

Corporate Governance Report/ Declaration on management of the company

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

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

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

vestor Relations' area and selecting the 'Corporate Governance & Compliance' category.

Management and monitoring of the company

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

Personally liable partner

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

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

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

Diversity

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

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

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

Supervisory Board

The Supervisory Board of Sto SE & Co. KGaA monitors and advises the personally liable partner STO Management SE in the management of

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

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

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

The Supervisory Board and its committees regularly review how effectively the Supervisory Board is performing its tasks, either internally or with the involvement of external advisors. In the 2020 fiscal year, the Supervisory Board conducted an internal efficiency review as part of a separate organisational meeting without any representatives from the personally liable partner present. The results of the review confirmed that cooperation is

professional, constructive, critical, and characterised by a high level of trust as well as openness – both internally within the Supervisory Board and in its dealings with the management and supervisory bodies of the personally liable partner STO Management SE. The organisational meeting confirmed that meetings are organised and conducted efficiently, and that there is an adequate supply of information. No fundamental need for change was identified. Individual suggestions were and are being taken on board and implemented. Within this context, attention was also paid to ensuring adequate professional development for the members of the Supervisory Board.

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

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

The Supervisory Board conducts an intensive review of the consolidated annual financial statement of the Sto Group and the annual financial statement of Sto SE & Co. KGaA based on the

findings of the auditor, the audit procedures of its Audit Committee, and as part of its work within the full Supervisory Board. The personally liable partner discusses the half-year financial report and the interim reports produced within the first and second half year with the Chairperson of the Supervisory Board and the Chairperson of the Audit Committee, who consult with the other members of the Supervisory Board.

Composition of the Supervisory Board

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

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

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

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

* Employee representatives

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

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

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

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

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

As can be seen, three out of the six shareholder representatives sitting on the company's Supervisory Board have been members 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 nothing here to indicate dependence on the company and that independence is ensured accordingly.

Remuneration of the management body and the Supervisory Board

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

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

Share trading

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

Annual General Meeting

The Annual General Meeting of Sto SE & Co. KGaA essentially has the same rights as an Aktiengesellschaft (German public limited company). In addition, it officially confirms the annual financial statement of Sto SE & Co. KGaA. The shareholders exercise their rights at the Annual General Meeting. As the personally liable partner of Sto SE & Co. KGaA, STO Management SE is responsible for convening the Annual General Meeting and the timely dispatch of all statutory reports and docu-

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

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

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

Accounting and auditing of financial statements

The accounting of the Sto Group is based on the International Financial Reporting Standards (IFRS) as applied in the European Union.

The annual financial statement of the parent company Sto SE & Co. KGaA is based on the reporting standards of the German Commercial Code (HGB).

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

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

Transparency and external reporting

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

Annual and interim reports, press releases, and voting rights announcements, inside information, all financial and sustainability reports, as well as other key information, can be found in the 'Investor Relations' area of the Sto website at www.sto.de. Much of it is also available

in English. Annual and half-yearly financial reports are also lodged with and published in the German federal government gazette (Bundesanzeiger) and in the companies register on the day of publication.

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

Key practices of Corporate Governance/ Compliance

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

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

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

isation, and creates the framework for dealing with external partners.

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

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

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

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

Composition of subscribed capital

The subscribed capital of Sto SE & Co. KGaA amounts to a total of EUR 17,556,480.00. It is

divided into 4,320,000 registered limited ordinary shares ('ordinary shares') and 2,538,000 limited preference bearer shares ('preference shares') at a notional nominal value of EUR 2.56 each.

Restrictions on voting rights or the transfer of shares

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

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

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

Holders of shares with special rights

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

Type of control of voting rights in case of employee shareholdings

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

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

In the legal form of a 'Kommanditgesellschaft auf Aktien' (KGaA, partnership limited by shares), the personally liable partner has the legal authority to manage and represent the company. The personally liable partner of Sto SE & Co. KGaA is STO Management SE. It acts through its Executive Board. The co-determined Supervisory Board of Sto SE & Co. KGaA is not authorised to appoint or dismiss the personally liable partner or its Executive Board as the management body of STO Management SE. Rather, the personally liable partner has joined the company by means of a declaration. The appointment and dismissal of the Executive Board of STO Management SE is carried out by the Supervisory Board of STO Management SE in accordance with the provisions of the articles of association and the law.

As stipulated by Sections 278 (3), 133, 179 of the German Stock Corporation Act (AktG), amendments to the articles of association of Sto SE & Co. KGaA require a resolution by the Annual General Meeting of Sto SE & Co. KGaA. This resolution requires a majority of at least three quarters of the voting share capital represented at the adoption of the resolution. Furthermore, amendments to the articles of association also require the consent of the personally liable partner STO Management SE in accordance with Section 285 (2) of the German Stock Corporation Act (AktG).

**Powers of the personally liable partner
STO Management SE, in particular with
regard to the possibility of issuing or buy-
ing 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 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.