

# REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

The Supervisory Board performed the tasks incumbent on it pursuant to the law, the Articles of Association and the rules of procedure with great care in the 2021 financial year. The 2021 financial year was also still shaped by the coronavirus pandemic. The lockdowns imposed around the world to contain the pandemic affected the economic environment, particularly through the effects of supply bottlenecks and the semiconductor chip crisis. Nevertheless, the KAP Group increased revenue and was thus able to cope well with the challenges in this second year of crisis. The measures we introduced in the previous year to streamline the product and service portfolio and focus on our new core segments certainly helped us. However, in addition to the coronavirus, other events have also occupied the KAP Group. In the course of implementing our new strategy, we have sold our IT segment and our commercial property in Fulda and made the KAP Group more focused and stronger with the acquisitions of now Contec, Germany; AerO Coated Fabrics, Netherlands; and Haogenplast, Israel. Together with the Management Board, we will closely monitor the economic environment and take additional steps to realise growth potential in segments with attractive margins, and thus continue to ensure sustainable and successful corporate development.

For 2022, we expect a continuing volatile environment for the KAP Group. In particular, the aggravating impact of supply bottlenecks and the semiconductor chip shortage may have a negative impact on business development.

## COLLABORATION WITH THE MANAGEMENT BOARD

We regularly advised the Management Board on the management of the Company and monitored its work. This was based on detailed written and oral reports by the Management Board, which were provided in and outside of the meetings of the Supervisory Board. Between the meetings, regular dialogue also took place between the chairman of the Supervisory Board and the Management Board and the other members of the Supervisory Board and between the members of the audit committee and the Management Board. The Supervisory Board was directly involved in all decisions of fundamental importance for the Group. We were always promptly and comprehensively informed about the Group's business development, intended business policies, the Group's situation, the risk situation and risk management, compliance, corporate planning (including financial, investment, sales and personnel planning) and current issues. Where the Supervisory Board's consent was needed for decisions or measures of the Management Board on the grounds of the law, the Articles of Association or the rules of procedure, we comprehensively reviewed and thoroughly discussed the draft resolutions and adopted resolutions.

## SUPERVISORY BOARD MEETINGS AND COMMITTEE MEETINGS

In the year under review, there were a total of four regular meetings and one extraordinary meeting of the Supervisory Board and four meetings of the audit committee, which were in some cases held virtually due to the extensive restrictions in connection with the Covid-19 pandemic. The members of the Management Board took part in the meetings of the Supervisory Board – unless it was considered appropriate to discuss individual topics such as personnel issues concerning the Management Board without the Management Board's participation – and reported in detail about the progress of business affairs, the current revenue and earnings development, the opportunities and risks of business development, the significant planned or ongoing investments and disinvestments, and the Group's situation overall. All members in office took part in each of the Supervisory Board and committee meetings in the 2021 financial year. Furthermore, the Supervisory Board informally communicated with the Management Board on the current business performance or current progress on strategic projects – generally monthly.

The meetings had the following focuses:

In the meeting of 25 February 2021, we dealt intensively with the preliminary figures for the 2020 financial year. In addition, current M&A projects, insurance topics and the planning of the Annual General Meeting were discussed.

With the auditor present, we dealt extensively with the 2020 annual financial statements and consolidated financial statements, the management report and the Group management report, the separate combined non-financial Group report, the proposal on the appropriation of profits and the report of the Supervisory Board to the Annual General Meeting at the meeting on 22 April 2021. The auditor explained the audit reports including the focuses of the audit. The Management Board prepared a report on the relations of the Company with affiliated enterprises in the 2021 financial year, which the auditor audited and to which the auditor gave the following unqualified audit opinion pursuant to section 313 of the German Stock Corporation Act (AktG):

“Following our audit and assessment, performed in keeping with our professional duties, we confirm that:

1. the statements as to fact made in the report are accurate,
2. the consideration paid by the company for the legal transactions set out in the report was not excessive, or any disadvantages have been compensated.”

The auditor participating in the meetings of the committee and the Supervisory Board reported the results of the audit of the report on the relations of the Company with affiliated enterprises and answered questions.

Both the audit committee and the Supervisory Board were able to satisfy themselves that the audit and the audit report were in order and, in particular, satisfied themselves that the audit report – as well as audit itself – met the legal requirements. The Supervisory Board raises no objections to the Management Board's closing statement in the report on the relations of the Company with affiliated enterprises and concurs with the results of the auditor's audit.

Moreover, the Management Board reported on legal and HR matters. An update was also given on current M&A projects.

At the extraordinary Supervisory Board meeting on 10 August 2021, which was held by telephone and by way of circulation, the focus was on intensive discussion of the Management Board's remuneration system. At this meeting, the matters discussed and adopted in resolutions also included the invitation to the Annual General Meeting and the Supervisory Board's resolution proposals for the Annual General Meeting and holding the next Annual General Meeting as a virtual annual general meeting. At the meeting, the Supervisory Board also again dealt with the proposal for the appropriation of profit and proposed an increased dividend compared with April 2021. The dividend policy, the impact on KAP AG's liquidity and shareholders' interests were taken into account.

At the meeting on 16 September 2021, the focus was on detailed reporting on the KAP Group's business development in the first half of the year. The Management Board also gave an update on planning and the events of the Annual General Meeting and reported on the situation regarding M&A activities. Legal and HR topics were also discussed.

On 14 December 2021, we met for the last Supervisory Board meeting in the year under review. The focus at this meeting was not only current business development but also the budget for the 2022 financial year. We also spoke about legal, compliance and HR matters and the self-evaluation of our Supervisory Board work required by the German Corporate Governance Code. Moreover, the Management Board reported on the situation regarding M&A activities.

The audit committee comprised Joachim Coers (Chairman), Uwe Stahmer and Christian Schmitz in the year under review. In the 2021 financial year, the audit committee held four meetings on 19 March, 10 May, 13 September and 16 November 2021. The audit committee particularly dealt with the 2020 annual financial statements and consolidated financial statements, the 2021 consolidated half-year report and the quarterly statements. Further agenda items included risk management, the Company's internal control systems, various compliance topics and the processes and systems in the areas of controlling and corporate planning. In addition, the committee discussed the proposal for the election of the auditor for the 2021 financial year. The committee chairman reported on the meetings and the work of the audit committee at each Supervisory Board meeting.

## CORPORATE GOVERNANCE

The principles of good corporate governance are very important to KAP AG and the Supervisory Board. In light of this, dealing professionally with individual Supervisory Board members' conflicts of interest is particularly important to the Supervisory Board. A conflict of interest occurred in the case of one Supervisory Board member in the year under review. The Supervisory Board member handled this in accordance with the requirements of the rules of procedure for the Supervisory Board, disclosed it promptly to the Chairman of the Supervisory Board and did not participate in the decision-making process in this regard. The further development of corporate governance in our Group and compliance with the recommendations of the German Corporate Governance Code were a key focus of our auditing and consultancy work in the 2021 financial year.

The Supervisory Board has set targets for its composition that are taken into account in proposing resolutions to the Annual General Meeting in connection with Supervisory Board elections. In the current composition of the Supervisory Board, all the objectives for its composition are met, particularly:

- At least half the members of the Supervisory Board are to be independent, i.e. in particular not have any personal or business relationship with the Company, its Management Board or a controlling shareholder.
- An age limit of 75 years is taken into account for members of the Supervisory Board. Exceptions to this can only be made in justified individual cases.
- For members of the Supervisory Board, a limit on the length of membership of four terms in office or a total of twelve years is taken into account.
- When selecting candidates for election to the Supervisory Board, where candidates proposed are equally suitable, diversity must be taken into account.

The members of the Supervisory Board take responsibility for undertaking any training or professional development measures necessary to fulfil their duties, such as on changes in legal framework conditions, and are supported by the Company in this. Internal information events are offered as required for targeted training. New members of the Supervisory Board can meet the members of the Management Board and specialist managers to talk about fundamental and current topics and thus obtain an overview of the relevant topics regarding the business (onboarding).

#### AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, which was appointed as auditor by the Annual General Meeting, audited the annual financial statements and consolidated financial statements including the management report and Group management report for the 2021 financial year, which were prepared by the Management Board, taking into account the accounting records. The findings showed that the Company complied with the rules of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) and with International Financial Reporting Standards as adopted by the EU. The auditor did not raise any objections and issued unqualified audit opinions for both sets of financial statements. The Supervisory Board satisfied itself of the independence of the auditor and the persons acting on the auditor's behalf.

The annual financial statements and consolidated financial statements including the management report and Group management report, the proposal for the appropriation of profit, the separate combined non-financial Group report and the audit reports of the auditor were reviewed and discussed in detail with the Management Board and auditor at the Supervisory Board meeting on 26 April 2022. The financial statement documents and the audit reports were available to all members of the Supervisory Board on time and were dealt with in detail at the accounts meeting of the Supervisory Board on 26 April 2022. The auditor reported on the findings of the audit during its deliberations and was available to us for additional questions and information. The key audit matters were a focus. Based on the final result of our own review, we concurred with the findings of the audit conducted by the auditor and did not raise any objections.

The Supervisory Board discussed the annual financial statements of KAP AG and the consolidated financial statements of the KAP Group prepared by the Executive Board in detail at its meeting on 26 April 2022 and subsequently approved them on 27 April 2022. KAP AG's 2021 annual financial statements are thus adopted. We agree with the Management Board's proposal on the appropriation of retained earnings, which, despite the volatile environment, recommends distributing a dividend of €1 per share and otherwise carrying forward the remaining retained earnings. However, we will monitor developments in connection with the Russia-Ukraine war very closely and review the joint proposal by the Management Board and Supervisory Board before the Annual General Meeting.

### CHANGES IN THE SUPERVISORY BOARD

In its meeting on 25 February 2021, the Supervisory Board unanimously elected Mr Uwe Stahmer Deputy Chairman of the Supervisory Board. He also became a member of the audit committee. The Annual General Meeting on 30 September 2021 elected Mr Christoph Schoeller a member of the Supervisory Board, as his appointment by Fulda District Court ended at the end of the Annual General Meeting that passed the resolution on the formal approval of the Supervisory Board's actions for the 2020 financial year. His term in office will last until the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2021 financial year. The Annual General Meeting on 30 September 2021 also passed a resolution to amend article 7 (1) of the Articles of Association. The Supervisory Board will thus consist of up to six members instead of up to five members as before. On 30 September 2021, the Annual General Meeting therefore resolved to elect Mr Viktor Rehart as a further new member of the Supervisory Board. His term in office will last until the end of the Annual General Meeting that passes the resolution on the formal approval of the Supervisory Board's actions for the 2021 financial year.

### THANKS

The KAP Group has achieved important milestones for a successful future in the past financial year in a global economy marked by major disruption. The Supervisory Board would like to thank the members of the Management Board, the segment managers, the managing directors of the segment companies and all the employees for their great dedication and their achievements in the challenging 2021 financial year.

Fulda, 27 April 2022

For the Supervisory Board

**Christian Schmitz**

Chairman of the Supervisory Board