

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

For our company, the 2018 financial year was a very successful one – both in terms of operations as well as strategy. The growth achieved in revenue and in the core key performance indicator – normalised EBITDA – demonstrates that KAP AG is on the right course. The foundation of this course is the segment strategy which the Management Board consistently implements together with the newly appointed segment managers and which also promises further profitable growth over the coming years.

Collaboration with the Management Board

In the year under review, the Supervisory Board discharged the duties incumbent upon it in accordance with the law, the Articles of Association and the rules of the company with the greatest possible care. We collaborated closely with the Management Board and advised in the strategic development of the company as well as the material individual measures. The collaboration between the Management Board and Supervisory Board was always conducted in a trusting and open atmosphere. This was based on detailed written and oral reports by the Management Board, which were submitted during and outside the meetings of the Supervisory Board. In addition, there was also a regular exchange between the Chairman of the Supervisory Board and the Chairman of the Management Board outside the Supervisory Board meetings. In this way, we were always informed about all relevant economic key figures, the economic development in the markets relevant to the KAP Group and about deviations from short-, medium- and long-term planning. The Supervisory Board was thus always informed about the intended business policy, the profitability of the company, the risk situation including risk management, compliance and corporate planning including financial, investment, sales and personnel planning.

The Supervisory Board was always involved at an early stage in decisions of major importance. To the extent that decisions or measures taken by the Management Board required the approval of the Supervisory Board by law, the Articles of Association or the rules of the company, we examined the proposed resolutions in detail, discussed them in detail and always gave our approval.

Focus of Supervisory Board meetings

The Supervisory Board came together for a total of six meetings throughout the year under review. In these meetings, we dealt with the detailed reports of the Management Board on the course of business, in particular with the current revenue and earnings development, the opportunities and risks of business development, the major planned or ongoing investments and the situation of the company as a whole. All members of the Supervisory Board took part in at least half or more of the meetings in the 2018 financial year. No committees were formed.

In the meeting on 9 February 2018, we first intensively dealt with the provisional figures from the 2017 financial year as well as the realised one-time and special effects. Furthermore, our discussions with the Management Board covered investment planning for 2018 and possible optimisation measures within the portfolio. The Supervisory Board also approved the new segment and reporting structure based on five segments and supported the proposal to establish adjusted EBITDA as the central reporting and management indicator in the future.

In the meetings on 25 and 30 April 2018, in the presence of the auditor, we dealt comprehensively with the annual financial statements and the consolidated financial statements for 2017, the management report and the group management report, the corporate social responsibility (CSR) report and the proposal for the appropriation of profits. The auditor explained the audit report including the focal points of the audit. We also concluded the Report of the Supervisory Board. In the meeting on 25 April, the Management Board also reported – based on provisional figures – on the development in the first quarter of 2018 and provided an update on the optimisation measures within the portfolio. Further points on the agenda included acquisition, financial and liquidity planning for the 2018 financial year, as well as the further development of the risk management system and a report on the status quo with regard to compliance. We approved, without reservation, the recommendation to change the name of the company to KAP AG. Finally, we reorganised the delegation of duties within the Management Board.

In the meeting on 16 May 2018, we focused intensively on the takeover of the Heiche Group as well as the possible financing for the transaction and the impact the takeover would have on the liquidity situation of the KAP Group.

In the meeting on 20 July 2018, the focus was on the current development of business in the first half of 2018. An additional focal point of the meeting was the further planning for 2018, including the progress of the optimisation measures under consideration within the portfolio and the acquisition opportunities. We dealt extensively with digitisation and the implementation of Industry 4.0 solutions within the industrial group and with strategic approaches to further expand the innovative strength of the individual segments. We also dealt with the operative implementation of the segment strategy, the further orientation of the company on the capital market and the development of a new equity story.

The report of the Management Board on the development in the first nine months of 2018 was the subject of our discussions in the meeting on 5 December 2018. Furthermore, we discussed with the Management Board the budget plans for the 2019 financial year and the strategic development within the segments and the KAP Group as a whole. Another topic was the development of the liquidity and financing of the company. The Management Board also reported on the current status of the realignment on the capital market and the intensification of investor relations activities.

Corporate governance

The principles of sound corporate governance are given considerable importance at KAP AG and within the Supervisory Board. The further development of corporate governance

and compliance with the recommendations of the government commission on the German Corporate Governance Code (DCGK) were a focal point of our audit and advisory activities in the past financial year. At the meeting on 5 December 2018, after extensive discussion with the Management Board, we adopted the updated Compliance Statement in accordance with § 161 of the AktG on the basis of the DCGK as amended on 7 February 2017.

In the year under review, the Supervisory Board was not aware of any conflicts of interest on the part of individual members. None of the members of the Supervisory Board performs any executive or advisory duties for material competitors of the company.

Audit of annual financial statements and consolidated financial statements

BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, Germany, the auditing firm appointed by this year's Annual General Meeting, has audited the annual and consolidated financial statements prepared by the Management Board, including the management report and group management report for the 2018 financial year of the group and the individual company together with the accounting department. As a result, it can be stated that the company has complied with the rules of the German Commercial Code (HGB), the German Stock Corporation Act (AktG) and the International Financial Reporting Standards (IFRS) as applicable in the European Union. The auditor did not raise any objections and issued unqualified audit opinions for both financial statements.

The annual and consolidated financial statements, including the management report and group management report, the proposal for the appropriation of profits, the non-financial declaration and the auditor's reports, were made available to all members of the Supervisory Board in good time and were examined and discussed in detail with the Management Board and the auditor at the meeting on 25 March 2019. The auditor reported on the results of the audit and was available to answer additional questions and provide information. Key audit matters were one of the focal points. Based on the final results of our own examinations, we approved the results of the audit by the auditor and raised no objections.

The Supervisory Board approved the annual financial statements of KAP AG prepared by the Management Board and the consolidated financial statements of the KAP Group at its meeting on 25 March 2019 to approve the balance sheet. The annual financial statements for 2018 of KAP AG have thus been adopted. We approve the Management Board's proposal for the appropriation of retained earnings, which provides for the distribution of a dividend of €2.00 per share.

At the meeting on 25 March 2019, the two final candidates will personally present themselves to the Supervisory Board. One candidate will then be selected and proposed to the Annual General Meeting for election as the new auditor.

Changes in the Supervisory Board and Management Board

The shareholders of KAP AG appointed Fried Möller to the Supervisory Board at the Annual General Meeting on 20 July 2018. Due to the previous court appointment by the Fulda district court, Mr Möller had been a member of the Supervisory Board since 7

December 2017. Mr Pavlin Kumchev (Carlyle) has resigned from his post with effect from 28 February 2019 for reasons of professional change.

With effect from 1 May 2018, we appointed Dr Alexander Riedel to the Management Board. Dr Riedel took over the position of Chief Financial Officer (CFO), which had been vacant since André Wehrhan resigned from the position in December 2017 and which was temporarily taken over by CEO Guido Decker. Dr Riedel's areas of responsibility include finance, IT, compliance, personnel and property.

Thanks

The Supervisory Board would like to thank the members of the Management Board, the managing directors of our subsidiaries and all employees for their commitment and hard work in the 2018 financial year.

Fulda, 25 March 2019

For the Supervisory Board



Christian Schmitz

Chairman of the Supervisory Board