

# Corporate Governance Report/

## Declaration on management of the company

### Corporate Governance at Sto

The Executive Board and Supervisory Board of Sto AG are committed 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 the cornerstones of Sto's corporate philosophy ever since the company was founded. The regulations established in the articles of association and rules of procedure for the Executive Board and Supervisory Board are geared towards these principles and require their implementation. In this respect, 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 corporate culture.

Departures from the recommendations contained in 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 15 May 2012 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 Declaration of Conformity 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 contrast to previous practice, No. 3.10 of the Code recommends publishing a description of Corporate Governance together with an outline of how the company is managed. With this in mind, we have combined both reports into a single 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 2012, Sto AG's share capital amounted to EUR 17.556 million. The share capital was divided up into 4.32 million registered common shares and 2.538 million preference bearer shares. Each ordinary share carries the right to one vote at the Annual General Meeting. Preference shares do not have voting rights but take priority for the purpose of profit distribution and are entitled to a higher dividend. There are no shares with multiple or preferential voting rights.

Sto 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 Executive Board of Sto AG ensures 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 Executive Board presents the annual financial statements of the previous fiscal year for Sto AG and the Sto Group, as well as the management/ Group management report for the previous fiscal year, 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 AG are located in the southern German town of Stühlingen. This means we 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 are the German

Commercial Code, the International Financial Reporting Standards (IFRS) and the German Co-Determination Act.

Sto AG has a **two-tiered governance and control structure**, with a four-member Executive Board and a twelve-member Supervisory Board. Accordingly, the management of the Company and the process of monitoring it are strictly separated. Both bodies observe the rules of proper corporate governance at all times. The Executive Board and the Supervisory Board cooperate closely for the benefit of the company.

The Sto AG **Executive Board**, whose members are listed on pages 16 and 131, steers 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 Executive Board also develops the strategic direction of the company, consults the Supervisory Board on this, and ensures this strategy is implemented. In addition, the Executive Board makes any arrangements necessary to ensure compliance with legal requirements and internal corporate guidelines within the Sto Group. The Board's functions also include the preparation of the annual financial statements for Sto AG and for the Sto Group, and the establishment and development of the risk management system. Detailed information about risk management is provided on pages 35 to 42 of this annual report. The work of the Executive Board is regulated through rules of procedure. The Executive Board 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 total remuneration for the individual members of the Board is determined at a meeting of the full Supervisory Board, working on the basis of Personnel Committee suggestions. For details of the remuneration received by members of the Executive Board,

please refer to pages 19 and 130 of the 2012 annual report, and to the Declaration of Conformity in accordance with Section 161 of the German Companies Act (AktG).

The **Sto Supervisory Board** 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 131 to 133. 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. For any decisions that are of fundamental importance to Sto AG, the Supervisory Board becomes involved in the decision-making process from the outset. It also defines the obligations for the Executive Board to notify and report to the Supervisory Board. At Sto, the Supervisory Board is briefed by the Executive Board on a regular, timely and comprehensive basis about all relevant issues relating to the strategy, to planning, business development, the risk situation and risk management. Any departures in performance of the business from defined plans are discussed. The Supervisory Board is provided with documents that are crucial to decision-making 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 Executive Board between meetings, discussing issues such as strategy, business development and risk management. At Sto, the Chairman is also the head of the Personnel Committee formed by the Supervisory Board.

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 AG. 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.

In determining the composition of the Supervisory Board, we take care to 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 AG in doing this. We also support diversity as required by the Code. The Supervisory Board and the Executive Board assess qualified applications for any new appointments in an impartial manner.

The remuneration that Sto Supervisory Board members receive is at a level that appropriately reflects their duties and the position of our company. For more information on remuneration, please refer to pages 19 and 130 of the 2012 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 2012, they met four times. The Supervisory Board report contains detailed information on the topics discussed. This report can be found on pages 6 to 10 of the 2012 annual report. If required, meetings of the Supervisory Board are separately prepared by the shareholder and employee representatives. Where appropriate, the Supervisory Board meets without the Executive Board.

The Supervisory Board regularly checks the efficiency of its work. One way to improve efficiency is through appropriately qualified committees. An Investment, a Personnel, an Organisation and an Audit Committee have been established at Sto. The Nomination Committee was set up in 2012 and was tasked with identifying suitable candidates for electing the

shareholder representatives on the Supervisory Board, as well as presenting these proposals to the full Supervisory Board. It was dissolved again following the 2012 Annual General Meeting, having served its purpose. We will appoint another Nomination Committee in the run-up to the next Supervisory Board elections in 2017.

In addition, Section 27, para. 3 of Germany's Co-Determination Act (MitbestG) requires that an Arbitration Committee be set up; however, it was not necessary to convene the committee during the last fiscal year.

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 continually 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.

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

In addition to legislative regulations and the Corporate Governance Code, there are other company management practices that Sto AG 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. The measures that we have put in place for this purpose are outlined under the "Sustainability and Corporate Social Responsibility" section of the 2012 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 AG provides its shareholders, financial analysts, the media and the general public regularly and promptly with information about the economic situation and 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 2013, is reproduced on page 136 of the 2012

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 management and supervisory boards of publicly listed companies have a duty of notification. This means that all persons with management functions at Sto AG must disclose any private transactions involving Sto preference shares (Directors’ Dealings) to the Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and to Sto AG within five working days. No notifications of Directors’ Dealings occurred in fiscal 2012.

### **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 2012. The annual financial statement of the parent company Sto AG are prepared in accordance with the German Commercial Code (HGB). The annual financial statements of both the Sto Group and Sto AG, as well as the management report for the Group and AG, 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 appointed by Sto has issued an appropriate statement in this regard. The auditor responsible takes part in the deliberations of the Supervisory Board 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.

