

# Corporate Governance Report/ Declaration on management of the company

## Corporate Governance at Sto

Sto is committed to responsible, transparent, and long-term management and monitoring of the company (corporate governance). This is based on adherence to statutory regulations and ethical standards, a sound financial policy, and a strategy based on sustainability. The majority of regulations, recommendations, and proposals contained in the German Corporate Governance Code are an integral part of the Sto culture.

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 Conformity in accordance with Section 161 of the German Companies Act (AktG) which (in the latest and in older versions) is available on the Internet.

The Corporate Governance report at Sto in accordance with Item 3.10 of the Code and the declaration on our key company management practices in accordance with Section 289a of the German Commercial Code (HGB) are combined in this present document that can also be found in the "Investor Relations" area on the Sto website [www.sto.de](http://www.sto.de). This is supplemented with the compensation report of Sto SE & Co. KGaA which is part of the annex.

## 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 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 2015, Sto SE & Co. KGaA's share capital amounted to an unaltered figure of EUR 17.556 million. It is divided into 4.32 million for registered limited ordinary shares and 2.538 million for owners of limited preference shares. Shareholders have a right to vote in the annual general meeting and use it to decide on key company affairs. Every capital share shall grant 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 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. The members are presented in the report of the Supervisory Board. The work of the Supervisory Board is regulated through rules of procedure. The key task is to monitor the personally liable partner STO Management SE in the management of Sto SE & Co. KGaA's affairs.

In decisions that are of fundamental importance to Sto SE & Co. KGaA, the Supervisory Board becomes involved immediately. 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 and one extraordinary meeting were held in the 2015 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 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 maintains close contact with the members of the Executive Board of the personally liable partner 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 on the basis of 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.

The Supervisory Board of Sto SE & Co. KGaA is equally composed of six employee representatives and six shareholders in accordance with the German Co-Determination Act. Following the annual general meeting held on 16 June 2015, Jochen Stotmeister moved from the Executive Board to the Supervisory Board of STO Management SE. He was appointed by the annual general meeting of Sto SE & Co. KGaA to the Supervisory Board of Sto SE & Co. KGaA to replace Mr Helmut Hilzinger who left the Committee on the same day.

When voting in new members to the Supervisory Board of listed companies, from 1 January 2016 it must be ensured that at least 30 % of the seats are held by women. 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 revised regulations regarding the equality between men and women. They make provisions in the declaration on management of the company for establishing benchmarks regarding the percentage of women on the Supervisory Board, Executive Board, and both management levels below the Executive Board as well as regular reporting on the fulfillment of these targets within a specified period.

In the meeting on 16 December 2015, all members of both the employee and shareholder representatives on the Supervisory Board

of Sto SE & Co. KGaA unanimously exercised their legal right to oppose the obligation to fulfil the gender quota by the Supervisory Board. 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.

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 Supervisory Board members, and receive appropriate support from Sto SE & Co. KGaA in doing this.

When proposing new Supervisory Board 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 other 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 appendix of the present annual report, and the Declaration of Conformity 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. A Nomination Committee is also formed before 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 are conducted in compliance with the Co-Determination Act from 1976. They start with the announcement by the company at the end of 2016 and finish with the election in May 2017.

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.

#### **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 also develops the company's strategic alignment, 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 legal regulations in the entire reporting period and also observed the Code and other recognised external standards and various company regulations. Information about the applicable remuneration system of the STO Management SE Executive Board is summarised in the annex.

Since 1 July 2015, Rainer Hüttenberger has acted as the speaker for the Executive Board of the personally liable partner STO Management SE and heads the marketing and brand sales of Sto international. As the new member of the board of as 1 July 2015, Michael Keller oversees brand sales for Sto in Germany, distribution, and central services. Within the Executive Board with equally distributed powers, Rolf Wöhrle continues to be responsible for finance and Gerd Stotmeister for technology.

Sto Management SE also promotes diversity as required by the Code. In the last fiscal year, significant efforts were made to appoint women to both management levels below the personally liable partner. As of 31 December 2015, of all the management positions on the level below the personally liable partner, 0 % on the division management level and 9.3 % of the department manager positions were held by women. By 30 June 2017, these shares should be at 0 % and 10.2 % accordingly and by 31 December 2020 at 0 % and 12.0 % accordingly.

### **Key practices of corporate governance**

Alongside the 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 "UN 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. Measures that we have put in place together with the "Global Compact" are outlined under the "Sustainability and Corporate Social Responsibility" section of this 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, they also include information on the "Global Compact" principles, for example.

### **Transparency**

Shareholders, analysts, the media, and the general public are kept equally informed by Sto SE & Co. KGaA. We provide all shareholders and stakeholders regularly and promptly with information about key developments and the economic situation of the company. To this end, we use numerous media sources and instruments such as the annual and half-yearly financial reports, interim announcements, as well as press releases covering current topics.

Annual and half-yearly reports are lodged with the Companies Register and the German federal government gazette ("Bundesanzeiger") on the day of publication. These documents and current press releases are simultaneously posted on the Internet at [www.sto.de](http://www.sto.de) under the heading "Unternehmen" (Company) in the "Investor Relations" section. As soon as any insider information directly affecting Sto emerges, this is immediately reported in accordance with the relevant legal provisions of Section 15 of the German Securities Trading Act (WpHG).

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

2016, is reproduced in the 2015 annual report. The current version can also be viewed on the Internet.

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 to the Federal Financial Supervisory Authority (BaFin) and to Sto SE & Co. KGaA in accordance with Section 15a of the Securities Trading Act (Directors' Dealings). No notifications of Directors' Dealings occurred in fiscal 2015.

#### **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 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.

