

Corporate Governance Report/ Declaration on management of the company

Corporate Governance at Sto

This next section contains a report from Sto SE & Co. KGaA and its personally liable partner STO Management SE on the company's Corporate Governance in accordance with Item 3.10 of the German Corporate Governance Code (also referred to as the Code). The report also contains a declaration on our key company management practices in accordance with Section 289a of the German Commercial Code (HGB). The combined document is part of this Annual Report, which is also published under "Investor Relations" on the section of the Sto website (www.sto.de) containing information about the company. This is supplemented by the remuneration report, which is part of the Notes.

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

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

Bodies

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

& Co. KGaA and the Annual General Meeting form the bodies of the company in accordance with law and the applicable regulations. Accordingly, the management of the Company and the process of monitoring it are separated on a personnel level. Both the personally liable partner and the Supervisory Board of Sto SE & Co. KGaA consistently abide by the standards of proper corporate management at all times and collaborate closely for Sto's benefit.

Shareholders and the Annual General Meeting

At the end of 2016, Sto SE & Co. KGaA's share capital amounted to an unaltered figure of EUR 17.556 million. It is divided into 4.32 million registered limited ordinary shares and 2.538 million limited preference bearer shares. Shareholders have a right to vote in the Annual General Meeting and use it to decide on key company affairs. Each ordinary share grants one vote. Preference shares do not have voting rights but take priority for the purpose of profit distribution and are entitled to a higher dividend. There were no shares with multiple or preferential voting rights.

The Annual General Meeting is held once a year within the first eight months of the fiscal year. As the personally liable partner of Sto SE & Co. KGaA, STO Management SE ensures the collection and timely dispatch of all reports and documents required by legislation for the Annual General Meeting, including the agenda. These documents as well as the Annual Report are also available on the Sto website.

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

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

Supervisory Board

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

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

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

The Supervisory Board is briefed by the personally liable partner STO Management SE on a regular, timely, and comprehensive basis about the corporate strategy, planning, business development, the financial and earnings situation, the employee situation, as well as the risk situation and risk management. Any departures in the business development from defined plans are discussed. The Supervisory Board is provided with all crucial documents in a timely manner.

It is the job of the Chairman of the Supervisory Board to coordinate the Board's work, steer its meetings, and represent its interests externally. He also maintains close contact with the members of the Executive Board of the personally liable partner STO Management SE between meetings, discussing issues including strategy, business development, and risk management.

The annual financial statements of the Sto Group and Sto SE & Co. KGaA are reviewed by the Supervisory Board. This review is based on the findings of the auditor. Moreover, the half-year financial report and the interim reports are discussed with the Chairman of the Supervisory Board within the first and second half of the year prior to their publication. The Chairman then consults with other members.

On 1 January 2017, Jan Nissen moved over to the Executive Board of STO Management SE and, in doing so, resigned from his position as representative of management employees on the Supervisory Board of Sto SE & Co. KGaA on 31 December 2016. As there is only a short time between this and the upcoming election of the new employee representatives in May 2017, those responsible for employees on the Supervisory Board declared that there was no need to replace Jan Nissen's position within this period.

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

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

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

The composition of the Supervisory Board ensures that the necessary expertise, skills, and professional experience required to properly carry out the Board's responsibilities are represented. All members of the Sto Supervisory Board are proven experts in their respective fields. They are solely responsible for engaging in the education and training measures that are necessary for them to meet the requirements placed on them as Supervisory Board members, and receive appropriate support from Sto SE & Co. KGaA in doing this.

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

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

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

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

A Nomination Committee is also formed if there are upcoming Supervisory Board elections. The next ordinary elections for shareholder representatives to the Supervisory Board will take place at the Annual General Meeting in 2017. The elections of employee representatives, which are conducted in compliance with the German Co-Determination Act of 1976, started with the announcement by the company on 7 November 2016 and will finish with the election process in May 2017.

Personally liable partner

The personally liable partner STO Management SE manages the company through its Executive Board under its own authority and in the interests of the company; this means aiming to achieve sustainable added value while keeping the needs of shareholders, employees, and other stakeholders in mind. It develops the company's strategic orientation, ensures its implementation, and makes any arrangements necessary to ensure compliance with legal requirements and internal corporate guidelines within the Sto Group.

The functions of the personally liable partner also include the preparation of the annual financial statement of Sto SE & Co. KGaA and the related consolidated annual financial statement as well as the establishment and development of the risk management and controlling system. Detailed information about risk

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

The personally liable partner STO Management SE complied with statutory regulations over the entire reporting period and also observed the Code, other recognised external standards, and company regulations. Information about the applicable remuneration system of the STO Management SE Executive Board is summarised in the Notes.

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

The personally liable partner STO Management SE also promotes diversity as required by the Code. As of 31 December 2016, of all the management positions on the level below the personally liable partner, 0 % on the division management level and 9.4 % of the department manager positions were held by women. By 30 June 2017, these percentages are required to be at 0 % and 10.2 % respectively, and at 0 % and 12.0 % respectively by 31 December 2020. Despite the relevant requests having been submitted during the process of searching for candidates when making new appointments at the second management level below the Executive Board, it was not possible to find any suitable female candidates during the 2016 fiscal year. This means that the pro-

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

Key practices of corporate governance

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

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

Transparency

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

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

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

Persons with management functions at STO Management SE or Sto SE & Co. KGaA must disclose any private transactions involving Sto limited preference shares to the German Federal Financial Supervisory Authority (BaFin) and to Sto SE & Co. KGaA in accordance with Art. 19 of the MAR (Directors' Dealings). No notifications of Directors' Dealings occurred in fiscal 2016.

All key dates for publications and functions are listed in the calendar of financial events, which is announced well in advance. The financial calendar, valid as of the end of March 2017, can be found both in the 2016 Annual Report and on the company's website.

Accounting and auditing of financial statements

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

The annual financial statement of both Sto SE & Co. KGaA as well as the statement of the Sto Group, including the associated management reports, are audited by an independent auditing company elected at the Annual General Meeting following a proposal by the Supervisory Board. The nomination proposal is preceded by an independence check in order to ensure that any conflicts of interest that might give rise to doubts concerning the impartiality of the auditor can be precluded early on. The auditing company commissioned by Sto, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, has issued an appropriate statement in this regard. The audi-

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