Level 2
Total current financial assets	**94,088**	**93,927**	
Total financial assets	**142,446**	**142,332**	
Financial liabilities			
Non-current			
Borrowings	1,915	1,915	Level 2
Other financial liabilities	214	214	Level 2
Total non-current financial liabilities	**2,129**	**2,129**	
Current			
Borrowings	8,240	8,240	Level 2
Forward exchange contracts	786	786	Level 2
Other financial liabilities	44,316	44,316	Level 2
Total current financial liabilities	**53,342**	**53,342**	
Total financial liabilities	**55,471**	**55,471**	

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 of financial assets and liabilities at amortised acquisition costs 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 liquid fund in 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, 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, Northern/Eastern Europe and America/Asia/Pacific. The business segment of Western Europe comprises the 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, earnings in the amount of EUR 1,779 K (previous year: EUR 605 K) from investments in companies accounted for using the equity method as well as Other financial income of EUR 3,461 K (previous year: EUR 0 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 year under review, the impairment test in the segment of Western Europe resulted in a necessary impairment of goodwill of EUR 10,009 K at JONAS Farben GmbH. In the previous year, the impairment test in the segment of Western Europe resulted in a necessary impairment of Intangible assets of EUR 5,441 K at Ströher GmbH. This included an impairment of goodwill of EUR 3,570 K. In the previous year, in the segment of America/Asia/Pacific, the goodwill of Skyrise Prefab Building Solutions Inc. was impaired in the amount of EUR 5,490 K due to the impairment test.

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. Segment assets are not a control variable.

Income tax receivables in the amount of EUR 3,413 K (previous year: EUR 1,917 K), and Deferred tax receivables in the amount of EUR 30,197 K (previous year: EUR 33,291 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	Germany	France	Others	**Total in 2020**
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**

in EUR K	Germany	France	Others	**Total in 2021**
External revenues	692,514	170,593	727,422	**1,590,529**
Intangible assets, Property, plant and, equipment, and Rights of use	234,026	31,195	169,736	**434,957**

(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

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 129.4 million (previous year: EUR 123.9 million) were available. These credit lines are mainly a syndicated loan, which was taken out in 2012 and which was extended until the summer of 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).

Cash outflows as at 31 Dec 2020				
in EUR K	up to 1 year	1–5 years	5–10 years	**31 Dec 2020**
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**

Cash outflows as at 31 Dec 2021				
in EUR K	up to 1 year	1–5 years	5–10 years	**31 Dec 2021**
Borrowings	8,364	1,877	127	10,368
Trade payables	63,250	0	0	63,250
Other financial liabilities	44,322	214	0	44,536
Derivatives	76,842	0	0	76,842
Total cash outflows	**192,778**	**2,091**	**127**	**194,996**

There are contingencies in the amount of EUR 677 K (previous year: EUR 793 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 of the derivatives:

Inflows/outflows of cash and cash equivalents as at 31 Dec 2020				
in EUR K	up to 1 year	1–5 years	5–10 years	**Total**
Inflow	81,803	0	0	81,803
Outflow	82,401	0	0	82,401
Balance	**−598**	**0**	**0**	**−598**

Inflows/outflows of cash and cash equivalents as at 31 Dec 2021				
in EUR K	up to 1 year	1–5 years	5–10 years	**Total**
Inflow	76,481	0	0	76,481
Outflow	76,842	0	0	76,842
Balance	**−361**	**0**	**0**	**−361**

The following overview shows the changes in the liabilities from financing activities.

in EUR K	**1 January 2020**	Waived loans	Changes to the companies consolidated	Cash flows	New leases	Reclassification 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**

in EUR K	**1 January 2021**	Waived loans	Changes to the companies consolidated	Cash flows	New leases	Reclassification of maturity	Currency translation effects	**31 December 2021**
Current interest-bearing loans	7,654	0	1,548	−1,806	0	846	−2	8,240
Non-current interest-bearing loans	5,269	−2,494	0	−17	0	−846	3	1,915
Total interest-bearing loans	**12,923**	**−2,494**	**1,548**	**−1,823**	**0**	**0**	**1**	**10,155**
Current lease liabilities	18,583	0	0	−22,003	4,131	19,589	106	20,406
Non-current lease liabilities	46,153	0	0	0	39,921	−19,589	724	67,209
Total lease liabilities	**64,736**	**0**	**0**	**−22,003**	**44,052**	**0**	**830**	**87,615**
Total liabilities from financing activities	**77,659**	**−2,494**	**1,548**	**−23,826**	**44,052**	**0**	**831**	**97,770**

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 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**

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 2021**
Financial assets	0	72,882	0	72,882
Trade receivables	5,655	112,156	29,772	147,583
Cash	0	137,135	0	137,135
Total financial instruments measured at amortised cost of acquisition	**5,655**	**322,173**	**29,772**	**357,600**

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 5,713 K (previous year: EUR 6,556 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 trade receivables which were individually impaired stood at EUR 25,869 K (previous year: EUR 21,561 K) in the reporting period. The gross carrying amount of receivables which were subject to impairment in accordance with IFRS 9 stood at EUR 146,917 K (previous year: EUR 132,739 K). This resulted in a total gross carrying amount of trade receivables of EUR 172,786 K (previous year: EUR 154,300 K). Taking into account all impairments of EUR 25,203 K (previous year: EUR 23,887 K) – see Note (31), this resulted in amortised acquisition costs of EUR 147,583 K (previous year: EUR 130,413 K).

The gross carrying amount of the financial assets measured at amortised cost (FAAC) with individual impairments stood at EUR 9 K (previous year: EUR 11 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 2021 balance sheet date.

Maturity analysis of overdue financial instruments impaired in accordance with IFRS 9

in EUR K	overdue				**31 Dec 2020**
	1–30 days	31–60 days	61–90 days	> 90 days	
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**

in EUR K	overdue				**31 Dec 2021**
	1–30 days	31–60 days	61–90 days	> 90 days	
Trade receivables	13,263	5,954	2,634	7,921	29,772
Total overdue and impaired financial instruments in accordance with IFRS 9	**13,263**	**5,954**	**2,634**	**7,921**	**29,772**

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, AUD/EUR, /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 140 K (previous year: EUR 94 K), or down by EUR 115 K (previous year: EUR 77 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 2021 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 2021.

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:

2020		
in EUR K	Nominal volume	Total market value
Forward exchange transactions	82,563	−598
Total derivative financial instruments	**82,563**	**−598**

2021		
in EUR K	Nominal volume	Total market value
Forward exchange transactions	75,211	−361
Total derivative financial instruments	**75,211**	**−361**

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	2021	2020
Guarantees from the Sto Group to third parties	676	792
Reserve liability to cooperatives	1	1
Total contingencies	**677**	**793**

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 2020	Maturity		
		within one year	between 1 – 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**

in EUR K	31 Dec 2021	Maturity		
		within one year	between 1 – 5 years	after 5 years
Liabilities from maintenance contracts	6,495	5,487	1,008	0
Acceptance obligations	33,676	27,998	5,667	11
Other obligations	2,635	1,095	1,525	15
Total other financial obligations	**42,806**	**34,580**	**8,200**	**26**

Of the acceptance obligations, an amount of EUR 12,069 K (previous year: EUR 5,098 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 were recognised as expenses for services rendered by the auditor of the consolidated annual financial statement of the Group, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, as well as by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, the previous year:

in EUR K	2021	2020
Audits of financial statements	490	407
Other certification or valuation activities	45	6
Other services	0	17
Auditors' fees in total	**535**	**430**

(39) Events after the balance sheet date

Between the end of the 2021 fiscal year and the point at which this report was signed off, there were no other events with a significant impact on the income, financial, and asset situation of the Sto Group.

However, it is difficult to predict how the Russia-Ukraine conflict is set to continue and what impact it will have on the global economy. This is a situation that involves considerable risks. As things stand, it is not possible to make a reliable prediction of the overall impact that the conflict will have on the 2022 fiscal year.

(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 2021, 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	
		2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Inotec GmbH, Waldshut-Tiengen/Germany	47.5 %	37	50	4,187	4,321	256	658	93	59
JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany	49.8 % *	124	362	0	6	0	1,063	0	0
STO Management SE, Stühlingen/Germany		553	832	5,387	4,867	61	71	3,232	2,721
Stotmeister Beteiligungs GmbH, Stühlingen/Germany		49	49	0	0	32	18	0	0
Other		0	0	275	128	0	0	10	0

* until 28 February 2021

(41) List of subsidiaries and investments as at 31 December 2021

Fully consolidated companies in Germany

Capital share in %	2021	2020
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 Produktions GmbH & Co. KG, Dillenburg/Germany	100	100
GEPADI Fliesen GmbH, Dillenburg/Germany	100	100
JONAS Farben GmbH, Wülfrath/Germany (previously 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	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	50.1
Sto BTF GmbH, Stühlingen/Germany (previously Jonas GmbH, Wülfrath/Germany)	100	49.8

For changes in the current year, please refer to 'General disclosures' No. 4 'Companies consolidated'.

Fully consolidated companies outside of Germany

Capital share in %	2021	2020
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 S.à r.l., Grevenmacher/Luxemburg	100	100
Sto Italia Srl, Empoli/Italy	52	52
Sto Finexter OY, Vantaa/Finland	100	100
Sto Scandinavia AB, Linköping/Sweden	100	100
Sto Danmark A/S, Hvidovre/Denmark	100	100
Sto Norge AS, Oslo/Norway	100	100
StoCretec Flooring AS, Moss/Norway	100	100

Fully consolidated companies outside of Germany

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	100
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
Sto Australia Pty Ltd, Dandenong South/Australia	100	100
The Render Warehouse Pty Ltd, Dandenong South/Australia	100	100
Zebra Architectural Products Pty Ltd, Dandenong South/Australia	100	100

For changes in the current year, please refer to 'General disclosures' No. 4 'Companies consolidated'.

Companies accounted for using the equity method

Capital share in %	2021	2020
Inotec GmbH, Waldshut-Tiengen/Germany	47.5	47.5
JONAS Farbenwerke GmbH & Co. KG, Wülfrath/Germany	–	49.8
Jonas GmbH, Wülfrath/Germany	–	49.8

No restrictions apply with regard to the liquidation of assets or the payment of debts for a fully consolidated company within the Group.

(42) German Corporate Governance Code

On 16 December 2021, 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 '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 2021, 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 management 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 2021 fiscal year. The remuneration is made up of a fixed component and a variable component, which can have a larger share but is capped. The variable element consists of a long-term incentive which is based on the turnover development of the Sto Group and the ROCE Group 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 the Sto Group's earnings after taxes. No stock options are granted. Current due payments for this totalled EUR 3,911 K (previous year: EUR 3,278 K). The long-term-incentive payments, which are also due in the short term, amounted to EUR 464 K (previous year: EUR 323 K). Current and non-current payments amounted to a total of EUR 4,375 K* (previous year: EUR 3,601 K). Expenses for future benefits after terminating the employment relationship (current service cost) amounted to EUR 314 K (previous year: EUR 327 K). Remunerations for the Executive Board of STO Management SE thus total EUR 4,689 K (previous year: EUR 3,928 K). Another part of the expense allowance for STO Management SE was the remuneration of the Supervisory Board of STO Management SE for the 2021 fiscal year in the amount of EUR 173 K (previous year: EUR 171 K).

As at 31 December 2021, the non-current financial liabilities for the current members of the Executive Board of STO Management SE amounted to EUR 61 K (previous year: EUR 86 K). Furthermore, there are current financial liabilities in the amount of EUR 2,782 K (previous year: EUR 2,226 K). As at 31 December 2021, post-employment benefit provisions for former members of the Executive Board were valued at EUR 2,117 K (previous year: EUR 2,196 K) due to offsetting against plan assets. Remuneration paid to former members of the Executive Board and the Supervisory Board came to EUR 586 K (previous year: EUR 578 K).

In the 2021 fiscal year, remunerations of the Supervisory Board of Sto SE & Co. KGaA totalled EUR 501 K (previous year: EUR 504 K). These include 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.

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.

* 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).

Furthermore, we refer you to the Remuneration report in accordance with Section 162 of the German Stock Corporation Act (AktG), which is published on the website www.sto.de in the section 'Investor Relations' under the category 'Vergütungsbericht gem. § 162 AktG' (Remuneration report in accordance with Section 162 AktG).

Members of the Executive Board of STO Management SE in the 2021 fiscal year (personally liable partner of Sto SE & Co. KGaA):

Rainer Hüttenberger
Spokesman of the Executive Board, responsible for Sales Sto Brand International, Business Field Organisation, Corporate Strategic Development, M&A, and the Business unit Industry
Stein am 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 Communications, Sustainability, 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
Chairperson of the Advisory Board of Inotec GmbH, Waldshut-Tiengen/Germany
Member of the BOD of Shanghai Sto Ltd., Shanghai/China
Member of the BOD of Sto SEA Pte. Ltd., Singapore/Singapore

Rolf Wöhrle
Chief Financial Officer, responsible for Finance, Information Technology, Internal Audit, Investor Relations, Legal, and Technical Service
Bad Dürrheim/Germany, Dipl.-Betriebswirt (BA)

Members of the Supervisory Board of Sto SE & Co. KGaA in the fiscal year of 2021:

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
(until June 2021)
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
Chairperson of the Advisory Board of Löwenbrauerei Freiburg GmbH, Freiburg i.Br./Germany

Wolfgang Dell
Deputy Chairperson of the Supervisory Board
Member of the Audit Committee
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 administrator)
Member of the Supervisory Board of STO Management SE, Stühlingen/Germany
Member of the Supervisory Board of PERI AG, Weißenhorn/Germany
(until 14 December 2021)
Member of the Administrative Board of PERI SE, Weißenhorn/Germany
(since 15 December 2021)
Member of the Administrative Board of Autocom Diagnostic Partner AB, Trollhättan/Sweden
Member of the Administrative Board of Northern Safety Company Inc., Frankfort, NY/USA
Member of the Administrative Board, Wuerth Tangerang City/Indonesia
Member of the Administrative Board of Saudi Arabia LLC, Riyadh/Saudi Arabia

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
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 2021 fiscal year (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, 8 April 2022

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

Rainer Hüttenberger
(Spokesman)

Michael Keller

Jan Nissen

Rolf Wöhrle

Independent Auditor`s Report

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

To Sto SE & Co. KGaA, Stühlingen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions
We have audited the consolidated financial statements of Sto SE & Co. KGaA, Stühlingen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group management report of Sto SE & Co. KGaA for the financial year from 1 January to 31 December 2021.

In our opinion, on the basis of the knowledge obtained in the audit,
- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and
- the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

Basis for the Audit Opinions
We conducted our audit of the consolidated financial statements and of the Group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the Group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ JONAS Farben: business combination achieved in stages
❷ Impairment of goodwill
❸ Completeness and valuation of provisions for warranty obligations arising from sales

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ **JONAS Farben: business combination achieved in stages**
① As of 31 December 2020, Sto SE & Co. KGaA held 49.8 % of the shares in JONAS Farbenwerke GmbH & Co. KG, Wülfrath, via its wholly owned subsidiary Sto BT GmbH, Stühlingen, as well as 49.8 % of the shares in JONAS GmbH, Wülfrath, and had accounted for both companies

in accordance with the equity method as of 31 December 2020 due to analogous voting rights and corresponding significant influence. Furthermore, Sto BT GmbH, Stühlingen, held a 49.8 % interest in the operating premises of JONAS Farbenwerke GmbH. The remaining shares in the companies and interest in the operating premises, each amounting to 50.2 %, were acquired with effect from 28 February 2021.

This led to control within the meaning of IFRS 10 and, in the first step, to a disposal of the shares in the two companies accounted for in accordance with the equity method, as well as the interest in the operating premises. In this context, the fair values at the disposal date were compared with the carrying amounts of the shares to be disposed of and the interest in the operating premises, and a total profit of EUR 3.5 million was realised as part of the revaluation. This was followed by first-time consolidation on 28 February 2021, with the entire transaction being treated as a business combination within the meaning of IFRS 3. The total purchase price for the business combination was EUR 33.4 million. In general, the assets and liabilities acquired are recognised at fair value as of the respective acquisition date, based on a number of assumptions made by the legal representatives. Taking into account the acquired net assets of EUR 21.7 million that are to be allocated to Sto SE & Co. KGaA, the total acquired goodwill amounted to EUR 11.7 million.

Due to the complexity of the valuation of the business combination and the material effects in terms of amount on the net assets, financial position and results of operations of Sto SE & Co. KGaA, the business combination was of particular significance in the context of our audit.

② As part of our audit, we assessed the accounting treatment of the business combination achieved in stages with the assistance of our internal valuations specialists. For this purpose, we initially inspected and reviewed the respective contractual agreements underlying the transaction. At the same time, among other things we reconciled the purchase prices paid by Sto SE & Co. KGaA as consideration for the shares and operating premises received with the supporting documentation for the payments made, as provided to us. We assessed the underlying opening balance sheet figures for said acquisition. The fair values, e.g. of intangible assets, which were determined by Sto SE & Co. KGaA, were assessed by us by reconciling the numerical data with the original financial accounting records and the parameters used. We also used checklists to establish whether the requirements set out in IFRS 3 for disclosures in the notes had been complied with in full.

Based on the audit procedures performed, both those presented and others, and taking into consideration the information available, we were able to satisfy ourselves that the acquisition of the respective shares is properly presented.

③ The Company's disclosures are contained in section 4 "Companies consolidated", subsection "Corporate acquisitions in the year under review" of the notes to the consolidated financial statements.

❷ Impairment of goodwill

① Goodwill amounting in total to EUR 42.7 million is reported under the "Intangible assets" balance sheet item in the Company's consolidated financial statements. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for the realisation of impairment losses . The impairment test is carried out at the level of the cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally determined using the value in use. The valuation is normally based on the present value of future cash flows from the respective cash-generating units, which, with two exceptions, correspond to the legal units. Present values are calculated using discounted cash flow models. For this purpose, the Group's 5-year plan forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the respective cash-generating units. The impairment test determined that, even after taking into account the fair value less costs of disposal, it was necessary to recognise impairment losses amounting to a total of EUR 10.0 million with respect to the JONAS Farben GmbH cash-generating units.

The outcome of this valuation is dependent to a large extent on the estimates made by the legal representatives with respect to the future cashflows from the respective cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, with the assistance of internal valuation specialists we assessed, the methodology used for the purposes of performing the impairment test, among other things. We reviewed the segregation between the cash-generating units. After matching the future cash flows used for the calculation against the medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the entity value calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company.

Overall, the valuation parameters and assumptions used by the legal representatives are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on the impairment test and on goodwill are contained in section 6 "Presentation of the major accounting and valuation policies", subsections "Intangible assets" and "Estimates and assumptions by Management", in the section "Notes on the consolidated statement of the financial position", subsection 13 "Intangible assets" and in the section "Notes on the statement of profit and loss", subsection 8 "Depreciation/amortisation" of the notes to the consolidated financial statements.

❸ Completeness and measurement of provisions for warranty obligations arising from sales

① In the Sto Group's consolidated financial statements, the balance sheet items "Other non-current provisions" and "Other current provisions" include provisions for warranty obligations arising from sales totaling EUR 47.4 million. These obligations essentially relate to warranty obligations arising in connection with the sale of products. Warranty obligations are calculated on the basis of losses to date, estimated future losses and on the basis of past experience. In addition, assumptions must be made about the nature and extent of future warranty claims. These assumptions are based on qualified estimates, some of which are taken into account by external experts. This applies above all to the most significant warranty claim, for which an amount of EUR 19.5 million is included in the reported warranty provisions. This is offset by insurance reimbursement claims totaling EUR 9.2 million contained in “Current other assets”.

We consider this matter to be of particular significance in the context of our audit since the recognition and valuation of this item – which is material in terms of amount – is to a large extent based on estimates and assumptions made by the Company's legal representatives.

② With the knowledge that estimated values result in an increased risk of accounting misstatements and that the valuation decisions made by the legal representatives have a direct and significant effect on consolidated net profit/loss, we assessed the methods applied by the Company and the assumptions made by the legal representatives as well as the appropriateness of the carrying amounts, including by comparing these figures with historical data and using the measurement bases presented to us. We evaluated the design and effectiveness of the controls established by the Company for the purpose of calculating and recording warranty provisions. On that basis, we carried out additional analytical audit procedures and tests of details relating to the completeness and valuation of the warranty provisions. In this regard, we have performed tests of details in relation to the most significant warranty claim included in the warranty provisions. Among other things, we also reconciled the data on which the calculation of the settlement amount was based with the underlying documentation. Therewith, we assessed the results of the Company's calculations of the amount of the reserves with reference to the applicable legal requirements.

We were able to satisfy ourselves that the estimates and assumptions of the legal representatives on the basis of which a warranty obligation provision arising in connection with the sales business were recognised and measured were sufficiently documented and substantiated.

③ The Company's disclosures on the provisions for warranty obligations from the sales business are included in section 6 "Presentation of the major accounting and valuation policies", subsections "Other provisions" and "Estimates and assumptions by Management", and in the section "Notes on the consolidated statement of the financial position", subsection 25 "Other non-current and current provisions" of the notes to the consolidated financial statements.

Other Information

The legal representatives are responsible for the other information.
The other information comprises

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB
- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited Group management report and our auditor's report

Our audit opinions on the consolidated financial statements and on the Group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the Group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the Group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the Group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the Group management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.
- Conclude on the appropriateness of the legal representatives use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and

financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the legal representatives in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the Group management report (hereinafter the "ESEF documents") contained in the electronic file STO_SE_KA+KLB_ESEF-2021-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the Group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the Group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying Group management report for the financial year from to contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the Group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities 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 including the electronic renderings of the consolidated financial statements and the Group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the legal representatives of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited Group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as Group auditor by the Annual General Meeting on. We were engaged by the Supervisory Board on. We have been the Group auditor of the Sto SE & Co. KGaA, Stühlingen, without interruption since the financial year 2021.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

REFERENCE TO AN OTHER MATTER– USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited Group management report as well as the assured ESEF documents. The consolidated financial statements and the Group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited Group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Kai Mauden.

Stuttgart, 13 April 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Kai Mauden)	(sgd. Marco Fortenbacher)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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, 8 April 2022

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

Rainer Hüttenberger (Spokesman)

Jan Nissen

Michael Keller

Rolf Wöhrle

Financial calendar 2022

Electronic publication of the 2021 annual financial statements
28 April 2022

Interim report within the first half of 2022
12 May 2022

Annual General Meeting 2022
22 June 2022

Report on the first half of 2022
31 August 2022

Interim report within the second half of 2022
18 November 2022

Electronic publication of the 2022 annual financial statements
27 April 2023

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:

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

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