

ENGINEERING
EXCELLENCE

CORPORATE GOVERNANCE STATEMENT



CORPORATE GOVERNANCE

The KAP Group's Corporate Governance Report takes account of the recommendations of the German Corporate Governance Code (DCGK) and in particular includes the Declaration on Corporate Governance pursuant to section 289f and section 315d of the German Commercial Code (HGB) and also the remuneration report. The contents of the Corporate Governance Report are also part of the Group management report.

1. DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289F OF THE GERMAN COMMERCIAL CODE (HGB)

The corporate governance of KAP AG as a listed German stock corporation is primarily determined by the German Stock Corporation Act (AktG) and additionally by the requirements of the German Corporate Governance Code as amended.

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

The members of the Supervisory Board together with the Management Board recently approved the following Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG) in March 2019 and then made it permanently accessible to shareholders on KAP AG's website on <https://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 from 7 February 2017, published in the Federal Gazette on 24 April 2017 (hereinafter referred to as "DCGK")

- I. In December 2018, the Management Board and Supervisory Board of KAP AG (the "Company") issued a Declaration of Conformity pursuant to section 161 AktG for the period since the submission of the Declaration of Conformity in December 2017 and published it on the Company's website. This Declaration of Conformity is to now be corrected and replaced in its entirety by the following Declaration of Conformity.
- II. In the period since the submission of the second to last Declaration of Conformity in December 2017 and since the submission of the last Declaration of Conformity in December 2018, KAP AG (formerly KAP Beteiligungs-AG) has complied with the recommendations set forth in the German Corporate Governance Code of the "Government Commission on the German Corporate Governance Code" (in the version of 7 February 2017, published in the Federal Gazette on 24 April 2017), with the exceptions specified and explained in sections III.1 to III.7 below.
- III. KAP AG will in future comply with all recommendations set forth in the DCGK of the "Government Commission on the German Corporate Governance Code" (the version of 7 February 2017 and published in the Federal Gazette on 24 April 2017), with the following exceptions. Where

forward-looking statements are made, this Declaration of Conformity partly takes into account the fundamentally revised draft of the German Corporate Governance Code published on 6 November 2018 (hereinafter referred to as "DCGK-E").

1. Section 4.2.1 sentence 2¹ recommends that the Management Board's rules of procedure should in particular govern the allocation of duties among individual Management Board members.

The Management Board's rules of procedure of 9 February 2018 do not regulate the departmental responsibilities of individual Management Board members. This is because between December 2017, when the Declaration of Conformity was submitted, and May 2018, the Company had only one Management Board member, and because the departmental responsibilities are regulated in the employment contracts of the two Management Board members.

Because the DCGK-E provides for the deletion of this recommendation, the Company does not intend to amend the Management Board's rules of procedure in this respect.

2. Section 5.1.2 (1) sentence 2 recommends that when appointing Management Board members, the Supervisory Board should take diversity into account. 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. It was for the same reason that the Supervisory Board had not yet set any targets regarding the proportion of women on the Management Board.

3. Sections 5.3.1, 5.3.2 and 5.3.3 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.

Since, in the Company's judgement, the five-member Supervisory Board can make decisions quickly and efficiently and therefore does not need to set up committees, no audit committee or nomination committee has so far been formed.

However, the Supervisory Board does now intend to form an audit committee, and to do so at the latest during the first Supervisory Board meeting after the Annual General Meeting in July 2019. Due to the size of the Supervisory Board, a nomination committee was not formed.

4. Section 5.4.1 (2) recommends that the Supervisory Board should determine specific objectives regarding its own composition and that within the Company's specific situation it should reflect the Company's international activities, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of section 5.4.2, an age limit for Supervisory Board members and a regular limit to Supervisory Board members' terms of office, both to be specified, as well as diversity. It also recommends that a profile of skills and expertise for the entire Board should be prepared. The Supervisory Boards of listed companies to which the German Codetermination Act (Mitbestimmungsgesetz), the German Coal and Steel Codetermination Act (Montan-Mitbestimmungsgesetz) or the German Supplementary Codetermination Act (Mitbestimmungsergänzungsgesetz) apply

¹ Figures without reference to a source are those of the Corporate Governance Code in the version of 7 February 2017.

shall be made up of at least 30 per cent women and at least 30 per cent men. Where other companies covered by the German Equal Opportunities Act (Gleichstellungsgesetz) are concerned, the Supervisory Board shall set targets for the proportion of women.

We have so far diverged from these recommendations 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, and as already mentioned above, the Company feels that selection should be based on 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 in the Investor Relations section of the Company's website.

5. Section 5.4.1 (4) sentence 1 and sentence 2 recommend that proposals made by the Supervisory Board to the Annual General Meeting should take the Supervisory Board's composition objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board and that the implementation status should be published in the Corporate Governance Report.

Since no objectives in this regard have yet been set, there were no objectives to take into account for the election proposals made to the Annual General Meeting in 2018. Nor did any implementation status have to be presented in the Corporate Governance Report.

The election proposals made to the Annual General Meeting in 2019 will take into account the objectives concerning the Supervisory Board's composition and also seek to complete the competency profile adopted for the Supervisory Board as a whole. The implementation status will then be published in the 2020 Corporate Governance Report.

6. Section 5.4.1 (4) sentence 3 recommends that the Corporate Governance Report also provide information about what the Supervisory Board regards as the appropriate number of independent Supervisory Board members representing shareholders and the names of these members.

Due to the vagueness of the term "independent" and the associated potential for conflict, the independent members of the Supervisory Board are not named in the Corporate Governance Report. Nonetheless, the Supervisory Board considers that it has an appropriate number of independent members.

7. Section 7.1.2 sentence 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 financial information required to be provided during the year be made publicly accessible within 45 days of the end of the pertinent reporting period.

The Company did not submit the consolidated financial statements and the Group management report for the 2017 financial year or the interim financial information in the 2018 financial year within the recommended deadlines, but within the statutory deadlines. Such statutory deadlines will also be deemed sufficient for the 2019 financial year.

KAP AG

Frankfurt, 25 March 2019

The Management Board

The Supervisory Board

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 <https://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 2019 reporting year, we rolled out our compliance management system to our newly acquired companies and implemented our values and policies. 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.

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 30 September 2020. His office as a member of the Supervisory Board is suspended during this period. He is responsible for strategy, business development, M&A and controlling. Dr Alexander Riedel is responsible for finance, IT, compliance, investor relations and personnel.

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.

In the year under review, 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 <https://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. The rules of procedure are available on <https://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 on page 16 et seq. of the 2019 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 each 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 in section 5.4.2. (1) DCGK.

There is no information as to the 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.

2. CORPORATE GOVERNANCE

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

In the year under review, the Management Board and Supervisory Board of KAP AG also worked hard on fulfilling the requirements of the German Corporate Governance Code in its version last updated in February 2017 and published in the Federal Gazette and the new version of the German Corporate Governance Code published in draft form on 6 November 2018. The Management Board and Supervisory Board took all measures necessary to comply as far as possible with the recommendations of the code in force until 31 December 2019.

1. GOVERNANCE AND CONTROL STRUCTURE

As a 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 codetermination 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. In addition, the Annual General Meeting is the decisive shareholders' body. Through it, our shareholders participate in fundamental decisions of the Group. Together, these three bodies are equally committed to the interests of shareholders and the well-being of the Group.

2. REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD (REMUNERATION REPORT)

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.

a) Remuneration of the Management Board

(i) Responsibility

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

(ii) Goals

The remuneration model for the Management Board shall be attractive in the competition for highly qualified leaders. As an incentive for successful work, the variable portion of the remuneration shall be highly dependent on the economic success of the KAP Group. The remuneration structure for the Management Board also has similarities to the remuneration system for employees and managers.

(iii) Remuneration elements

The remuneration of the Management Board includes fixed and variable elements. In successful financial years, the factors that 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. EBITDA, among other things, serves as a benchmark for the variable remuneration component. The Supervisory Board reviews the remuneration system with regard to the structure and amount of Management Board remuneration at regular intervals.

KAP AG has maintained a virtual stock option programme with cash settlement since 2017. The programme provides for the beneficiaries to receive an entitlement to cash settlement from the Company when they exercise the options. The entitlement to cash settlement is equal 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 to €40 per option. An adjustment is made for dividend distributions made since the granting of the virtual stock options and any dilution effects in the event of capital increases. On the start of his employment on 1 August 2017, Guido Decker was granted 100,000 virtual stock options that vest over a period of four years on a one-time basis. The exercise date is 31 July 2021. Because capital increases took place between the granting of the virtual stock options and the reporting date, the number of virtual stock options increased to 117,147 (previous year: 119,652). As of the reporting date, the remaining term of the virtual stock options was 19 months until the exercise date. The obligation amounts to €157 thousand (previous year: €249 thousand). Income from the reversal of provisions was €92 thousand in the financial year (previous year: expense of €150 thousand).

Name	Decker, Guido
Function	CEO
Assumption of office	1 August 2017
Left office	30 September 2019

Remuneration granted in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	255	255	255	296	296	296
Fringe benefits ¹ (company car)	12	12	12	16	16	16
Total fixed remuneration	267	267	267	312	312	312
One-year variable remuneration (incl. compensation)	617	617	617	100	100	100
Total variable remuneration (incl. compensation)	617	617	617	100	100	100
Stock option plan	-	-	-	-	-	-
Total remuneration	884	884	884	412	412	412

Remuneration received in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	255	255	255	296	296	296
Fringe benefits ¹ (company car)	12	12	12	16	16	16
Total fixed remuneration	267	267	267	312	312	312
One-year variable remuneration (incl. compensation)	717	717	717	100	100	100
Total variable remuneration (incl. compensation)	717	717	717	100	100	100
Stock option plan	-	-	-	0	0	0
Total remuneration	984	984	984	412	412	412

¹ The D&O insurance represents an additional fringe benefit granted.

Riedel, Alexander, Dr

CFO

1 May 2018

n/a

	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
	312	312	312	208	208	208
	11	11	11	7	7	7
	323	323	323	215	215	215
	125	0	125	67	67	67
	125	0	125	67	67	67
	-	-	-	924	0	4,000
	448	323	448	1,206	282	4,282

	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
	312	312	312	208	208	208
	11	11	11	7	7	7
	323	323	323	215	215	215
	60	60	60	0	0	0
	60	60	60	0	0	0
	-	-	-	0	0	0
	383	383	383	215	215	215

Name	Stahmer, Uwe
Function	CEO
Assumption of office	1 October 2019
Left office	n/a

Remuneration granted in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	105	105	105	n/a	n/a	n/a
Fringe benefits ¹ (company car)	1	1	1	n/a	n/a	n/a
Total fixed remuneration	106	106	106	n/a	n/a	n/a
One-year variable remuneration (incl. compensation)	-	-	-	n/a	n/a	n/a
Total variable remuneration (incl. compensation)	-	-	-	n/a	n/a	n/a
Stock option plan	-	-	-	n/a	n/a	n/a
Total remuneration	106	106	106	n/a	n/a	n/a

Remuneration received in € thousands	2019	2019 (min.)	2019 (max.)	2018	2018 (min.)	2018 (max.)
Fixed remuneration	105	105	105	n/a	n/a	n/a
Fringe benefits ¹ (company car)	1	1	1	n/a	n/a	n/a
Total fixed remuneration	106	106	106	n/a	n/a	n/a
One-year variable remuneration (incl. compensation)	-	-	-	n/a	n/a	n/a
Total variable remuneration (incl. compensation)	-	-	-	n/a	n/a	n/a
Stock option plan	-	-	-	n/a	n/a	n/a
Total remuneration	106	106	106	n/a	n/a	n/a

¹ The D&O insurance represents an additional fringe benefit granted.

Dr Alexander Riedel was also granted 100,000 virtual stock options on a one-time basis on 1 November 2018. The virtual stock options granted vest over a period of four years and the vesting period starts on the commencement of employment on 1 May 2018. The exercise date is 30 April 2022. Because capital increases took place between the pledge of the virtual stock options and the reporting date, the number of virtual stock options increased to 110,423 (previous year: 112,700). As of the reporting date, the remaining term of the virtual stock options was 28 months until the exercise date. The obligation amounts to €64 thousand (previous year: €99 thousand). Income from the reversal of provisions was €35 thousand in the financial year (previous year: expense of €99 thousand).

At the start of the period, a total of 232,262 virtual stock options were outstanding. No further options were granted in the reporting period. As of the reporting date, there were 227,500 virtual stock options outstanding, none of which could be exercised.

Benefits on the termination of employment in the Management Board

Due to the early, amicable termination on 30 September 2019 of Guido Decker's contract, which was originally due to end on 31 December 2023, severance benefits of €600 thousand were agreed with him. The severance payment was paid in the agreed amount in October 2019.

b) Remuneration of the Supervisory Board

(i) Remuneration system for the Supervisory Board

The remuneration system for the Supervisory Board was amended by shareholders at the Annual General Meeting on 3 July 2019 and Article 13 of the Articles of Association was amended accordingly. Subsequently, in addition to the reimbursement of their expenses, members of the Supervisory Board receive fixed remuneration payable after the end of the financial year. The basic remuneration is €25,000 per member. The chairman receives twice this basic amount. The deputy chairman of the Supervisory Board or the chairperson of a committee receive 1.5 times the amount. Supervisory Board members who have only belonged to the Supervisory Board for part of the financial year receive lower remuneration in proportion to the length of their time as members.

(ii) Supervisory Board and audit committee remuneration in the 2019 financial year

The Supervisory Board member Roy Bachmann works for RB Capital Ltd., Guernsey. RB Capital Ltd., Guernsey, invoiced a total of €24 thousand for brokerage and consulting services in the 2019 financial year (previous year: €813 thousand).

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 <https://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.

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 72 et seqq. of the 2019 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 professionalism, honesty and integrity towards our customers, suppliers, governments, employees, shareholders and the public.

The Supervisory Board engaged Mazars GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, with registered office in Frankfurt am Main, as the auditor for the 2019 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.

If there is 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. Three ad hoc disclosures were published in the 2019 financial year. Specifically, the disclosures related to the disclosure of the intention of two major shareholders to place their shares, the revision of the forecast for the 2019 financial year and personnel changes in KAP AG's Management Board.

(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.

In the 2019 financial year, we were notified of six transactions. They related to the acquisition of equities by Management Board members, Uwe Stahmer and Dr Alexander Riedel. Furthermore, two notifications were corrected.

Directors' dealings can be found on <https://www.kap.de/en/investor-relations/disclosures/directors-dealings> and 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

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

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, 10 March 2020

The Management Board

The Supervisory Board

www.kap.de

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