

Remuneration Report 2021



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REMUNERATION REPORT PURSUANT TO SECTION 162 OF THE GERMAN STOCK CORPORATION ACT (AKTG) FOR THE 2021 FINANCIAL YEAR

The remuneration report clearly and comprehensively presents and explains the remuneration individually granted and owed to the members of KAP AG's Management Board and Supervisory Board in the 2021 financial year (1 January 2021 to 31 December 2021). The report meets the requirements of the German Stock Corporation Act (AktG). Detailed information on the remuneration systems for the members of KAP AG's Management Board and Supervisory Board is available on the Company's website on www.kap.de/en/investor-relations/general-meeting/agenda-documents.

Due to rounding, individual numbers in this report may not add up exactly to the total specified and percentages specified may not accurately reflect the absolute values to which they relate.

REVIEW OF THE 2021 FINANCIAL YEAR

The KAP Group's business performed better overall in the 2021 financial year than in the previous year as a result of the increase in demand in the automotive industry. Despite the gloomy market environment in the second half of the year, which particularly entailed considerable disruptions in global supply chains, KAP's continuing operations generated consolidated revenue of €345.8 million, which was 7.2% more than the previous year. Normalised EBITDA rose by 12.0% to €35.3 million. The KAP Group thus achieved the full year forecast for consolidated revenue of €320 to 350 million, which was raised in August 2021, within the upper range. The same applies to achievement of the target for normalised EBITDA with a forecast range of €32 to 38 million.

REPRESENTATION OF THE CORPORATE STRATEGY IN THE REMUNERATION OF THE MANAGEMENT BOARD

The current corporate planning is based on the Accelerate strategy programme. In this, KAP Group has bundled the strategic improvement initiatives already introduced, i.e. increasing sales focus, securing future prospects, increasing efficiency, optimising financial leeway, optimising and expanding the portfolio, and expanding overarching risk management.

Management Board members' remuneration is linked to the business strategy and the corporate planning based on it. A considerable proportion of the remuneration is performance-related and geared towards targets that derive from the business strategy or the corporate planning based on it. In addition, a considerable proportion of the performance-related remuneration is granted in the form of virtual shares. The current business strategy and current corporate planning aim for long-term and profitable growth. The planned growth simultaneously serves KAP AG's long-term development. The granting of virtual shares is intended to allow the Management Board members to participate in the successful implementation of the growth strategy. In this way, the remuneration contributes to promoting the business strategy and the Company's long-term development.

Performance in the 2021 financial year

2021 was a challenging year for the KAP Group. A year full of dynamism and uncertainties, but above all a year full of implementation successes and strategic development. As part of the Accelerate programme, the KAP Group successfully dealt with a large number of matters in the 2021 financial year. These include:

- increasing the stake in packaging specialist now Contec to 100%
- the acquisition of AerO Coated Fabrics B.V. (“AerO”) to strengthen the extrusion coating expertise in the flexible films segment
- the start of construction of the world's most efficient and modern passivation plant for light metal components in Jasper, USA
- the sale of the non-core-business companies MEHLER Engineering & Service and it-novum and sale of the commercial property in Fulda
- the start of construction of a new production hall with new state-of-the-art production plant and laboratory in Hessisch Lichtenau, Germany
- the acquisition of Haogenplast, Israel, to strengthen the vinyl expertise in the flexible films segment
- the expansion of the products for the e-bike market

Following the principle embedded in the remuneration system that particular achievements are appropriately rewarded and missed targets should lead to a noticeable reduction in remuneration (pay for performance), the good results of the 2021 financial year – even the increased forecast of August 2021 was achieved in full in a difficult market situation – are reflected in the variable remuneration of the Management Board. The Management Board members' remuneration is thus also aligned with the interests of shareholders and other stakeholders of KAP AG.

1. REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD

1.1 OVERVIEW OF THE REMUNERATION SYSTEM

The current remuneration system for members of KAP AG's Management Board has applied since the 2021 financial year and was approved by the Annual General Meeting on 30 September 2021.

There are no Management Board employment contracts between KAP AG and the serving members of the Management Board. Instead, both serving Management Board members are simultaneously managing directors of CSP Diamant Administration GmbH (CSP). Each Management Board member has a managing director employment contract with CSP, the party to which include not only the Management Board member and CSP but also KAP AG.

The remuneration to be granted by CSP under the managing director employment contract is simultaneously the Management Board remuneration, and CSP subsequently invoices this remuneration to KAP AG. The remuneration system applies irrespective of whether the Management Board remuneration is granted by CSP or another third party or directly by KAP AG. In the reporting year, the Management Board members received the remuneration presented below in full from CSP.

The Supervisory Board subjects the Management Board members' remuneration and the remuneration system to a review each year at its accounts meeting. In particular, the Supervisory Board reviews the appropriateness of the total remuneration of the individual Management Board members. If necessary, the Supervisory Board changes the remuneration system and submits the amended system to the next Annual General Meeting for approval.

(a) Components of the Management Board remuneration

The remuneration of the Management Board members consists of non-performance-related and performance-related components. The non-performance-related remuneration comprises the basic annual salary and fringe benefits. The performance-related remuneration consists of a short-term variable remuneration component, the annual bonus and a long-term variable remuneration component (the virtual share plan).

The following overview sets out the fundamental components of the remuneration system for the Management Board members.

Non-performance-related components



Performance-related components



(b) Non-performance-related remuneration

(i) Basic annual salary

The Management Board member receives a basic annual salary that is paid out monthly in twelve equal instalments.

(ii) Fringe benefits

The basic annual salary is supplemented by the following contractually guaranteed fringe benefits:

The Management Board member is entitled to a company car, which is also available for private use. The Management Board member can instead opt for the payment of a monthly lump sum of €1,000.00 (gross).

If the Management Board member receives their remuneration under a managing director employment contract with CSP or a third party, the Management Board member is reimbursed for the employee's share of the social security contributions if these need to be paid due to the employment as a managing director of CSP or a third party and would not be payable if the Management Board member were only a member of the Management Board of KAP AG and only had a Management Board employment contract with KAP AG. The reimbursement is made on a net basis, i.e. income tax that is payable on this reimbursement is also reimbursed.

Accident insurance, which also covers accidents outside the contractual activity, is also taken out for the benefit of the Management Board member. The premiums are paid for the Management Board member.

The value of all fringe benefits granted in a financial year must not exceed 20% of the basic annual salary for the financial year in question.

(iii) Pension commitments

There are no old-age pension commitments.

(c) Performance-related remuneration

(i) Annual bonus

The annual bonus is a short-term, one-year performance-related remuneration component that is granted annually.

Annual bonus

$$\text{Target bonus} \times \text{Total degree of target achievement (max. 200\%)} = \text{Payout amount (cash or, if applicable, up to 50\% in shares)}$$

Design

The annual bonus is granted at a target amount (target bonus) specified in the employment contract, 100% of which is paid out if the target achievement for all the targets, taking into account their respective weighting, amounts to 100% (total degree of target achievement) for the financial year in question. The targets are set annually, generally by no later than one month after the approval of the annual financial statements for the previous year, and following discussion with the Management Board member. The targets may be set later in the financial year in question if a person is appointed to the Management Board during the year or else for justified reasons.

Following the end of the financial year in question, the extent to which the Management Board member has achieved the targets agreed for the financial year in question and what bonus amount results from this is reviewed. The bonus determined in this way is payable one month after approval of the annual financial statements for the financial year in question.

Both financial and non-financial targets are set. The financial targets are weighted at up to 75% in total and the non-financial targets at at least 25% in total. The degree of target achievement can be between 0% and 200% in each case. To this end, in addition to the target value, which corresponds to 100% target achievement, a target achievement range is defined for each target. A lower value is defined, below which the degree of target achievement is 0%, and an upper value (cap) is defined, from which the degree of target achievement is set at 200%. The intermediate values are interpolated linearly. The total degree of target achievement results from the appropriately weighted degrees of target achievement for the individual targets.

The normalised consolidated EBITDA, which has been adjusted for special items, and the consolidated cash flow from operating activities are used as performance criteria for the financial targets. The target amounts that correspond to 100% target achievement are derived from the annual planning for the financial year in question, which is derived from the longer-term planning, which is, in turn, based on the business strategy. The figures from the consolidated financial statements are used to determine the degree of target achievement for the financial year in question.

Qualitative targets are set as non-financial targets, specifically those that involve concrete steps for implementation of the business strategy and are derived from business plans. These are structural measures or significant projects that serve to adapt the KAP Group's structures to the planned growth or to drive growth as planned. These particularly include measures and projects for implementing the strategic improvement initiatives. The Supervisory Board defines milestones (degree of implementation at certain points on the time axis) for the individual non-financial targets - taking account of the corporate planning. The degree of target achievement is determined using these milestones, which are translated into numerical values for this purpose.

The specific weighting of the individual targets is determined no later than when the targets are set.

Possibility of payment in the form of shares

It can be agreed that - as far as possible - up to 50% of the gross payout amount from the annual bonus will be granted in KAP shares (**share component**). The Management Board member can freely dispose of the KAP shares granted to them immediately. The number of KAP shares to be granted is determined by dividing the corresponding proportion of the gross payout amount by the unweighted average of the closing prices of the KAP share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last 20 trading days before approval of the annual financial statements for the financial year in question. If taxes or social security contributions are to be retained for the share component, the number of shares to be granted is reduced in accordance with the amount to be retained. If it is not possible to grant KAP shares despite appropriate efforts, the due date is postponed by one month. If the share component also cannot be granted in the form of KAP shares at this point, the share component can also be paid out in cash (in full). The further details on the design of the share component and additional rules are set out in the employment contract and any additional agreements with the Management Board member.

Promoting the business strategy and the Company's long-term development

The performance criteria selected for the financial targets are material key performance indicators for the Group. They represent important indicators for successful implementation of the business strategy. The non-financial targets correspond to important steps in the implementation of the business strategy and thus directly help to promote the business strategy and the Company's long-term development.

Being granted KAP shares gives the Management Board members the opportunity to participate in the successful implementation of the business strategy, which targets long-term and profitable growth. This should also help to promote the business strategy and the Company's long-term development.

(ii) Virtual share plan

The virtual share plan is a long-term, multi-year performance-related remuneration component that is granted annually and in which a certain number of virtual shares is granted following the end of the financial year in question subject to certain targets for that financial year being met.

Virtual share plan

Target allotment amount x	Total degree of target achievement (max. 200%)	=	Actual allotment amount
Actual allotment amount x	Initial value	=	Number of virtual shares
Number of virtual shares x	Final value	=	Payout amount (max. 4x target allotment amount)

Allotment of virtual shares

The virtual share plan is granted with a target allotment amount specified in the employment contract (target allotment amount), which is translated 100% into virtual shares if the total degree of target achievement for the financial year in question is 100%. The targets and their weighting and the calculation of the total degree of target achievement, including the cap, are the same as those for the annual bonus.

After the end of the financial year in question, a review is carried out of the extent to which the Management Board member has achieved the targets agreed for the financial year in question and what actual allotment amount results from this. The number of virtual shares is determined by dividing the actual allotment amount by an average share price for the KAP share prior to allotment (initial value). The initial value is the unweighted average of the closing prices of the KAP share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange during the whole financial year in question or - where a contract starts during the year - in the period between the start of the contract and the end of the financial year in question. Another average share price or another calculation can also be agreed as the initial value instead, although the relevant period must be at least one month.

The virtual shares are allotted after the approval of the annual financial statements for the financial year in question.

Design of the virtual shares

The virtual shares have a term of four full years. The period begins with the allotment of the virtual shares, but no later than one month after approval of the annual financial statements for the financial year in question. It can be agreed that the term will begin retroactively, either at the end of the day on which the annual financial statements for the financial year in question were approved or as early as at the start of the financial year that follows the relevant financial year for which the virtual shares were allotted.

Following the end of the four-year term, the Management Board member is paid out an amount for each virtual share determined as follows for the virtual shares in question: The payout amount corresponds to the unweighted average of the closing prices of the KAP share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last 30 trading days of the four-year term plus an amount to account for the dividends and other payments paid by KAP AG on a KAP share during the term and also any subscription rights granted (**final value**). In terms of the size of the additional amount, the Management Board member is placed in the same position as if:

- on the date on which they were payable, the dividends or other payments on a KAP share had each been invested in KAP shares or fractions of KAP shares and
- any subscription rights had each been sold on the first trading day in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange after they were granted and the proceeds of the sale had been invested in KAP shares or fractions of KAP shares on that day

and the investments in these KAP shares or fractions of KAP shares had been made at the closing price of the KAP share in XETRA trading (or a comparable successor system) on the Frankfurt Stock Exchange on that day, and these shares had in turn been sold at the final value (whereby the relevant term only begins with the respective investment).

In the event of a capital increase using company funds, a consolidation of shares, a share split, a capital decrease reducing the number of shares or another corporate action or structural measure and in the event of a dividend payment or distribution with an effect comparable to that of one of the above measures, an adjustment is made to prevent such a measure leading to dilution or an increase in profit for the Management Board member.

However, the payout amount from all virtual shares that are granted for a financial year amounts to no more than four times the target allotment amount (cap). In addition, a possibility to limit the payout amount resulting from the virtual shares is agreed in the event of extraordinary developments.

Payouts from the virtual share plan are made within 30 calendar days of the end of the term of the virtual shares in question.

The further details on the design of the virtual shares and additional rules are set out in the employment contract and any additional agreements with the Management Board member.

Promoting the business strategy and the Company's long-term development

The number of virtual shares depends on the achievement of financial and non-financial targets. The performance criteria selected for the financial targets are material key performance indicators for the Group. They represent important indicators for successful implementation of the business strategy. The non-financial targets correspond to important steps in the implementation of the business strategy and thus directly help to promote the business strategy and the Company's long-term development.

The allotment of virtual shares allows the Management Board members to participate in the successful implementation of the business strategy, which targets long-term and profitable growth. In this way, they should also help to promote the business strategy and the Company's long-term development.

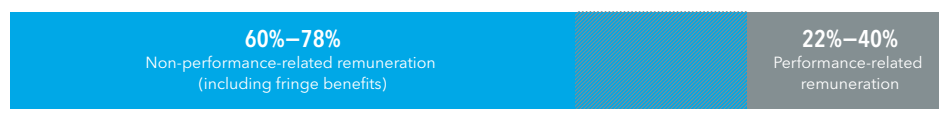
(d) Structural framework

The share of the annual basic salary, the annual bonus and the virtual share plan in the total remuneration (without taking account of fringe benefits) must be in the following ranges, with the annual bonus being set at 100% of the target bonus and the virtual share plan at 100% of the target allotment amount:

- Basic annual salary: 60% to 65%
- Annual bonus: 15% to 20%
- Virtual share plan: 20% to 25%

The maximum size of the fringe benefits is specified as a percentage of the basic annual salary and is therefore dependent on the aforementioned range for the basic annual salary.

Share of total target remuneration



(e) Target and maximum remuneration

The target total remuneration is the value a Management Board member receives in total for a financial year if the target achievement is 100% for all performance-related remuneration components. The annual bonus is set at 100% of the target bonus and the virtual share plan at 100% of the target allotment amount. The remuneration system permits target total remuneration of up to €800,000.00 for the individual Management Board members.

The maximum remuneration is the maximum value that a Management Board member may receive in total for a financial year. The maximum remuneration for the individual Management Board members is no more than €1,600,000.00.

(f) Determining the actual remuneration for the individual Management Board members

The room for manoeuvre that the remuneration system opens up is only exploited to the extent that this is appropriate taking account of the relevant circumstances in each case.

First the specific target total remuneration is set and then the remuneration structure for an individual Management Board member. The starting point is the specific target remuneration and their ranges and remuneration structures, as they exist at the date of the respective determination for the Management Board members of KAP AG in office at that time. On the establishment of this remuneration system, these are as follows (amounts in €):

Target total remuneration (without fringe benefits)	
of which:	500,000.00–575,000.00
1. Basic annual salary	300,000.00–350,000.00
2. Annual bonus (100% target bonus)	100,000.00
3. Virtual share plan (100% target allotment amount)	100,000.00–125,000.00

In the event of future determinations of new specific target total remuneration, it is possible to depart from the values/ranges in the above table in connection with the remuneration system providing that this appears appropriate to give due consideration to the tasks entrusted to the Management Board member, the member's experience and past achievements and the market circumstances. The prerequisite for this is that the remuneration is also appropriate with a view to the Company's situation and does not exceed the customary remuneration without particular reasons. To assess the proportionality within the KAP Group (vertical comparison), the relationship between the remuneration of the Management Board members and the remuneration of managers and also the remuneration of managers and employees as a whole, and how remuneration has developed over time, is taken into account. If an external remuneration expert is consulted, care is taken to ensure the expert's independence from the Management Board and from the Group.

The chairperson or spokesperson of the Management Board receives higher remuneration than the other Management Board members. When setting the remuneration structure, the following guidelines should be taken into account: The target allotment amount of the virtual share plan should exceed the target bonus of the annual bonus. The target bonus of the annual bonus should not exceed one third of the basic annual salary.

(g) Special contractual arrangements

(i) Malus and clawback provision

Payouts from the annual bonus, including of any share component, can be reclaimed and payouts from virtual shares that are allotted as part of the virtual share plan can be refused if it later turns out that the payout or allotment was wrongfully made in full or in part because targets were not actually achieved or were not achieved to the extent that was assumed on the basis of false information when calculating the payout amount or the number of virtual shares to be allotted. The Management Board member is in this case, in particular, obliged to repay the net amount by which a payout made from the annual bonus exceeds the payout amount that would have resulted if the actual target values had been used. The size of this clawback claim is determined in accordance with section 818 of the German Civil Code (BGB). The clawback claim becomes time-barred after three years have elapsed since the payment of the annual bonus.

Arrangements can be agreed with the Management Board members under which, if the Management Board member seriously breaches their legal obligations or internal codes of conduct, the variable remuneration paid out for the financial year in which the breach occurred can be reclaimed from the Management Board member in full or in part and payouts not yet made from virtual shares allotted for this period can be refused.

Furthermore, arrangements can be made with Management Board members under which payouts from the annual bonus can be reclaimed in full or in part and payouts from virtual shares that were allotted under the virtual share plan can be refused for cases in which the target achievement determined by the Supervisory Board for the payout or allotment prove to be unsustainable in subsequent years.

Expiry rules also apply to the virtual share plan, including for the event that the employment contract is terminated for cause within the meaning of section 626 (1) BGB for which the Management Board member is responsible and for the event that the appointment as a member of the Management Board is revoked for cause within the meaning of section 84 (4) of the German Stock Corporation Act (AktG).

1.2 APPROPRIATENESS OF THE MANAGEMENT BOARD MEMBERS' REMUNERATION IN THE 2021 FINANCIAL YEAR

The Supervisory Board carried out the annual review of whether the Management Board is appropriate and customary at its accounts meeting.

The review of the appropriateness of the remuneration of the Management Board for the 2021 financial year showed that the Management Board remuneration arising from the target achievement for the 2021 financial year is appropriate.

1.3 ACTUAL REMUNERATION FOR THE INDIVIDUAL MANAGEMENT BOARD MEMBERS FOR THE 2021 FINANCIAL YEAR

The actual remuneration for the members of the Management Board of KAP AG is described below. This section contains information on the total remuneration and on the objective and target achievement for the variable remuneration and individualised disclosures on remuneration of the individual Management Board members for the 2021 financial year.

(a) Non-performance-related components

(i) Basic annual salary

in €	2021
Eckehard Forberich	350,000.00
Marten Julius	300,000.00

(ii) Fringe benefits

For the 2021 financial year, fringe benefits were provided in the form of the provision of company cars and subsidies for social security benefits (see table entitled Remuneration granted and owed in the 2021 financial year).

(b) Performance-related remuneration – short-term variable remuneration (annual bonus)

The Supervisory Board set the normalised consolidated EBITDA, which has been adjusted for special items, and the consolidated cash flow from operating activities adjusted for special items as the performance criteria for the financial targets for the 2021 financial year. For both key figures, a concrete target has been derived from the annual planning, which was derived from the longer-term planning, which was, in turn, based on the business strategy, and a corresponding performance range with an upper and lower limit has been set. For the non-financial targets, performance measured by qualitative targets was used as the performance criterion. For the 2021 financial year, the non-financial targets set included the equally weighted criteria of the further development of the corporate strategy, the professionalisation of risk management and the development of a sustainability strategy.

In addition, the weighting per key figure was set at 40% for the normalised EBITDA, at 35% for the consolidated cash flow from operating activities adjusted for special items and at 25% for the non-financial targets.

(i) Determination of target achievement in 2021

The objective applicable and the target achievement determined for the annual bonus for the 2021 financial year is presented in the following table and applies in the same way to all Management Board members:

Objective and target achievement in the short-term variable remuneration (annual bonus)

Key figure	Weighting	Target assessment
Normalised consolidated EBITDA	40%	156%
Consolidated cash flow	35%	159%
Non-financial targets	25%	127%
Weighted average target achievement (total target achievement)		150%

(ii) Target amounts and level of the annual bonus in 2021

Target, minimum and maximum amounts for the annual bonus

in €	2021		
	Min.	Target (100%)	Max. (200%)
Eckehard Forberich	0	100,000.00	200,000.00
Marten Julius	0	100,000.00	200,000.00

The following payout amounts result on the basis of total target achievement of 150%:

Size of the annual bonus

in €	2021
Eckehard Forberich	150,000.00
Marten Julius	150,000.00

(c) Performance-related remuneration - long-term variable remuneration (virtual share plan)

For the long-term variable remuneration, both the financial targets and the non-financial targets are the same as those of the short-term variable remuneration. Thus, the normalised consolidated EBITDA, which has been adjusted for special items, and the consolidated cash flow from operating activities adjusted for special items are used as performance criteria for the financial targets, and performance measured by qualitative targets is used as the performance criterion for the non-financial targets.

The following applies to the 2021 Virtual Share Plan:

The contractual target amounts and the notional shares allotted are as follows for the individual members of the Management Board:

The target achievements for the performance criteria on which the long-term variable remuneration is based are determined on an annual basis. The Supervisory Board determined the same target achievements as for the annual bonus for the 2021 financial year.

The relevant price of the KAP share for the translation into virtual shares was €19.95.

in €	Target amount (based on 100% target achievement)	Maximum amount (200%)	Average degree of target achievement in %	Number of notional shares allotted
Eckehard Forberich	125,000.00	250,000.00	150	9,398
Marten Julius	100,000.00	200,000.00	150	7,519

For the tranche issued in the 2021 financial year, the Management Board members were provisionally allotted a total of 16,917 virtual shares.

(d) Malus and clawback provisions

In the 2021 financial year, the Supervisory Board did not find any reason to make use of the possibility - to the extent this was available - to reduce, reclaim, or completely refuse to grant variable remuneration components.

1.4 REMUNERATION GRANTED AND OWED

The remuneration granted and owed to each individual member of the Management Board in the 2021 financial year is presented individually in the following table. In accordance with the provisions of section 162 of the German Stock Corporation Act (AktG), the amounts fully vested at the end of the reporting period must be disclosed as remuneration granted and owed. A vesting-oriented perspective is generally followed in this respect. In deviation from this, the long-term remuneration only is reported according to the accrual principle, i.e. with the payment amount within the reporting year.

The disclosures on remuneration are in each case divided into fixed and variable remuneration components. The fixed remuneration components comprise the non-performance-related fixed basic annual salaries and fringe benefits. The variable remuneration components can be divided into one-year and multi-year variable remuneration. This remuneration disclosed for the reporting year comprises the fixed remuneration components actually earned and paid out in the reporting year plus the multi-year variable remuneration due and paid out in the financial year and the one-year variable remuneration fully vested in the financial year, which is paid out in the spring of the subsequent year (2022).

Remuneration granted and owed

	Eckehard Forberich		Marten Julius	
	Spokesman of the Management Board		CFO	
	in € thousands	%	in € thousands	%
Basic annual salary	350.0	67.6	300.0	64.9
Fringe benefits	17.8	3.4	12.6	2.7
Total	367.8	71.0	312.6	67.6
One-year variable remuneration (annual bonus)	150.0	29.0	150.0	32.4
Multi-year variable remuneration (virtual share plan)				
2020 Virtual Share Plan	–	–	–	–
2021 Virtual Share Plan	–	–	–	–
Total variable remuneration	150.0	29.0	150.0	32.4
Total remuneration (within the meaning of section 162 AktG)	517.8	100.0	462.6	100.0
Maximum remuneration	1,600.0	–	1,600.0	–

The Management Board members' remuneration in 2021 did not exceed the maximum remuneration of €1,600,000.00 specified in the remuneration system.

The maximum remuneration can only ever be assessed retrospectively when the payout from the long-term variable remuneration issued for the respective financial year is made. The final audit of compliance with the maximum remuneration for the 2021 financial year will thus be reported in the remuneration report for the 2025 financial year.

1.5 BENEFITS ON THE TERMINATION OF THE MANAGEMENT BOARD POSITION

(a) Benefits in connection with the termination of employment in the Management Board

No Management Board member's employment in the Management Board was terminated in the reporting period.

(b) Remuneration granted and owed to former members of the Management Board for the 2021 financial year

No remuneration was granted or owed to former members of the Management Board in the 2021 financial year.

2. REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

2.1 OVERVIEW OF THE REMUNERATION SYSTEM

KAP's Annual General Meeting on 30 September 2021 confirmed the remuneration system for the Supervisory Board applicable for the 2021 financial year. The remuneration system is set out in article 13 of KAP AG's Articles of Association.

The Supervisory Board must oversee the management by the Management Board. The remuneration of the Supervisory Board members should therefore be structured in such a way that it ensures, in particular, the independence of the Supervisory Board necessary for the supervisory task. The Supervisory Board members' remuneration consists exclusively of fixed remuneration components. The level of each individual Supervisory Board member's remuneration depends on the tasks they undertake in the Supervisory Board and its committees. The structure of the KAP AG Supervisory Board remuneration thus represents a counterbalance to the largely performance-related remuneration of KAP AG's Management Board members. This strengthens the Supervisory Board's independence and thus promotes KAP AG's long-term development. Even though the Supervisory Board remuneration is not directly linked to the Group's success, the remuneration also contributes to the successful implementation of the business strategy in this way.

The Supervisory Board reviews the appropriateness of the components, level and structure of its remuneration as the need arises. The Supervisory Board evaluates the Supervisory Board remuneration at other comparable companies and compares this with the remuneration of the Supervisory Board of KAP AG both with regard to the components and the level and structure of the remuneration. On the basis of this analysis and taking account of the importance and amount of the work in the Supervisory Board and its committees, the Supervisory Board then decides whether it is necessary to change its remuneration. Due to the particular nature of the Supervisory Board remuneration, which is granted for work that is fundamentally different from the work of the employees of KAP AG and the KAP Group, no vertical comparison with employee remuneration is undertaken when reviewing and setting the remuneration.

In accordance with the provisions set out in the Articles of Association, each member of the Supervisory Board receives fixed annual remuneration of €25,000.00. The chairperson of the Supervisory Board, the deputy chairperson of the Supervisory Board and the chairperson of any committee receive increased remuneration for the higher organisational and administrative effort associated with their work and their particular responsibility for the whole board or committee's successful and efficient collaboration. The chairperson of the Supervisory Board receives €50,000.00, and the deputy chairperson of the Supervisory Board and the chairperson of any committee each receive €37,500.00 as fixed annual remuneration. Membership in Supervisory Board committees is not remunerated separately. The remuneration is paid after the end of the financial year.

In accordance with section 113 (3) of the German Stock Corporation Act (AktG) in the version amended by the Act Implementing the Second Shareholder Rights Directive (ARUG II), in the case of listed companies, a resolution on the remuneration of the Supervisory Board members must be passed by the general meeting at least once every four years. In accordance with section 113 (3) AktG, the Annual General Meeting on 30 September 2021 thus passed a resolution on the remuneration of the Supervisory Board members.

2.2 INDIVIDUALISED DISCLOSURE OF THE REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

The remuneration granted and owed to each individual member of the Supervisory Board in the 2021 financial year is individually presented in the following table. It shows remuneration components for the 2021 financial year that will be paid out in the following year (2022). A vesting-oriented perspective is followed in this respect.

Remuneration granted and owed to the members of the Supervisory Board

	Basic remuneration	
	in € thousands	%
Christian Schmitz ¹ (since 7 July 2017, Chairman)	0	–
Uwe Stahmer (since 7 July 2017, Deputy Chairman since 25 February 2021)	37.5	100
Roy Bachmann (since 7 July 2017)	25	100
Joachim Coers (since 3 July 2019)	37.5	100
Christoph Schoeller (since 23 December 2020)	25	100
Viktor Rehart ¹ (since 13 October 2021)	0	–

¹ The Supervisory Board members have waived their Supervisory Board remuneration.

3. COMPARATIVE PRESENTATION OF THE CHANGE IN EARNINGS AND OF THE ANNUAL CHANGE IN REMUNERATION

The following overview presents the changes in the remuneration granted and owed to the individual Management Board and Supervisory Board members in the respective financial year in accordance with section 162 (1) sentence 2 of the German Stock Corporation Act (AktG). In contrast, the comparative period (starting in 2020, gradually building up in the following years until a five-year period has been reached), the developments of selected key earnings figures of the company and the Group are compared. Furthermore, the change in the average remuneration of employees on a full-time equivalent basis is presented in comparison. The average amounts for employees are calculated from the remuneration components of the financial year that have been paid out. Because KAP AG does not employ any staff itself, the workforce of Mehler AG, a wholly owned subsidiary of KAP AG, is used for the comparison. Mehler AG's employees all work for KAP AG. The Management Board itself and the trainees are not included in the headcount.

Remuneration granted/owed to the Management Board and the Supervisory Board in relation to the development of the rest of the workforce and to the Group's earnings performance

in € thousands	2020	Change in %	2021
Remuneration of board members			
Current Management Board members			
Eckehard Forberich	376.3 ¹	37.6	517.8
Marten Julius	99.5 ²	> 100	462.6
Current Supervisory Board members			
Christian Schmitz (Chairman)	0	0	0
Uwe Stahmer	20.9 ³	79.4	37.5
Roy Bachmann	25	0	25
Joachim Coers (Chairman of the Audit Committee)	37.5	0	37.5
Christoph Schoeller	2 ⁴	> 100	25
Viktor Rehart (since 13 October 2021)	0	0	0
Average employee remuneration^a			
Mehler AG's workforce	48.3	8.7	52.5
Earnings performance of the Company^b			
Consolidated revenue	338.7	2.0	345.6
Normalised consolidated EBITDA	32.5	7.7	35.0
Net profit for the year of KAP AG	-0.9	> 100	59.5

¹ Pro-rata remuneration, as employment commenced on 1 March 2020.

² Pro-rata remuneration, as employment commenced on 1 October 2020.

³ Pro-rata remuneration, as CEO of KAP AG until 28 February 2020 and subsequently ordinary Supervisory Board member.

⁴ Pro-rata remuneration, as only Supervisory Board member from 23 December 2020.

a Management Board and staff and over time. These include, for example, changes in the composition of the workforce, different salary adjustments for staff covered by collective bargaining agreements and staff not covered by collective bargaining agreements, incorporations and spin-offs of business entities for personnel policy measures.

b The key earnings figures published for the first time for the financial year in question are used and not, where applicable, figures adjusted in the subsequent year.

4. MISCELLANEOUS

The Company maintains directors' and officers' liability insurance for board members. The insurance covers the personal liability risk for the event that a claim for pecuniary loss is made against the group of people in the course of their work.

In particular, the Supervisory Board members are also included in the directors' and officers' liability insurance policy for board members and other managers of the Company and its subsidiaries (D&O insurance) in the interests of the Company. The premiums are paid by the Company. The Company reimburses the Supervisory Board members for their expenses and the value added tax payable on their remuneration to the extent they are entitled to invoice the Company separately for the value added tax and exercise this right.

As of 31 December 2021, there were no advance payments or loans to members of the Supervisory Board. Otherwise, the Supervisory Board members, with the exception of Roy Bachmann, did not receive any remuneration for personally provided services, particularly consultancy and brokerage services, in 2021.

For the Management Board

Eckehard Forberich

Spokesman of the Management Board
of KAP AG

Marten Julius-Meyer zu Starten

CFO
of KAP AG

For the Supervisory Board

Christian Schmitz

Chairman of the Supervisory Board
of KAP AG

5. AUDITOR'S REPORT ON THE AUDIT OF THE REMUNERATION REPORT PURSUANT TO § 162 (3) AKTG

To KAP AG, Fulda

AUDIT OPINION

We have formally audited the remuneration report of KAP AG, Fulda for the financial year from 1 January 2021 to 31 December 2021 to determine whether the disclosures pursuant to § 162 (1) and (2) German Stock Corporation Act (AktG) [Aktiengesetz] have been presented in the remuneration report. In accordance with § 162 (3) AktG, we have not verified the content of the remuneration report.

According to our assessment, the enclosed remuneration report provides, in all material respects, the information required by § 162 (1) and (2) AktG. Our audit opinion does not cover the content of the remuneration report.

BASIS FOR THE AUDIT OPINION

We conducted our audit of the remuneration report in accordance with § 162 (3) AktG and in compliance with the IDW auditing standard: The audit of the remuneration report [Die Prüfung des Vergütungsberichts] in accordance with § 162 (3) AktG (IDW PS 870). Our responsibility pursuant to that provision and standard is further described in the section "Responsibility of the auditor" of our report.

As an auditing firm, we have applied the requirements of the IDW quality assurance standard: Requirements for quality assurance in auditing practice [Qualitätssicherung in der Wirtschaftsprüferpraxis] (IDW QS 1). We have complied with the professional duties pursuant to the German Auditors' Code [Wirtschaftsprüferordnung] and the professional statutes for auditors/sworn auditors [Berufssatzung für Wirtschaftsprüfer/vereidigte Buchprüfer], including the requirements of independence.

RESPONSIBILITY OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The management board and the supervisory board are responsible for the preparation of the remuneration report, including the related disclosures, which complies with the requirements of § 162 AktG. Furthermore, they are responsible for the internal controls that they determine are necessary to enable the compilation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

RESPONSIBILITY OF THE AUDITOR

Our objective is to obtain reasonable assurance about whether the disclosures pursuant to § 162 (1) and (2) AktG in the remuneration report have been made in all material respects, and to express an opinion thereon in a report.

We planned and performed our audit to obtain evidence about the formal completeness of the remuneration report by comparing the disclosures made in the remuneration report with the disclosures required by § 162 (1) and (2) AktG. In accordance with § 162 (3) AktG, we have not audited the accuracy of the content of the disclosures, the completeness of the content of the individual disclosures or the adequate presentation of the remuneration report.

Frankfurt am Main, 22 April 2022

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

In the original German version signed by:

Jörg Maas	Michael Schaub
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

www.kap.de

KAP AG
Edelzeller Strasse 44
36043 Fulda
Germany