

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289F AND 315D OF THE GERMAN COMMERCIAL CODE (HGB)

The corporate governance statement pursuant to section 289f and section 315d of the German Commercial Code (HGB) is part of the combined management report. With the following information, the Management Board and Supervisory Board of KAP AG report on corporate governance in accordance with Principle 22 of the German Corporate Governance Code (GCGC) and on the Company's corporate governance in accordance with section 289f and section 315d HGB. The corporate governance of KAP AG as a listed German stock corporation is determined by law by section 161 of the German Stock Corporation Act (AktG) and additionally by the requirements of the German Corporate Governance Code (GCGC) as amended.

1. STATEMENT IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Management Board and Supervisory Board of KAP AG have made the Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG), which was adopted as of 15 April 2021, permanently accessible to shareholders on KAP AG's website on www.kap.de/en/investor-relations/corporate-governance/compliance-statement.

Declaration by the Management Board and Supervisory Board of KAP AG pursuant to section 161 AktG on the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of 16 December 2019, published in the Federal Gazette on 20 March 2020.

- I. The Declaration of Conformity pursuant to section 161 AktG adopted on 15 April 2021 applies to the period since the submission of the last declaration of conformity on 24 March 2020. This is replaced in full by the following Declaration of Conformity.
- II. KAP AG has complied with the recommendations in the German Corporate Governance Code of the "Government Commission on the German Corporate Governance Code" in the version of 16 December 2019, which was published in the Federal Gazette on 20 March 2020, with the exceptions specified and explained below under sections II.1 to II.6 and will also continue to comply with these.

1. Section B.1 recommends that the Supervisory Board take diversity into account when appointing Management Board members. The Supervisory Board shall set targets for the proportion of women to be represented on the Management Board. Because the Management Board currently comprises two members, the Company does not yet implement measures to promote diversity when filling executive roles.
2. Sections D.2, D.3 and D.5 recommend that the Supervisory Board should form committees of members with relevant specialist expertise, in particular an audit committee and a nomination committee, depending on the Company's specific circumstances and the number of Supervisory Board members. So far, an audit committee has been formed but a nomination committee has not because, in the Company's judgement, the Supervisory Board, which only has five members, does not need to set up further committees in addition to the audit committee, as decisions can be made quickly and efficiently in this way.
3. Section C.1 sentences 1, 2 and 3 recommend that the Supervisory Board should determine specific objectives regarding its composition and should prepare a profile of skills and expertise for the entire Board. The Supervisory Board should take diversity into account here. The Supervisory Board should also provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members. An age limit has been specified for members of the Supervisory Board and disclosed in the corporate governance statement. The term of Supervisory Board membership should be disclosed.

We have so far diverged from these recommendations in some cases because, taking into account the Company's individual circumstances, setting specific objectives for the Supervisory Board's composition and for the process of searching for and selecting suitable Supervisory Board candidates would have placed excessive restrictions on our Company and could have led to the automatic exclusion of potential candidates. To fill positions on the KAP AG Supervisory Board, it was important for the Supervisory Board to, in accordance with the requirements of the German Stock Corporation Act, establish that the candidates concerned had the skills, knowledge and experience required to perform the Board's work. Because the KAP AG Supervisory Board is made up of so few members, KAP AG has so far taken the view that the process of putting together the Supervisory Board should be based primarily on professional suitability, irrespective of gender. KAP AG has therefore so far not set a target figure for the number of female Supervisory Board members. The Company was moreover of the opinion that setting a standard length of service limit for Supervisory Board members was not an appropriate criterion by which to search for or exclude Board members. Rather, as already mentioned above, the selection criteria are the necessary knowledge, skills and professional experience.

In March 2019, the Supervisory Board adopted a profile of skills and expertise, objectives regarding the Board's composition and a diversity concept. These can all be viewed on the Company's website at www.kap.de/en/investor-relations/corporate-governance/executive-board-and-supervisory-board.

4. Section C.1 sentences 2 and 3 recommend that proposals made by the Supervisory Board to the General Meeting should take the Supervisory Board's specific composition objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the entire Board. The implementation status should be published in the corporate governance statement. Since no corresponding targets have yet been set, there were no targets to take into account for the candidate proposals made to the Annual General Meeting in 2018. Nor did any separate presentation have to be provided in the corporate governance statement.

The election proposals made to the Annual General Meeting in 2021 will take into account the Supervisory Board's specific objectives concerning its composition and simultaneously aim to fulfil the profile of skills and expertise for the entire Board. A progress report will then be published in the corporate governance statement for 2021/22.

5. Due to the vagueness of the term "independence" and the associated potential for conflict, the independent members of the Supervisory Board are not named in the Corporate Governance Report. The German Corporate Governance Code provides interpretive guidance for a determination of independence. The Supervisory Board considers that it has an appropriate number of independent members.
6. Section F.3 recommends that the consolidated financial statements and the Group management report be made publicly accessible within 90 days of the end of the financial year, and that any mandatory interim financial information be made publicly accessible within 45 days of the end of the reporting period. The Company did not submit the consolidated financial statements and the Group management report for the 2019 financial year or the interim financial information in the 2020 financial year within the recommended deadlines, but within the statutory deadlines. Such statutory deadlines will also be deemed sufficient for the 2021 financial year.

2. COMPLIANCE MANAGEMENT SYSTEM & CODE OF CONDUCT

Economic success, integrity and social responsibility are objectives of our Group that cannot be separated - irrespective of whether we or companies controlled by us operate in Germany, Europe or other parts of the world. Based on awareness of the social, environmental and economic organisation of the entire value chain, we meet the challenges of a networked and global economy. Responsible and ethical conduct towards our employees, business partners and shareholders, and towards the environment is an integral part of KAP AG's system of values. To this end, KAP AG has implemented a compliance management system, and the Code of Conduct is an integral part of this. Our decentralised and formalised compliance management system focuses on the areas of corruption prevention, competition law, sanctions and export control, IT security and data protection.

Compliance refers to compliance with national and international legal requirements and internal rules. We see compliance as a Group-wide measure for compliance with laws and internal policies, and a key element of corporate governance and the corporate culture that must be observed in every area of daily business in the Group. We have defined the basis for this in our Code of Conduct, which is available on www.kap.de/en/investor-relations/corporate-governance/code-of-conduct. Compliance with these policies creates the basic prerequisite for confidence by our business partners, shareholders and the general public in the KAP Group's performance, system of values and integrity. The Code of Conduct summarises the most important principles of conduct for all employees, including the Management Board, and sets minimum standards for collaboration characterised by respect within our Group and with our business partners.

In the 2020 reporting year, we rolled out our compliance management system to our newly acquired companies and implemented our values and policies. In addition, a comprehensive external compliance risk analysis, which did not lead to any critical results, was conducted. We also updated the existing policies with regard to the formation of our segments. Our training in the form of e-learning was expanded to the new acquisitions. Additional classroom events are scheduled at some of the companies for the coming year. This mix of e-learning options and classroom events is suited to sustainably anchoring our values and policies with employees.

3. DISCLOSURES ON CORPORATE GOVERNANCE AND DESCRIPTION OF THE WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

a) Management Board

In accordance with statutory requirements, KAP AG is subject to a "dual governance system". This is characterised by a strict separation of personnel between the Management Board as the management body and the Supervisory Board as the supervision body. The Management Board and Supervisory Board work closely together in the interests of the Group.

KAP AG is headed by two people. After Guido Decker left our Group on 30 September 2019, Uwe Stahmer, who had been a member of the Supervisory Board until this date, was temporarily appointed as a second member of the Management Board until 31 March 2020. His office as a member of the Supervisory Board was suspended during this period. He was responsible for strategy, business development, M&A and controlling. Dr Alexander Riedel was responsible for finance, IT, compliance, investor relations and personnel. He stepped down as of 30 September 2020. In March 2020, Mr Eckehard Forberich was appointed a new member of the Management Board and took over the areas of strategy, M&A and personnel. He was joined in October 2020 by Mr Marten Julius, who has responsibility for the areas of finance, controlling, legal, compliance, investor relations and IT.

The Management Board's tasks include regular coordination of the Group's strategic direction with the Supervisory Board, implementation of the strategic direction and the exchange information on the implementation status with the Supervisory Board at regular intervals. The Management Board regularly, promptly and comprehensively informs the Supervisory Board of all issues relevant for the Group regarding the Group's business development, financial situation and financial performance, planning and target achievement, the risk situation and risk management. Where the Group's business development diverges from the plans and objectives drawn up, this is explained and justified in detail. The Management Board's reporting also covers compliance topics, i.e. measures for compliance with legal requirements and internal policies. In addition to legal requirements, the Management Board is also bound by the regulations that are set out in the rules of procedure for the Management Board.

The Management Board receives the information needed for corporate governance and decision-making through monthly financial reports from the units and regular conversations with the segment managers and the managing directors of the operating units, and on visits to sites in Germany and abroad. Conversations with banks, competitors and industry representatives are also important sources of information. Where the Group's business development diverges from previously drawn up plans and objectives, this is explained and justified to the Supervisory Board in detail and discussed together with the Supervisory Board. The Management Board's actions and its decisions are guided by the Group's interests. It is committed to the aim of sustainably increasing the value of the company.

b) Supervisory Board

The Supervisory Board has set out its working practices in rules of procedure, which govern, among other things, the conduct of the meetings and the adoption of resolutions on business transactions requiring approval. The Supervisory Board currently consists of five members. The Supervisory Board advises the Management Board on the management of the Company and monitors its activities. The Supervisory Board's tasks are regulated not only by statutory requirements, but also by the Articles of Association and by the rules of procedure.

Joachim Coers was elected to the Supervisory Board as a new member at the Annual General Meeting on 3 July 2019. His mandate ends on the expiry of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2022 financial year. Following the Annual General Meeting, the Supervisory Board decided to form an audit committee and to appoint Joachim Coers as its chairman. The basis for this is Article 11 (2) of the Articles of Association (published on www.kap.de/en/investor-relations/corporate-governance/articles-of-association), according to which it is possible to set up committees to which decision-making powers are transferred. In view of the size of the full Supervisory Board, the audit committee currently consists of two members, the committee chairman and Christian Schmitz. The Supervisory Board also adopted rules of procedure for the audit committee, which set out the rules on collaboration within the committee and with the full Supervisory Board. After the Vice Chairman of the Supervisory Board Mr Fried Möller had resigned in November 2020 due to reaching the age of 74, Mr Christoph Schoeller was appointed to the Supervisory Board in December 2020. As of 25 February 2021, Uwe Stahmer was elected the new Vice Chairman of the Supervisory Board. The rules of procedure are available on www.kap.de/en/company/boards-1/supervisory-board.

The collaboration between the Supervisory Board and Management Board is in a spirit of mutual trust and based on regular exchange of information. In addition to the Supervisory Board meetings prescribed by law, figures are regularly provided and important developments and incidents are discussed by telephone between the meetings. Additional information on the collaboration of the Management Board and Supervisory Board can be found in the report of the Supervisory Board starting on page 12 of the 2020 Annual Report.

4. DISCLOSURES ON THE SETTING OF TARGET VALUES IN ACCORDANCE WITH SECTION 289F (2) 5 OF THE GERMAN COMMERCIAL CODE (HGB) IN CONJUNCTION WITH SECTIONS 76 (4) AND 111 (5) OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Supervisory Board and Management Board have not set any minimum ratios for their inclusion of women and men on Management Board pursuant to section 76 (4) and 111 (5) of the German Stock Corporation Act (AktG). The Supervisory Board presents its reasons for this in the above Declaration of Conformity with section 5.4.2. (1) of the German Corporate Governance Code. No disclosure is made on the reasons for compliance with the minimum ratios because KAP AG does not have any employees and therefore, pursuant to section 96 (2) and (3) AktG, no minimum ratios need to be complied with. The Supervisory Board has set the target for its composition with a proportion of women on the Supervisory Board at 30% and intends to achieve this by 31 December 2023.

ADDITIONAL DISCLOSURES ON CORPORATE GOVERNANCE

1. GOVERNANCE AND CONTROL STRUCTURE

As an internationally active, listed corporation with its registered office in Fulda, Germany, KAP AG is subject to the requirements of German stock corporation law, capital market law and co-determination law, and the provisions of its own Articles of Association and internal policies. With its two boards – the Management Board and the Supervisory Board – KAP AG, like all German stock corporations, has a dual management and supervision structure. The general meeting is higher than these as the decisive organ of the shareholders. Through it, our shareholders participate in fundamental decisions of the Group. Together, these three organs are equally committed to the interests of shareholders and the well-being of the Group.

2. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The remuneration report, which is part of the Group management report, describes the fundamentals of the remuneration system for members of the Management Board and explains the structure and amount of individual Management Board remuneration. The report also includes information on benefits that have been promised to the members of the Management Board should their employment end, and information on the remuneration of the Supervisory Board.

3. RELATIONSHIP TO SHAREHOLDERS AND TRANSPARENCY

KAP AG publishes a financial calendar in which relevant dates are entered in a timely manner in the Investor Relations section of its website www.kap.de/en. Moreover, all IR releases, press releases and ad hoc releases are available online on www.kap.de/en/investor-relations.

The Annual General Meeting offers shareholders the opportunity to exercise their voting rights themselves or by proxy. In the context of the Annual General Meeting, it is explained how instructions for exercising voting rights can be given. In the 2020 financial year, the Annual General Meeting was held virtually within the bounds of legal requirements due to the coronavirus pandemic.

With due regard to the statutory deadlines, immediately following their receipt, KAP AG publishes all notifications necessary under the Market Abuse Regulation (EU) No 596/2014 (hereinafter referred to as "MAR") regarding the acquisition or disposal of securities in the Company by members of the Management Board or the Supervisory Board (directors' dealings) on its website and forwards them to the register of companies.

4. RISK MANAGEMENT, COMPLIANCE, ACCOUNTING, AUDITING

We consider handling risks responsibly to be an important element of good corporate governance. KAP AG has a systematic risk management system that enables the Management Board to react immediately to relevant changes in the risk profile and to identify market trends early. The functionality of the risk management system is a subject of the annual audit. A detailed presentation is available in the Group management report starting on page 64 of the 2020 Annual Report.

Compliance with national and international legal and ethical principles in business dealings is an integral component of KAP AG's corporate culture. These include principles such as honesty and integrity towards our customers, suppliers, governments, employees, shareholders and the public.

The Supervisory Board engaged Mazars GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, with registered office in Frankfurt am Main, as the auditor for the 2020 financial year. It had previously made sure that the existing relations between the auditor and KAP AG and its boards do not give reason for any doubt regarding the auditor's independence. Furthermore, it is agreed that the Supervisory Board will be immediately informed of any grounds for disqualifying the auditors or questioning their impartiality occurring during the audit.

5. INSIDE INFORMATION (AD HOC DISCLOSURES), INSIDER LIST, DIRECTORS' DEALINGS IN THE FINANCIAL YEAR

KAP AG provides information openly, transparently, comprehensively and promptly. Its disclosure policy ensures a standardised approach to handling of information relevant to the capital markets worldwide. It sets out the rules for the publication of financial results and significant events as well as internal processes in which the relevance of information is reviewed.

(i) Ad hoc disclosures

According to Art. 17 MAR, KAP AG is required to publicly disclose inside information that directly concerns it immediately.

Where there was an obligation to publish an ad hoc disclosure, the disclosures were ensured in accordance with the legal requirements and with the assistance of a specialist service company. Two ad hoc disclosures were published in the 2020 financial year.

(ii) Insider list

Pursuant to Art. 18 MAR, KAP and persons acting on its behalf or on its account are required to maintain lists of persons working for them who have access to inside information. Those affected were informed of the legal obligations arising from this and the legal consequences of violating them.

(iii) Directors' dealings

Persons discharging managerial responsibilities at KAP AG (the issuer), as well as persons closely associated with them, are required under Art. 19 (1) MAR to notify the German Federal Financial Supervisory Authority (BaFin) and the issuer of so-called transactions conducted on their own account, i.e. transactions with financial instruments of the issuer (e.g. equities, bonds, options, forward contracts, swaps) if the limit of €5,000 is exceeded within the calendar year. The notification deadline is three business days from the date of the transaction.

Directors' dealings can be found on www.kap.de/en/investor-relations/disclosures/directors-dealings and are also published in accordance with legal requirements and with the assistance of a specialist service company.

6. SWITCH BY A MEMBER OF THE MANAGEMENT BOARD TO A TOP POSITION ON THE SUPERVISORY BODY

Uwe Stahmer, who had been appointed to be a member of the Management Board on an interim basis since 1 October 2019, resigned from his position on the Management Board with effect from 1 March 2020 upon the appointment of Eckehard Forberich as a new member of the Management Board and resumed his Supervisory Board mandate, which had been dormant for his Management Board activities.

7. FUTURE DEVELOPMENTS OF THE GROUP'S CORPORATE GOVERNANCE

We see corporate governance as an ongoing process, the development of which we will continue to monitor closely in the future.

KAP AG

Fulda, 15 April 2021

The Management Board

The Supervisory Board