

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). In addition, the declaration on our key company management practices in accordance with Section 289f of the German Commercial Code (HGB) is integrated in the summarised document. As a component of the 2017 Annual Report, this chapter is published on the website www.sto.de under "Company" in the "Investor Relations" section. The supplementary remuneration report is part of the Notes of the Group annual financial statement.

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

Statutory regulations, ethical standards, a sound financial policy, a strategy geared to sustainability, and the German Corporate Governance Code are the basis for Corporate Governance of the company. Departures from the Code arise regarding issues that concern the specific requirements of a medium-sized family business or the legal form of a partnership limited by shares (Kommanditgesellschaft auf Aktien). In these cases, adapted standards are applied. Deviations from the recommendations of the Code in its current version of 7 February 2017 and the respective reasons for doing so are explained in the Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG). This is available in the current as well as in older versions on the Internet.

Bodies

Sto SE & Co. KGaA is managed by the personally liable partner STO Management SE. The cor-

porate bodies of the company also include the Supervisory Board of Sto SE & Co. KGaA and the Annual General Meeting. In accordance with the statutory regulations for a German public limited company (Aktiengesellschaft), the management of the company and the monitoring of the Management Board are thus separated in terms of personnel. 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 2017, Sto SE & Co. KGaA's subscribed capital amounted to an unaltered figure of EUR 17.556 million. It is divided into 4.32 million registered limited ordinary shares ("ordinary shares") and 2.538 million limited preference bearer shares ("preference shares"). Each ordinary share always 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 shareholders exercise their voting right at the Annual General Meeting which is held once per year. 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 reports and documents required by legislation, including the agenda. The 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 statements of Sto SE & Co. KGaA, the consolidated annual financial statement as well as the management/Group management report for the previous fiscal year and explains the key events. The annual financial statement is then ascertained by the Annual General Meeting.

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

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 ensures that the partner complies with the statutory disclosure rules in the manner detailed by the Supervisory Board. The work of the committee is regulated by law, the articles of association, the Code, and rules of procedure.

In accordance with the German Co-Determination Act, the Supervisory Board is composed of an equal number of shareholder and employee representatives, i.e. six shareholder and six employee representatives. The term of office of the members appointed up to then ended with the conclusion of the Annual General Meeting on 14 June 2017. Following the election of the shareholder representatives at the Annual General Meeting and the election of the employee representatives on 4 May 2017, the new Supervisory Board was constituted on 14 June 2017. The members of the Supervisory Board are introduced in the report of the Supervisory Board. Information on remuneration of the Supervisory Board is contained in the Notes to this Annual Report as well as in the Declaration of Compliance in accordance with Section 161 of the German Companies Act (AktG).

When appointing new members to the Supervisory Board of co-determined listed companies, it must be ensured that at least 30 % of the Supervisory Board consists of women or men respectively in accordance with Section 96 Paragraph 2 Sentence 1 of the German Companies Act. The minimum percentage must be fulfilled by the Supervisory Board on the whole unless the shareholder or the employee representatives object to the overall fulfilment in accordance

with Section 96 Paragraph 2 Sentence 3 of the German Companies Act. A corresponding objection was agreed upon and declared unanimously by both the shareholder and the employee representatives on the Supervisory Board. The Supervisory Board must thus be composed of at least two women or two men respectively on both the shareholder and employee representatives' sides. Currently, three of the six shareholder representatives on the Supervisory Board and two of the six employee representatives are women.

The composition of the Supervisory Board also 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. Among others, Maria H. Andersson and Dr Renate Neumann-Schäfer qualify as independent financial experts for the purposes of Section 100 Paragraph 5 of the German Companies Act (AktG).

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 Supervisory Board is directly involved in all decisions that are of fundamental importance to Sto SE & Co. KGaA. In the 2017 fiscal year, the committee held a total of five ordinary meetings. The report of the Supervisory Board provides more information on these meetings. Details on the main focuses of the meetings in the year 2017 as well as particulars on changes in the composition of the committee are explained at length.

Beyond the regular meetings, 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 relevant 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 relating to the 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 on the basis of the findings of the auditor. Prior to the publication of the half-year financial report and the interim reports within the first and second half of the year, the Executive Board discusses these reports with the Chairman of the Supervisory Board who consults with the other members of the Supervisory Board.

The Supervisory Board regularly checks the efficiency of its work. To increase the efficiency of the Supervisory Board work, technically qualified committees are formed. Sto SE & Co. KGaA features an Audit Committee and a Finance Committee. In the periods leading up to the Supervisory Board meetings, these committees examine complex issues and prepare the findings for the full Supervisory Board meetings. The respective committee chairperson reports to the Supervisory Board on the work of the committee. 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 2022. The elections of employee representatives are conducted in compliance with the Co-Determination Act from 1976. They start with the announcement by the company and finish with the election.

Personally liable partner

The management of Sto SE & Co. KGaA is the responsibility of the personally liable partner STO Management SE through its Executive Board. It 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. For this purpose, it develops a strategy and ensures its implementation. In addition, it makes arrangements necessary to ensure compliance with legal requirements and internal corporate guidelines within the Sto Group.

The responsibilities 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 control system. Detailed information about risk management is provided in the management report, which is part of this Annual Report.

Without exception, the personally liable partner STO Management SE complies with statutory regulations, and observes the Code, as well as 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 to the consolidated annual financial statement.

As the successor to Gerd Stotmeister, who left the Executive Board of STO Management SE at his own wish at the year end of 2016, Jan Nissen has been responsible for the Technology division of the Executive Board since 1 January 2017. Most recently, Jan Nissen had been Head of Materials Management within the Sto Group and had also been a member of the Supervisory Board of Sto SE & Co. KGaA, acting as a representative of management employees.

Diversity

In accordance with Section 76 Paragraph 4 of the German Companies Act (AktG), the Executive Board of listed companies sets target figures for the percentage of women in the two management levels below the Executive Board. At the 'Kommanditgesellschaft auf Aktien' (corresponds approximately to a partnership limited by shares) in accordance with Section 278 Paragraph 3 of the German Companies Act (AktG), this is the responsibility of the personally liable partner STO Management SE. The personally liable partner STO Management SE also promotes diversity as required by the Code and considers it an important success factor for the future of the company. Industry-specific conditions and the current proportion of women in the workforce were also taken into account when setting the target quotas for the two management levels below the Executive Board.

The Executive Board of the personally liable partner STO Management SE has established the goal of achieving a quota of 0 % for management positions a level below the personally liable partner, i.e. the division manager level, and of 10.2% for the department manager level by 30 June 2017. On 31 December 2017, 0 % of the division manager positions and 8.9 % of the department manager positions were held by women. By 31 December 2020, these percentages are to be at 0 % and 12.0 % respectively.

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 2017 fiscal year. This means that the proportion of women at this level is still below the quota target to be reached by 30 June 2017.

The obligation applicable to the Supervisory Board in accordance with Section 96 Paragraph 2 Sentence 1 of the German Companies Act (AktG) to be comprised of at least 30 % men or women respectively is fully satisfied: Currently three of the six representatives of the shareholders on the Supervisory Board and two of the six employee representatives are women.

Key practices of Corporate Governance/ Compliance

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". In 2009, Sto joined this worldwide initiative which is run under the auspices of the United Nations. It contains 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 chapter on "Sustainability and Corporate Social Responsibility". 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. In addition to regulations for internal work procedures, they also include information on the "Global Compact" principles.

Compliance with laws, internal and external regulations, as well as responsible handling of risks is part of the Corporate Governance at Sto. Our procedures and systems for compliance are linked to the risk and opportunity management of the company. In the framework of compliance, Sto creates the prerequisites for making internal regulations and directives known throughout the company and our business practices legally compliant. This illustrates our strong commitment to ethical and fair behaviour in our own organisation and creates the framework for how we deal with our environment. Our systems for compliance ensure legally compliant, risk-aware, opportunity-oriented, and informed action in a dynamic business environment, in order to guarantee Sto's competitiveness and sustainable success.

Transparency

Sto provides information to its shareholders, financial analysts, the media, and the general public in an even-handed and timely manner through regular, open, and up-to-date communication. The most important topics include the economic situation and development of the company as well as important business changes within the company. The company uses a variety of media for this purpose.

All key information – such as annual and interim reports, press releases, and voting rights announcements, insider information, as well as all financial and sustainability reports – is available online under "Company" on the Sto website (www.sto.de) – much of it also in English. Annual and half-yearly reports are lodged with the Companies Register and the German federal government gazette ("Bundesanzeiger") on the day of publication.

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 2018,

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

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 2017.

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 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 are ruled out at an early stage. The auditing company commissioned by Sto, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart/Germany, has issued a corresponding statement in this regard. The auditor responsible takes part in the deliberations of the Supervisory Board of Sto SE & Co. KGaA concerning the annual financial statement and the consolidated annual financial statement as well as in the corresponding Audit Committee meeting where he reports on the key findings of his audit.

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

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

Composition of subscribed capital

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

Restrictions on voting rights or the transfer of shares

To the knowledge of the personally liable partner STO Management SE, there are no restrictions relating to the transfer of preference shares. In accordance with Sections 4 Paragraph 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 Heimbürger 1 share), while 432,000 shares are held by Sto SE & Co. KGaA. 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 voting rights.

Holders of shares with special rights

At Sto SE & Co. KGaA, 2,538,000 preference shares exist which are equipped with a special right in the form of an advance dividend to the amount of EUR 0.06 as well as a minimum dividend to the amount of EUR 0.13 per 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. Rather, the personally liable partner has joined the company by means of a corresponding 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.

Amendments to the articles of association of Sto SE & Co. KGaA require a resolution of the Annual General Meeting of Sto SE & Co. KGaA

in accordance with Sections 278 Paragraph 3, 133, 179 of the German Companies Act (AktG). 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 Paragraph 2 of the German Companies 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 as 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 Executive Board 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.