

CORPORATE
GOVERNANCE
STATEMENT

Corporate governance statement
pursuant to § 289f of the German Commercial Code and
corporate governance report
pursuant to clause 3.10 of the German Corporate Governance Code

2018

DECLARATION ON CORPORATE GOVERNANCE AND THE CORPORATE GOVERNANCE REPORT

In the following section, the Management Board and Supervisory Board make the declaration on corporate governance for the 2018 reporting year pursuant to § 289f of the German Commercial Code and report on the corporate governance of KAP AG (formerly KAP Beteiligungs-AG) pursuant to clause 3.10 of the German Corporate Governance Code (DCKG). Corporate governance encompasses the entire system of management and supervision of a company. This includes its organisation, values, business principles and guidelines as well as internal and external control and monitoring mechanisms. Sound and transparent corporate governance ensures that the company is managed and monitored in a responsible and value-driven manner. It promotes the confidence of national and international investors, the financial markets, customers and other business partners, employees and the public in KAP AG.

I. DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO § 289f OF THE GERMAN COMMERCIAL CODE

The corporate governance of KAP AG as a listed German stock corporation is primarily determined by the German Stock Corporation Act (*Aktiengesetz* - AktG) and also by the requirements of the German Corporate Governance Code in its current version.

1. Declaration pursuant to § 161 of the German Stock Corporation Act (AktG)

Most recently in December 2018, the members of the Supervisory Board together with the Management Board resolved the following declaration of compliance pursuant to § 161 of the German Stock Corporation Act (AktG) and subsequently made it permanently available to the shareholders on the website of KAP AG at <https://www.kap.de/investor-relations/corporate-governance/entsprechenserklaerung.html>:

DECLARATION BY THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD IN ACCORDANCE
WITH § 161 OF THE GERMAN STOCK CORPORATION ACT
ON THE RECOMMENDATIONS OF THE GOVERNMENT COMMISSION ON THE GERMAN CORPORATE
GOVERNANCE CODE (HEREAFTER 'DCGK') IN ITS VERSION FROM
7. FEBRUARY 2017, PUBLISHED IN THE FEDERAL GAZETTE ON 24 APRIL 2017

- I. During the period since the submission of the last declaration of compliance in December 2017, KAP AG (formerly KAP Beteiligungs-AG) has been in compliance with the recommendations of the German Corporate Governance Code of the government commission on the German Corporate Governance Code in its version from 7 February 2017, published in the Federal Gazette (*Bundesanzeiger*) on 24 April 2017, with the following exceptions listed and justified under section II, clauses I through 9.
- II. In the future, KAP AG will comply with all recommendations of the DCGK of the government commission on the German Corporate Governance Code in its version from 7 February 2017, published in the Federal Gazette (*Bundesanzeiger*) on 24 April 2017, with the following exceptions:
 - 1. Clause 4.2.5¹, paragraph 2, recommends that the remuneration report also contain information as to the nature of the fringe benefits provided by the company.

¹ Clauses without citation are those from the Corporate Governance Code in its version from 7 February 2017.

Because the company does not provide any fringe benefits, no information can be provided in this regard.

2. Clause 4.2.5, paragraphs 3 and 4, recommends which information is to be provided in the remuneration report for each member of the Management Board and the use of model tables in paragraph 4.

We consider the presentation of Management Board remuneration used to date in the group management report to be informationally sufficient.

3. Clause 5.1.2, paragraphs 1 and 2, recommends that the Supervisory Board also keep diversity in mind with regard to the composition of the Management Board. The Supervisory Board determines target values for the proportion of women on the Management Board.

Due to the current size of the Management Board, which consists of two members, filling leadership functions in the company is currently not carried out under consideration of diversity. For the same reason, no target values are determined for the proportion of women on the Management Board.

4. Clause 5.3.1 recommends that the Supervisory Board form expert and qualified committees independent of the specific situation of the company and the number of Supervisory Board members.

The six-person Supervisory Board makes the formation of committees superfluous, as decisions can be made quickly and efficiently. There are therefore no audit committees (clause 5.3.2) and no nomination committees (clause 5.3.3).

5. Clause 5.4.1, paragraph 2, recommends that the Supervisory Board name specific targets for its composition which, in consideration of the company-specific situation, take into account the international activities of the company, potential conflicts of interest the number of independent Supervisory Board members within the meaning of clause 5.4.2, an age limit to be determined for Supervisory Board members and a standard limit to be determined for the length of service on the Supervisory Board, as well as diversity. For exchange-listed companies which are subject to the German co-determination act (*Mitbestimmungsgesetz*), the co-determination act for the mining, iron and steel industries (*Montan-Mitbestimmungsgesetz*) or the supplement to the co-determination act (*Mitbestimmungsergänzungsgesetz*), the Supervisory Board is to be made up of at least 30% women and at least 30% men. For the other companies covered by the German equal opportunity act (*Gleichstellungsgesetz*), the Supervisory Board determines target values for the proportion of women.

The determination of specific targets for the composition of the Supervisory Board is too strong of a limitation for our company for the search and selection of suitable candidates for the Supervisory Board in consideration of the company-specific situation, and could automatically exclude potentially suitable candidates. When filling positions on the Supervisory Board of KAP AG, it is important for the Supervisory Board – in accordance with the requirements of laws governing stock corporations – that the candidate possess the necessary skills, knowledge and experience for the work of the board. Due to the small number of members of the Supervisory Board, KAP AG is of the opinion that the composition of the Supervisory Board should continue to give decisive consideration to professional suitability regardless of gender. There will therefore be no determination of an absolute number of female Supervisory Board members at KAP AG. Furthermore, we are of the opinion that a standard limit for the length of service on the Supervisory Board does not represent an appropriate criterion for the search or exclusion of members of these boards. Selection criteria are rather – as previously mentioned – the necessary knowledge, skill and professional experience. A determination of an age limit for members of the Supervisory Board has been provided for in the rules of the Supervisory Board and is taken into consideration.

6. Clause 5.4.1, paragraph 3, sentence 2, recommends that the targets of the Supervisory Board (clause 5.4.1, paragraph 2) and the status of the implementation be published in the corporate governance report.

As corresponding targets have not been determined, there is therefore no presentation in a corporate governance report.

7. Clause 5.4.4 recommends that Management Board members not be permitted to become Supervisory Board members within two years from the end of their appointment, unless their selection to the Supervisory Board is based on a nomination of shareholders holding more than 25% of the voting rights in the company.

If a nomination is made by shareholders holding more than 25% of the voting rights in the company, the appointment of a Management Board member to the Supervisory Board of the company will be supported if the Management Board member concerned also otherwise fulfils the professional and personal qualifications.

8. Clause 5.4.6, paragraph 3, sentence, 1, recommends that the remuneration of the members of the Supervisory Board be reported individually and broken down by components in the notes or in the management report.

The individual Supervisory Board remuneration can be gathered from the Articles of Association and the information in the group management report.

9. Clause 7.1.2, sentence 3, recommends that the consolidated financial statements be made available to the public within 90 days from the end of the financial year and the interim financial statements within 45 days from the end of the reporting period.

The consolidated financial statements and the interim financial statements are presented within the statutory periods, which we consider to be sufficient.

2. Compliance management system and Code of Conduct

Economic success, integrity and social responsibility are goals of our company that cannot be separated from one another - regardless of whether we or companies controlled by us operate in Germany, Europe or other parts of the world. Driven by an awareness of the social, ecological and economic design of the entire value chain, we face the challenges of a networked and global economy. Responsible and ethical conduct towards our employees, business partners, shareholders and the environment is an integral part of KAP AG's value system. To this end, KAP AG has implemented a compliance management system, the integral component of which is the Code of Conduct.

The focus of our decentralised and formalised compliance management system lies in the areas of corruption prevention, antitrust law, sanctions and export control, as well as IT security and data protection.

Compliance refers to compliance with national and international legal requirements as well as internal regulations. We see compliance as a group-wide measure for compliance with law, regulations and internal company guidelines, which is an essential element of corporate governance and corporate culture, and which must be observed in every area of day-to-day actions within the group. We have defined the basis for this in our Code of Conduct, which is available to be viewed on our website at <https://www.kap.de/investor-relations/corporate-governance/verhaltenskodex.html>. Compliance with these guidelines is a prerequisite for the trust placed by our business partners, shareholders and the public as a whole in the performance, value system and integrity of the KAP Group. The Code of Conduct summarises the most important behavioural principles for all employees, including the Management Board, and establishes minimum standards for respectful collaboration within our company as well as with our business partners.

In the 2018 reporting year, we replaced our telephone-based whistle-blower system, which introduced several years ago, with an online system. In doing so, we also comply with the recommendation included in clause 4.1.3 of the German Corporate Governance Code for the year under review that employees or third parties be given the opportunity to report legal violations within the company anonymously and in a protected and appropriate manner. The whistle-blower system is operated by a German third-party provider in compliance with the highest IT and data protection standards.

We received two anonymous reports via the newly introduced whistle-blower system, which we followed up on as part of further internal investigations. We were notified of further reports anonymously in writing. All reports concerned allegations against the respective management of the subsidiaries. Here, too, an investigation was carried out. The results and evaluations of the investigations have not yet been completed and are still ongoing.

In the past financial year, we also devoted more attention to the topics of data protection and IT security. As such, training was offered in the form of web seminars and e-learning. In the coming financial year, we intend to further expand our data protection and IT security concept.

In the coming financial year, in addition to introducing further guidelines, updating our training courses in the form of e-learning and continuously expanding the compliance organisation and its implementation in the new subsidiaries, we intend to devote ourselves to the further introduction of nationwide sanction and export control software.

3. Information on corporate governance and description of the working methods of the Management Board and Supervisory Board

a) Management Board

In accordance with legal regulations, KAP AG is subject to the so-called dual management system. This is characterised by a strict separation of personnel between the Management Board as the managing body and the Supervisory Board as the supervising body. The Management Board and Supervisory Board work closely together in the interests of the company.

KAP AG is managed by two individuals. Guido Decker is the Chief Executive Officer (CEO), and is responsible for strategy, business development, M & A, investor relations and controlling. Dr Alexander Riedel is responsible for finance, IT, compliance and personnel.

The tasks of the Management Board include the regular coordination of the strategic orientation of the company with the Supervisory Board and its implementation, as well as the regular exchange of information with the Supervisory Board on the status of implementation. The Management Board informs the Supervisory Board regularly, promptly and comprehensively about all issues of relevance to the company relating to business development, the financial performance and financial position, planning and target achievement, the risk situation and risk management. Deviations in the course of business from the established plans and targets are explained in detail. The Management Board's reporting also covers compliance issues, i.e. measures taken to ensure compliance with statutory provisions and internal company guidelines. In addition to the statutory requirements, the Management Board is bound by the rules laid down specifically for the Management Board.

The Management Board receives the information required for corporate governance and decision-making

in the form of monthly financial reports from the units and regular discussions with the segment managers and the managing directors of the operating units, as well as visits to the domestic and foreign locations. Discussions with banks, competitors and industry representatives are also important sources of information. Deviations in the course of business from previously established plans and targets are explained and justified in detail to the Supervisory Board and discussed with it. In addition, the Management Board regularly reports on the subject of risk management and on measures taken to ensure compliance with statutory provisions and internal company guidelines, which are also the responsibility of the Management Board. The actions of the Management Board and its decisions are based on the interests of the company. It is committed to the goal of achieving a sustainable increase in the value of the company.

b) Supervisory Board

The Supervisory Board has laid down its working methods in rules of procedure that govern, among other things, the conduct of meetings and the adoption of resolutions on business transactions requiring approval. The Supervisory Board is currently comprised of five members. The size of the Supervisory Board makes the formation of committees superfluous, as decisions can be made quickly and efficiently. The Supervisory Board advises the Management Board on the management of the company and monitors its activities. In addition to the statutory requirements, the tasks of the Supervisory Board are regulated in the Articles of Association and the rules of procedure.

In the year under review, the chairman of the Supervisory Board, Mr Ian Jackson, resigned from his office and resigned from the Supervisory Board of KAP AG effective 5 June 2018. His former deputy, Mr Christian Schmitz, was appointed as the new chairman of the Supervisory Board. Mr Fried Möller assumed the role of deputy chairman. The number of members of the Supervisory Board of KAP AG was reduced from six to five at the Annual General Meeting held on 20 July 2018.

The cooperation between the Supervisory Board and the Management Board is based on trust and the regular exchange of information. In addition to the Supervisory Board meetings required by law, figures are provided regularly and important developments and incidents are discussed by telephone between meetings.

Pursuant to § 11 (2) of the Articles of Association (published under <http://www.kap.de/unternehmen/corporate-governance/satzung.html>), the formation of committees to which decision-making powers can be transferred is possible. However, there was no need to form committees in the year under review.

4. Information for the determination of target values pursuant to § 289f (2) (5) of the German Commercial Code in conjunction with § 76 (4) and § 111 (5) of the German Stock Corporation Act

Pursuant to § 76 (4) and § 111 (5) of the German Stock Corporation Act (AktG), the Supervisory Board and the Management Board have not set any minimum proportions for their composition regarding women and men. In addition, the Supervisory Board explained its reasons for this in the above declaration of compliance with clause 5.4.2, paragraph 1, of the DCGK.

The information on the reasons for compliance with the minimum proportions is not provided, as KAP AG has no employees and therefore no minimum proportions have to be complied with pursuant to § 96 (2) and (3) of the German Stock Corporation Act (AktG).

We also report on other corporate practices in the corporate governance report in accordance with clause

3.10 of the German Corporate Governance Code.

II. CORPORATE GOVERNANCE REPORT

The term 'corporate governance' describes responsible and value-creating corporate governance and control. The key elements include collaboration between the Management Board and the Supervisory Board, consideration of shareholders' interests and open and transparent corporate communications. This not only creates transparency for the legal framework of corporate management and control, but also establishes generally recognised standards for sound and responsible corporate governance. This strengthens the confidence of shareholders, customers, employees and the public in the management of the company.

In the year under review, the Management Board and Supervisory Board of KAP AG continued to work intensively on fulfilling the requirements of the German Corporate Governance Code as last updated in February 2017 and published in the Federal Gazette (*Bundesanzeiger*), and took measures to comply as far as possible with the recommendations of the currently valid code.

1. Management and control structure

As an internationally active and listed stock corporation headquartered in Fulda, Germany, KAP AG is subject to the provisions of German laws governing stock corporations, the capital market and co-determination, as well as the provisions of its own Articles of Association and internal company guidelines. KAP AG - like all German stock corporations - has a dual management and supervisory structure with the two boards, the Management Board and the Supervisory Board. In addition, the Annual General Meeting is the governing body of the shareholders and it enables our shareholders to participate in the fundamental decisions of the company. Together, these three boards are equally committed to the interests of the shareholders and the well-being of the company.

2. Remuneration of the Management Board and Supervisory Board

The remuneration report describes the main features of the remuneration system for the members of the Management Board and explains the structure and amount of individual Management Board remuneration. The report also contains information on benefits promised to members of the Management Board in the event of termination of their employment, as well as information on the remuneration of the Supervisory Board.

Name	Decker, Guido	Riedel, Dr Alexander
Function	CEO	CFO
Entry	01.08.2017	01.05.2018

Granted contributions	2017	2017 (min.)	2017 (max.)	2018	2018 (min.)	2018 (max.)	2017	2017 (min.)	2017 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	104	104	104	296	296	296	n/a	n/a	n/a	208	208	208
Fringe benefits* (company car)	6	6	6	16	16	16	n/a	n/a	n/a	7	7	7
Total fixed remuneration	110	110	110	312	312	312	n/a	n/a	n/a	215	215	215
One-year variable remuneration	260	260	260	100	100	100	n/a	n/a	n/a	67	67	67
Total variable remuneration	260	260	260	100	100	100	n/a	n/a	n/a	67	67	67
Stock option plan	953	0	4,000							924	0	4,000
Total remuneration	1,323	370	4,370	412	412	412	n/a	n/a	n/a	1,206	282	4,282

Grants received	2017	2017 (min.)	2017 (max.)	2018	2018 (min.)	2018 (max.)	2017	2017 (min.)	2017 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	104	104	104	296	296	296	n/a	n/a	n/a	208	208	208
Fringe benefits* (company car)	6	6	6	16	16	16	n/a	n/a	n/a	7	7	7
Total fixed remuneration	110	110	110	312	312	312	n/a	n/a	n/a	215	215	215
One-year variable remuneration	160	160	160	100	100	100	n/a	n/a	n/a	-	-	-
Total variable remuneration	160	160	160	100	100	100	n/a	n/a	n/a	-	-	-
Stock option plan	-	-	-	-	-	-	n/a	n/a	n/a	-	-	-
Total remuneration	270	270	270	412	412	412	n/a	n/a	n/a	215	215	215

a) Remuneration of the Management Board

* The D & O insurance represents additional fringe benefits granted.

(i) Responsibility

The structure and determination of Management Board remuneration is the responsibility of the Supervisory Board.

(ii) Goals

The remuneration model for the Management Board is intended to be attractive in the competition for highly qualified executives. As an incentive for successful work, the variable portion of the remuneration should be highly dependent on the economic success of the KAP Group. The remuneration structure for the Management Board also has parallels with the remuneration system for employees and executives.

(iii) Remuneration elements

Remuneration for the Management Board contains fixed and variable income elements. In successful financial year, the factors which make up the variable element of remuneration enable the KAP Group to offer competitive income for the Management Board with a very high profit-sharing component. The variable remuneration component is measured on the basis of EBITDA. At regular intervals, the Supervisory Board reviews the remuneration system with regard to the structure and amount of the Management Board remuneration.

KAP AG has maintained a virtual stock option programme with cash settlement since 2017. The programme stipulates that the beneficiaries receive a cash settlement from the company upon exercise of the options. The cash settlement entitlement corresponds to the difference between the average share price (XETRA trading, Deutsche Börse AG, Frankfurt am Main) of the last 20 trading days prior to exercising the option and the base value of €30 or €33. The entitlement is limited in amount to €40 per option, whereby an adjustment is made for dividend distributions made in the meantime and any dilution effects in the event of capital increases.

On a one-time basis upon their appointment on 1 August 2017, one member of the Management Board was granted 100,000 virtual stock options, which are vested over a period of four years. The exercise date is 31 July 2021. As capital increases took place between the granting of the virtual stock options and the balance sheet date, the number of virtual stock options increased to 119,562 (previous year: 105,871). As of the balance sheet date, the remaining term of the virtual stock options was 31 months until the exercise date. The obligation amounts to €249 thousand (previous year: €99 thousand). Personnel expenses from allocations to provisions amounted to €150 thousand in the financial year (previous year: €99 thousand).

Another Management Board member was also granted 100,000 virtual stock options on a one-time basis as of 1 November 2018, which are vested over a period of four years, with the vesting period commencing on 1 May 2018. The exercise date is 30 April 2022. As capital increases took place between the approval of the virtual stock options and the balance sheet date, the number of virtual stock options increased to 112,700 (previous year: 0). As of the balance sheet date, the remaining term of the virtual stock options was 40 months until the exercise date. The obligation amounts to €99 thousand (previous year: €0). Personnel expenses from allocations to provisions amounted to €99 thousand in the financial year (previous year: €0).

At the beginning of the period, a total of 105,871 virtual stock options were outstanding. In the reporting period, 126,391 further options were granted, which is why 232,262 virtual stock options were outstanding as of the balance sheet date, none of which were exercisable.

b) Remuneration of the Supervisory Board

(i) Remuneration system for the Supervisory Board

The current remuneration regulation is laid down in Article 13 of the Articles of Association. In addition to the reimbursement of expenses, the Supervisory Board receives a fixed remuneration.

(ii) Supervisory Board remuneration in the 2018 financial year

The Supervisory Board is comprised of five members. Each ordinary member of the Supervisory Board received €5,000 in 2018 (previous year: €5,000) and the chairman received €7,500 (previous year: €7,500). As a member of the Supervisory Board, Mr Roy Bachmann works for RB Capital Ltd, Guernsey. RB Capital Ltd., Guernsey, invoiced €813 thousand (previous year: €552 thousand) for brokerage and consulting services in the 2018 financial year. In the previous year, €516 thousand of this amount was paid in shares of KAP AG.

3. Relationship with shareholders and transparency

KAP AG publishes on its website www.kap.de a financial calendar under the investor relations section where relevant dates are posted in good time. In addition, all IR, press and ad hoc announcements are available on the Internet (at <http://www.kap.de/investor-relations>).

The Annual General Meeting offers shareholders the opportunity to exercise their voting rights themselves or to authorise a third party. How voting instructions can be issued is explained as part of the Annual General Meeting.

KAP AG immediately publishes on its website, in compliance with the statutory deadlines, all notifications required under the market abuse regulation (EU) no. 596/2014 (hereinafter referred to as 'MAR') regarding the purchase and sale of securities of the company by members of the Management Board and the Supervisory Board (directors' dealings) upon receipt and transmits them to the company register.

4. Risk management, compliance, accounting, auditing

We regard the responsible handling of risks as an essential element of sound 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 at an early stage. The functionality of the risk management system is the subject of the annual audit. A detailed presentation can be found in the group management report.

Compliance with national and international legal and ethical principles in business transactions is an integral part of KAP AG's corporate culture. This includes principles such as professionalism, honesty and integrity towards our customers, suppliers, governments, employees, shareholders and the public.

The Supervisory Board has appointed BDO AG, Wirtschaftsprüfungsgesellschaft, based in Hamburg, as auditors for the 2018 financial year. It has previously ascertained that the existing relationships between the auditor and KAP AG or its boards do not give rise to any doubt as to the independence of the auditor. It has also been agreed that the Supervisory Board will be informed immediately of any grounds for disqualification or partiality that may arise during the audit.

5. Insider information (ad hoc announcements), insider directory, share transactions (directors' dealings) of the financial year

KAP AG informs openly, transparently, comprehensively and promptly. Its disclosure policy ensures that capital-market-relevant information is handled in a uniform manner worldwide. It regulates the publication of business results and significant events as well as internal processes in which the relevance of information

is reviewed.

i) Ad hoc notifications

Pursuant to Article 17 of the MAR, KAP AG is obliged to immediately publish insider information that directly affects it.

Publications in the event of an ad hoc publication obligation were carried out in accordance with the statutory provisions and with the assistance of a specialised service provider. Three ad hoc notifications were published during the 2018 financial year. In detail, the notifications concerned the change in the Supervisory Board, the sale of Geiger Fertigungstechnologie GmbH and the takeover of the Heiche Group.

ii) Insider directory

According to Article 18 of the MAR, KAP AG and persons acting on its behalf or for its account are obliged to keep a list of persons who work for it and have access to insider information. The parties concerned were informed of the resulting legal obligations and the legal consequences of any violation.

iii) Reportable securities transactions of the Management Board and Supervisory Board

Pursuant to Article 19 (1) of the MAR, persons who perform management functions at KAP AG (issuer) and are closely related to them are obliged to notify the German Federal Financial Supervisory Authority (BaFin) and the issuer of so-called own-account transactions, i.e. transactions with financial instruments of the issuer (e.g. shares, bonds, options, forward contracts, swaps) if the value limit of €5,000 is exceeded within the calendar year. The reporting period is three (3) business days after the date of the own-account transaction.

We were notified of three transactions during the 2018 financial year. They related to the change in voting rights as a result of the resolved capital increase at KAP AG.

Share transactions of the Management Board and the Supervisory Board are available for review at <http://www.kap.de/investor-relations/directors-dealings.html> and, in addition, published in accordance with statutory provisions and with the assistance of a specialist service company.

6. Change of a member of the Management Board to a top position in the supervisory body

No member of the Management Board was appointed as a member of the Supervisory Board in the past financial year.

7. Future developments in corporate governance of the company

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

Fulda, March 2019

KAP AG

A handwritten signature in blue ink, appearing to read 'G. Decker'.

Signed
Guido Decker
Chief Executive Officer

A handwritten signature in blue ink, appearing to read 'C. Schmitz'.

Signed
Christian Schmitz
Chairman of the Supervisory
Board