

# Corporate Governance Report/Declaration on management of the company

## Corporate Governance at Sto

The personally liable partner STO Management SE and the Supervisory Board of Sto SE & Co. KGaA are committed – as is the Executive Board of Sto AG – to responsible, transparent and long-term management of the company (Corporate Governance). Adherence to statutory regulations and ethical standards, a sound financial policy, and a strategy of sustainability have been part and parcel of Sto's corporate philosophy ever since the company was founded. The regulations, recommendations and proposals contained in the German Corporate Governance Code (hereinafter referred to as "Code") are to a large extent an integral part of our actual Sto culture.

Departures from the Code only occur in matters that specifically relate to medium-sized family businesses. In these cases, correspondingly adapted arrangements are applied. Departures from the recommendations of the Code in its current version of 13 May 2013 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). The current version at any given time is available for download from the Internet. Previous declarations can be viewed here as well.

Below is our report on corporate governance at Sto in accordance with No. 3.10 of the Code. It provides for the Corporate Governance Report to be published together with the declaration on management of the company. With this in mind, we have combined both reports into the present document that can also be found in the "Investor Relations" area on the Sto website [www.sto.de](http://www.sto.de).

## Shareholders and the Annual General Meeting

At the end of 2013, Sto AG's share capital amounted to EUR 17,556 million. The share capital was divided up into EUR 4,32 million

registered common shares and EUR 2,538 million preference bearer shares. Each ordinary share carries the right to one vote at the Annual General Meeting. Preference shares did not have voting rights but took 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 implementation of the decision taken at Sto AG's Annual General Meeting on 12 June 2013 to convert to Sto SE & Co. KGaA by way of entry in the trade register on 26 March 2014 has not materially changed this situation. The previous total of ordinary shares corresponds to the number of limited partnership ordinary shares now and the previous total of preference shares corresponds to the number of limited partnership preference shares now. The share capital and voting rights for Sto SE & Co. KGaA also mirror the situation with the previous Sto AG.

Sto limited shareholders exercise their rights in accordance with the relevant statutory provisions before or during the Annual General Meeting, which takes place once a year. The personally liable partner of Sto SE & Co. KGaA ensures the timely dispatch of all reports and records required by legislation for the Annual General Meeting, including the agenda. These documents are also readily available on our Internet site.

At the Annual General Meeting, the personally liable partner of Sto SE & Co. KGaA presents the annual financial statements of the previous fiscal year for Sto SE & Co. KGaA and the consolidated annual financial statement of Sto SE & Co. KGaA, as well as the management/Group management report for the previous fiscal year for the approval of the annual financial statements by the Annual General Meeting and of the consolidated annual financial statements for its information, and comments on key events. Each shareholder is entitled to attend the Annual General Meeting, to rise to speak at the meeting in relation to

items on the agenda, and to ask questions and to propose motions on specific issues.

### **Management and control structure**

The corporate headquarters of Sto SE & Co. KGaA are located in the southern German town of Stühlingen. This means that Sto SE & Co. KGaA and the Sto Group are subject to German law, to which our Corporate Governance activities must conform. In relation to the stock market listing and the financial market, the German Companies Act and in particular all the regulations of the capital market law must be adhered to. Also important for Sto are the German Commercial Code, the International Financial Reporting Standards (IFRS) and the German Co-Determination Act.

Sto SE & Co. KGaA is managed by STO Management SE as the personally liable partner, whereby its Management Board is subject to the oversight of the twelve-strong Supervisory Board of Sto SE & Co. KGaA. Accordingly, the management of the Company and the process of monitoring it are strictly separated. Both the personally liable partner and the Supervisory Board of Sto SE & Co. KGaA abide by the standards of proper corporate management at all times and collaborate closely for Sto's benefit.

The **personally liable partner STO Management SE**, the board members of which are presented on pages 16 and 148 of this present Annual Report, manages the company 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. The personally liable partner also develops the strategic alignment of the company, consults on this with the Supervisory Board of Sto SE and Co. KGaA, and ensures this strategy is implemented. It makes any arrangements necessary to ensure compliance with legal requirements and internal corporate guidelines within the Sto Group. Its responsibilities include

preparing Sto SE & Co. KGaA's annual financial statements and associated consolidated annual financial statements. Its tasks also include establishing and developing the risk management system. Detailed information about risk management is provided on pages 39 to 48 of this Annual Report. The personally liable partner pays attention to diversity when filling management positions in the company and in particular aims to ensure that women are adequately taken into account.

The **Supervisory Board of Sto SE & Co. KGaA** is equally composed of shareholder and employee representatives in accordance with the German Co-Determination Act. The members are listed on page 6 of the report of the Supervisory Board, as well as on pages 149 to 151. The work of the Supervisory Board is regulated through rules of procedure. The key tasks of the Supervisory Board are to monitor and advise the Executive Board of the personally liable partner STO Management SE, which manages Sto SE & Co. KGaA's affairs. For any matters that are of fundamental importance to Sto SE & Co. KGaA, the Supervisory Board becomes involved in the decision-making process from the outset. The Supervisory Board ensures that the personally liable partner STO Management SE and its Executive Board comply with the statutory disclosure rules in the manner detailed at greater length by the Supervisory Board, as required by law.

At Sto, the Supervisory Board is briefed by the personally liable partner on a regular, timely and comprehensive basis about all relevant matters relating to the strategy, to planning and business development as well as the risk situation and risk management. Any departures in performance of the business 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 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.

On the basis of the findings of the auditor, the Supervisory Board carries out an inspection of its own of the annual financial statements of the Sto Group and Sto SE & Co. KGaA. 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 consults then consults with other members.

In determining the composition of the Supervisory Board, the limited partnership shareholders of Sto SE & Co. KGaA ensure that the necessary expertise, skills and professional experience required to properly discharge 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 education and training measures that will enable them to carry out their duties as a Supervisory Board member, and receive appropriate support from Sto SE & Co. KGaA in doing this. We also support diversity as required by the Code.

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 refer to pages 21 and 147 of the present annual report, and to the Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG).

The Supervisory Board holds regular meetings. In fiscal 2013 there were four ordinary and one extraordinary meeting. The Supervisory Board report contains detailed information on the topics discussed. This report can be found on pages 6 to 10 of the Annual Report. If

required, meetings of the Supervisory Board are separately prepared by the shareholder and employee representatives.

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 an Investment Committee. A Nomination Committee is also formed before Supervisory Board elections. The next elections will take place at the Annual General Meeting in 2017.

In the periods leading up to the Supervisory Board meetings, these committees generally deal with complex issues and prepare the findings in appropriate form for the full Supervisory Board meetings or for the purpose of decision-making. 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 of Sto AG during the past two years.

#### **Other company management practices**

In addition to legislative regulations and the Corporate Governance Code, there are other company management practices that Sto SE & Co. KGaA applies. These include not only internal regulations, but also external standards such as the **"Global Compact"**, a worldwide initiative set up under the auspices of the United Nations. We joined this in 2009. In the "Global Compact", the UN calls on participants to adhere to and implement ten principles taken from the areas of human rights, labour standards, environmental protection and anti-corruption practice. For Sto, this particularly includes the issues of diversity. We take great care throughout the Group to ensure that no individual is disadvantaged on the grounds of

his or her gender, skin colour or religious views. As already described, this applies in particular when it comes to filling management posts. Additional measures that we have put in place for this purpose are outlined under the “Sustainability and Corporate Social Responsibility” section of the 2013 Annual Report. 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, these principles also include information on adhering to the “Global Compact” principles, for example.

### Transparency

Sto SE & Co. KGaA is even-handed in keeping its shareholders, financial analysts, the media and the general public informed. We provide all shareholders and stakeholders regularly and promptly with information about the economic situation and trends and about key events within the company. To this end, we use numerous instruments such as the annual and half-yearly financial reports as well as interim announcements within the first and second half-year. In addition, current topics are dealt with in press releases.

Annual and half-yearly reports as well as interim announcements are lodged with the Companies Register and the German federal government gazette (“Bundesanzeiger”) on the day of publication. These documents – as well as any current press releases – are simultaneously posted on the Internet at [www.sto.de](http://www.sto.de) under the heading “Company” in the “Investor Relations” section. The use of various communication channels ensures that all shareholders and other target groups are informed at the same time. As soon as any insider information

directly affecting Sto emerges, we immediately report such information in accordance with the relevant legal provisions of Section 15 of the German Securities Trading Act (WpHG), i.e. even outside our regular reporting cycle.

All key dates for publications and functions are listed in the calendar of financial events, which is announced well in advance. The latest financial calendar, valid as of the end of March 2014, is reproduced on page 154 of the 2013 Annual Report. The current version of the calendar can also be viewed on the Internet.

According to Section 15a of the Securities Trading Act (WpHG), members of the management board and thus of the personally liable partner and of the supervisory board of publicly listed companies have a duty of notification. This means that all persons with management functions at STO Management SE or Sto SE & Co. KGaA must disclose any private transactions involving Sto limited partnership preference shares (Directors’ Dealings) to the Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and to Sto SE & Co. KGaA within five working days. No notifications of Directors’ Dealings occurred in fiscal 2013.

### Accounting and auditing of financial statements

The accounting of the Sto Group is based on the internationally recognised principles of the International Financial Reporting Standards (IFRS). Detailed information on these Standards is set out in the Notes to the Annual Report 2013. The annual financial statement of the parent company Sto SE & Co. KGaA are prepared in accordance with the German Commercial Code (HGB). The annual financial statements of both Sto SE & Co. KGaA as well as the consolidated annual financial 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 from the outset. The auditing company commissioned by Sto has issued an appropriate 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 statements and the consolidated annual financial statement and reports on the key findings of his audit at the Audit Committee meeting.