



IN ACCORDANCE WITH § 161 GERMAN CORPORATE ACT
TO THE RECOMMENDATIONS OF THE "GOVERNMENT COMMISSION ON THE GERMAN CORPORATE GOVERNANCE CODE"
(HEREINAFTER REFERRED TO AS "DCGK")
IN THE VERSION FROM FEBRUARY 7, 2017, PUBLISHED IN THE BUNDESANZEIGER (FEDERAL GAZETTE) ON APRIL 24, 2017

- I. KAP AG (formerly KAP Beteiligungs-AG) conformed to the recommendations of the German Corporate Governance Codes in the "Government Commission on the German Corporate Governance Code" in the version from February 7, 2017, published in the Federal Gazette of April 24, 2017, during the time period since the submission of the last Declaration of Compliance in June 2016 with the following exceptions cited and justified under II. paragraphs 1 until 9.
- II. KAP AG will comply in the future with all recommendations of the DCGK in the "Government Commission on the German Corporate Governance Code" in the version from February 7, 2017, published in the Federal Gazette of April 24, 2017 with the following exceptions:
1. Paragraph 4.2.51 section 2 recommends that the remuneration report should contain information on the nature of the fringe benefits provided by the company.

Since the company provides no fringe benefits, no information is given.

2. Paragraph 4.2.5 sections 3 and 4 recommends that information be presented in the remuneration report for every member of the Management Board and in section 4 the use of master tables.

We consider the previous presentation of the Management Board remuneration in the group management report sufficient for this information.

3. Paragraph 5.1.2 section 1 clause 2 recommends that the Supervisory Board should also pay attention to the diversity in the composition of the Management Board. The Supervisory Board should set target quotas for the proportion of women on the Management Board.

Because of the current size of the Management Board, which has two members, the filling of management functions in compliance with diversity is not implemented at the current time. For the same reason, no target quotas for the proportion of women on the Management Board are set.

4. Paragraph 5.3.1 recommends that the Supervisory Board, depending on the specific circumstances of the company and the number of its members, should form professionally qualified committees.

The six-person Supervisory Board makes the formation of committees unnecessary in that decisions can be made quickly and efficiently. Therefore no audit committees (paragraph 5.3.2) and no nominations committee (paragraph 5.3.3) are formed.

5. Paragraph 5.4.1 section 2 recommends, that the Supervisory Board should designate a particular goal for its specific composition, in consideration of the specific situation of the company, the international activities of the company, potential conflicts of interest, the number of independent members of the Supervisory Board in the sense of paragraph 5.4.2, an age limit for members of the Supervisory Board and a limit on the duration of service on the Supervisory Board should be set and its diversity should be taken into account. For publicly listed companies, the Co-Determination Act, the Co-Determination Act for the Coal, Iron, and Steel Industry or the Supplementary Co-Determination Act applies, which sets the proportion of Supervisory Board members at least 30 percent women and at least 30 percent men. For the other companies covered by the Equal Treatment Act, the Supervisory Board set forth target figures for the proportion of women.

¹ Paragraphs without citation are those of the Corporate Governance Codes in the version from February 7, 2017

Considering the specific situation of our company, determining a specific goal for the composition of the Supervisory Board constitutes too severe a restriction for the search and choice of suitable candidates for the Supervisory Board and could potentially automatically exclude suitable candidates. The Supervisory Board is responsible for appointing members of the Supervisory Board of KAP AG. According to the requirements of the Stock Corporation Act, the candidates or candidate must have the capability, knowledge and experience to do the work of that body. It is the opinion of KAP AG, based on the small number of the members of the Supervisory Board, that professional competence should be the overriding factor in the composition of the Supervisory Board independent of gender. Therefore the regulation concerning an absolute number of female members of the Supervisory Board is not followed at KAP AG. Further it is our view that the regulation limiting the duration of service on the Supervisory Board does not represent an appropriate criterion for the search for, or exclusion of, members of this body. The necessary knowledge, capability and professional experience, as we previously stated, are much more important selection criteria. An age limit for members of the Supervisory board was set forth in the procedural rules of the Supervisory Board and is considered.

6. Paragraph 5.4.1 section 3 clause 2 recommends that the goals set by the Supervisory Board (paragraph 5.4.1 section 2) and the status of their implementation should be published in the Corporate Governance Report.

Since the goals are not set, implementation thereof is not presented in the Corporate Governance Report.

7. Paragraph 5.4.4 recommends that the members of the Management Board should not be members of the Supervisory Board before the expiry of a two year period following the end their term, unless, their election takes place on a proposal by the shareholders holding more than 25% of the voting rights of the company.

Should a proposal by the shareholders holding more than 25% of the voting rights of the company occur, a change from the Management Board to the Supervisory Board will be advocated, if the relevant member of the Management Board also fulfils the professional and personal qualifications.

8. Paragraph 5.4.6 section 3 clause 1 recommends that the individual remuneration of the members of the Supervisory Board should be shown in an appendix or in the annual report, broken down by components.

The individual remuneration of the Supervisory Board are contained in the articles of association and the information in the consolidated annual report.

9. Paragraph 7.1.2 clause 3 recommends that the consolidated annual report should be publicly available within 90 days after the end of the fiscal year, interim reports within 45 days after the end of the reporting period.

The consolidated annual report and the interim report are submitted within the legal period that we deem adequate.

KAP AG

Fulda, December 2018

The Management Board

The Supervisory Board