

DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO ARTICLE  
289F/315D GERMAN COMMERCIAL CODE (HGB) (January 2020)

The Declaration on Corporate Governance pursuant to Articles 289f, 315d German Commercial Code (HGB) is publicly accessible at: <https://www.kps.com/de/de/investor-relations/corporate-governance.html>.

1. **DECLARATION PURSUANT TO ARTICLE 161 STOCK CORPORATION LAW  
(AKTG)**

The Executive Board and the Supervisory Board of a company listed on the Stock Exchange in Germany must submit an annual Declaration pursuant to Article 161 Stock Corporation Law (AktG) stating the extent to which it has followed or is following the German Corporate Governance Code. Furthermore, reasons have to be provided explaining which recommendations of the Code have not been or will not be applied. Each Compliance Declaration is made public on the website of the company at [www.kps.com](http://www.kps.com) under the category “Investor Relations”, “Corporate Governance” for a period of five years. The latest Compliance Declaration of the two governance bodies relating to the version of the Code published in the Federal Gazette (Bundesanzeiger) on 20 March 2020 was published in January 2021 and states the following:

**Declaration by the Executive Board and the Supervisory Board of KPS AG  
on the recommendations  
of the “Government Committee of the German Corporate Governance Code”  
in accordance with Article 161 Stock Corporation Law (AktG)  
(Compliance Declaration)**

KPS AG complies with the recommendations of the version on the German Corporate Governance Code dated 16 December 2019 (“Code”) published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger)) on 20 March 2020 and will also comply with this Code in the future, with the following exceptions:

- A.1 The Executive Board expressly welcomes all efforts which act against gender discrimination and any other form of discrimination, and also promotes diversity as appropriate. When making appointments to management positions in the company, the decisions of the Executive Board are governed primarily on the basis of the competence and qualifications held by people in the available field of candidates.
- A.2 Up to now, compliance with the recommendation on implementation and publication of a Compliance Management System and on implementation of a system for “Whistleblowing” was not necessary in the view of the management owing to the lean hierarchy, the close involvement of the management in the day-to-day operational business and the manageable number of employees within the company. Rather, the

management has taken the view that the Risk Management System established within the company will be quite adequate for the foreseeable future in order to safeguard compliance with the statutory regulations and any other rules, and sufficient to avoid any violations of compliance.

- B.1 When making appointments to the Executive Board, the decisions of the Supervisory Board are governed primarily by the specific individual competence and qualification, while other characteristics such as gender, nationality or other diversity aspects were only of secondary importance for these decisions. This will continue to be the case in the future.
- B.2 The Members of the Supervisory Board and the Executive Board remain in regular contact about future appointments to the Executive Board and the long-term succession. The company does not consider more extensive succession planning and disclosure of such planning to be necessary either now or for the foreseeable future and believes that this is in the interests of ensuring flexible personnel expertise on the Supervisory Board.
- B.3 The recommendation in B.3, according to which the initial appointment of Members of the Executive Board should be made in the first instance for a maximum period of three years has not been complied with in the past because in the view of the company, the decision-making scope of the Supervisory Board is inappropriately restricted. However, the Supervisory Board will comply with this recommendation in future.
- B.5 The Supervisory Board has not defined any age limit for the Members of the Executive Board and will not define such an age limit in future. A corresponding disclosure will not therefore be made. The definition of an age limit for the Members of the Executive Board is not in the interests of the company and its shareholders since there is no compelling connection between a specific age of a Member of the Executive Board and their performance.
- C.1 Sentence 1 to 3 In view of the size of the Supervisory Board of the company and the statutory regulations defined in the Stock Corporation Law, which describes, in Article 100 Stock Corporation Law (AktG), the personal requirements for the role of a Member of the Supervisory Board, and in Article 111 Stock Corporation Law (AktG) the functions of the Members of the Supervisory Board, and therefore also simultaneously defines, in

the same way as the Code, the targets for nominations for the re-election of the Supervisory Board, the Supervisory Board has refrained from designating concrete targets for the composition of the Supervisory Board when it is re-elected and defining a competence profile for the board as a whole, and reporting on these matters. This also applies with a view to article 100 Sub-section 5 Stock Corporation Law (AktG), according to which the Members of the Supervisory Board as a whole must be familiar with the sector in which the company is operating. In future, the Declaration on Corporate Governance will also include information about the appropriate number of independent shareholder representatives that should, in the view of the Supervisory Board, be on the Supervisory Board, as well as their names.

- C.2 The Supervisory Board has not defined any age limit for the Members of the Supervisory Board and a corresponding disclosure was not made, since in the view of the view of the Supervisory Board, age does not provide any information about the capabilities of a member of a governance body.
- C.3 In the past, the duration of the individual membership was not disclosed for Members of the Supervisory Board, because this recommendation relates to a new disclosure. In future, the company will comply with this recommendation.
- C.7 Sentences 1 and 2 The value added of specific expertise and the in-depth knowledge about the company over many years on the part of the Supervisory Board Members Tsifidaris and Grünwald who are actively working in the company outweigh, in the view of the management, any supposed disadvantages of a Supervisory Board with a majority of independent members.
- C.8 Since this recommendation is new, so far there has been no corresponding justification in the Declaration on Corporate Governance in relation to the period of office of Mr. Hartmann of more than 12 years. However, it is intended to comply with this recommendation in future.
- C.10 In the opinion of the management the comprehensive knowledge of the company and the specific specialist expertise of Mr. Tsifidaris outweighs any lack of independence of the Chairman of the Supervisory Board.
- D.1 The rules of procedure of the Supervisory Board are not publicly accessible because the company does not derive any significant value added for the shareholders as a result of disclosure.

- D.2, D.3, D.4, D.5 In view of the actual number of Supervisory Board Members in accordance with the statutes (three) no committees are formed. The formation of committees is not expedient in the case of a Supervisory Board with three members and – contrary to the case with a larger plenary body – does not lead to an increase in efficiency. This is particularly the case in view of the fact that committees require at least three members to be decision-making bodies.
- D.7 The Executive Board also regularly participates in the meetings of the Supervisory Board of the company for reasons of efficiency. However, if particular agenda items have to be discussed, especially in relation to persons on the Executive Board, the Supervisory Board convenes without the Executive Board.
- D.11 In view of the size of the Supervisory Board, the company does not form an Audit Committee, which assesses the quality of the audit of the financial statements. However, a plenary session of the full Supervisory Board carries out an annual review of the quality of the audit of the financial statements as part of its own audit of the documents relating to the annual financial statements.
- D.12 No corresponding reporting has been carried out in the past, since the recommendation to provide a report on training and advanced-training measures for the Supervisory Board in the Supervisory Board Report is new. However, the intention is to comply with this recommendation in the future.
- F.2 The consolidated financial statements and management reports as at 30 September of each business year are published within four months after the end of the relevant reporting period. The financial information during the course of the year in the form of half-year financial reports and quarterly reports is published within two months of the end of the reporting period. The Executive Board and the Supervisory Board believe that the statutory publication deadlines and the supplementary regulations for the Prime Standard of the Frankfurt Stock Exchange are adequate in order to provide investors with regular and up-to-date information.
- F.5 In the past, the company only published the currently applicable Declaration on Corporate Governance on the Internet site because up to now there was no reason to also publish older compliance declarations. In future, the company will also not

comply with the recommendation because the publication of previous versions of declarations is not regarded as providing any significant value added for shareholders.

- G.1 and G.2 For every business year, the Supervisory Board defines concrete targets for the measurement of a performance-related bonus for Members of the Executive Board based on a multi-year assessment. Taking into account the fixed compensation for the Executive Board and the supplementary benefits, this yields a specific target compensation package. However, the Supervisory Board reserves the right, as appropriate, to define a higher target overall compensation for this business year by granting share options to a Member of the Executive Board in the course of the business year. The compensation system for the Executive Board also allows the possibility of performance-related remuneration in the form of bonus payments based on a multi-year assessment, with financial and non-financial performance indicators being defined as performance parameters. The selection of these performance criteria and their concrete determination is within the remit of the Supervisory Board owing to the system of compensation for the Executive Board which is submitted to the Ordinary Annual General Meeting for the business year 2019/2020 for approval. This room for maneuver provides the Supervisory Board with the necessary flexibility to make individual decisions relating to compensation in order to be able to respond to operational changes and the associated incentive aspects.
- G.3 The Supervisory Board does not use a benchmark group from other companies in order to assess the appropriateness of the concrete overall remuneration of the Executive Board Members by comparison with other companies. The Supervisory Board is of the opinion that owing to the specific and continually developing consulting focuses of the company, it would present considerable difficulties to define an appropriate benchmark group.
- G.4 In relation to the issue of what compensation is appropriate for the Executive Board, the Supervisory Board does not take into account the relationship of the Executive Board compensation with the compensation of the workforce overall, and does not take account of the passage of time in this context. The recommendation in G.4 of the Code appears to be rather impracticable in view of the special personnel structure of the company as a consulting firm and furthermore not suitable in order to guarantee that the compensation for the Executive Board is appropriate in all cases.

- G.7 In accordance with the recommendation in G.7 of the Code, the Supervisory Board should define the performance criteria for all variable remuneration components in respect of each Member of the Executive Board for the upcoming business year, which apart from operational targets should be primarily based on strategic targets. This recommendation was partly not complied with in relation to the time component and this will continue to be the case. The Supervisory Board does not make this definition in advance of a business year but only within the first half of a business year in order to wait for the end of the previous year so as to be able to define performance criteria and the associated company planning in a robust approach.
- G.10 The long-term variable remuneration components are not primarily granted based on shares or invested in shares of the company. In the view of the Supervisory Board, this kind of share-based remuneration for a Member of the Executive Board, who as a founder of the company already has a significant stake as a shareholder, would not provide a significant increase in the incentive effect. Members of the Executive Board can already take advantage of their long-term variable remuneration components within the period of four years, because in the view of the Supervisory Board a multi-year assessment forms an adequate basis for the purposes of sustainability.
- G.12 When a Member of the Executive Board steps down during the course of the business year, the payment of the long-term variable remuneration for the year of leaving is made pro rata with time and will be based on 100 % target attainment. If a Member of the Executive Board leaves the company, he is no longer responsible for the success or failure of the operational business and most importantly not responsible for the bonus parameters linked to the financial indicators.
- G.13 If the activity as a board member is terminated prematurely as a result of a change of control, the level of severance payments to a Member of the Executive Board is not limited to the residual term of the contract of employment. In the opinion of the Supervisory Board, a limit of this nature would restrict the scope of decision-making of the Member of the Executive Board in relation to the exercise of his right to serve notice of termination and would furthermore take away financial planning certainty from the Member of the Executive Board.

Unterföhring, January 2021

On behalf of the Supervisory Board  
Michael Tsifidaris  
Chairman

On behalf of the Executive Board  
Leonardo Musso

## 2. RELEVANT CORPORATE GOVERNANCE PRACTICES

The KPS Group aligns its corporate activities with the national legal systems of the countries in which the company is running its operations. The company has established internal regulations within the Group extending beyond the statutory framework relating to responsible corporate governance that reflect the guiding framework and governance principles within the Group. The guiding principles of the KPS Group are optimum customer orientation, highly developed dedication, and motivation, safeguarding and improving our quality standards, and creation of a positive working environment for our employees.

## 3. ACCOUNTING PRINCIPLES AND AUDITING OF FINANCIAL STATEMENTS

The KPS Group aligns its corporate activities with the national legal systems of the countries in which the company is running its operations. The company has established internal regulations within the Group extending beyond the statutory framework relating to responsible corporate governance that reflect the guiding framework and governance principles within the Group. The guiding principles of the KPS Group are optimum customer orientation, highly developed dedication, and motivation, safeguarding and improving our quality standards, and creation of a positive working environment for our employees.

## 4. WORKING PROCEDURE OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

If the Executive Board is made up of more than one person, the Board will generally meet on a monthly basis and as necessary also comes together on an ad-hoc basis. The Supervisory Board generally meets four times a year and otherwise convenes as necessary. The Executive Board regularly informs the Supervisory Board in a timely manner and with comprehensive information about all the issues relating to corporate strategy relevant for the company, the planning, the development of business and the risk position. The Executive Board also presents to the Supervisory Board project and income planning relating to the Group for the coming business year. The Executive Board immediately informs the Supervisory Board about important events that are relevant for the assessment of the position and development of the company. Important measures put forward by the Executive Board are only implemented following consultation with and approval by the Supervisory Board. No committees have been formed by the Executive Board or the Supervisory Board in view of the low number of members.

## 5. SELF-ASSESSMENT AND INDEPENDENCE OF THE SUPERVISORY BOARD

The Supervisory Board regularly reviews how effectively it carries out its functions. The self-assessment focuses in particular on the procedural processes in the Supervisory Board and the information flow between the Supervisory Board and the Executive Board, and the prompt delivery of information with appropriate content to the Supervisory Board. In view of the size of the company and the smooth information flows between the Supervisory Board and the Executive Board, the self-assessment was carried out without any external advisers. The review arrived at a positive result as was also the case in the previous year.

Hans-Werner Hartmann as a Member of the Supervisory Board provides an adequate number of independent members. Pursuant to Article 100 Section 5 Stock Corporation Law (AktG) he has expertise in the areas of accounting and auditing of financial statements. In the view of the Supervisory Board, Mr. Hartmann is entirely able to perform his monitoring and advisory functions in full and in the exclusive interests of the company and completely impartially in spite of his many years on the Supervisory Board. Mr. Hartmann has neither a personal nor any other business connection with the KPS Group and no conflicts of interest have occurred

in the past. In spite of this necessary distance from the company, Mr. Hartmann is very familiar with the core business of the KPS Group owing to many years of experience with the company and in-depth knowledge of it, and he is in an ideal position to contribute valuable ideas and advice. Mr. Hartmann therefore has the status of an independent member in spite of being a Member of the Supervisory Board of KPS AG for more than 12 years.

**6. DEFINITION OF TARGET PARAMETERS FOR THE PROPORTION OF WOMEN ON THE SUPERVISORY BOARD, EXECUTIVE BOARD, AND IN THE TWO SUBORDINARY MANAGEMENT TIERS BELOW THE EXECUTIVE BOARD**

The Supervisory Board and the Executive Board defined target parameters at KPS AG for the proportion of women on the Supervisory Board, the Executive Board, and in the two management tiers beneath the Executive Board up to 30 June 2017. The following table reports on target attainment for these parameters. At the same time, new target parameters for achievement by 30 June 2022 were also defined:

	<b>Initial position in 2015*</b>	<b>Target by 30 June 2017</b>	<b>Target attainment by 30 June 2017</b>	<b>New target by 30 June 2022</b>
<b>Supervisory Board</b>	0 %	0 %	0 %	0 %
<b>Executive Board</b>	0 %	0 %	0 %	0 %
<b>1st management tier</b>	0 %	0 %	0 %	0 %
<b>2nd management tier</b>	9.5 %	9.5 %	6.4 %	20 %

\* Target parameters as at the latest possible reference date of 30 June 2017 had to be defined for the first time by 30 September 2015.

The Supervisory Board defined the target parameter for the proportion of women on the Executive Board and the Supervisory Board as 0% when targets were first established in 2015. These target parameters were determined by the fact that the officers appointed to the managing and supervisory bodies at the time were incumbent until after 30 June 2017. On 30 June 2017, there were no female members of the Supervisory Board and the Executive Board. Furthermore, the Executive Board defined targets for the proportion of women in the first and second management tiers below the Executive Board in 2015, the attainment of which was envisaged by 30 June 2017. The target parameter of 0% was defined for the proportion of women in the first management tier on the basis of the status quo at the time for KPS AG and the deterioration prohibition that was in place, and 9.5% was defined for the second management tier. On the reference date of 30 June 2017, a proportion of 0% was attained for women in the first management tier of KPS AG and 6.4% in the second tier. The targets for the composition of the second management tier were therefore not attained, which is essentially due to the reasons referenced below.

KPS AG is striving to achieve an increase in the proportion of women both within the company and also within the relevant governance bodies. However, it is important to take into account that the search for suitable applicants and most importantly for suitable female applicants tends to be typically difficult for the sector in which KPS AG is operating such that the proportion of women within KPS AG overall and in particular in management positions is low. When searching for suitable male and female candidates for the Supervisory Board, the Executive



Board and the first and second management tiers, KPS AG makes its decisions solely on the basis of the knowledge, skills and specialist experience of the relevant individuals that are necessary for carrying out the relevant functions. Characteristics such as gender were and are of secondary importance in the selection of personnel. These circumstances were ultimately the reason that the targets defined for the proportion of women in the second management tier below the Executive Board could not be attained by 30 June 2017. Since the targets were first defined in 2015, the business operations of the KPS Group have developed gratifyingly and this expansion was accompanied by a corresponding increase in the number of employees. However, on the basis of the qualitative selection criteria referred to, it was only possible to appoint male candidates. This resulted in an overall arithmetic reduction in the proportion of women present in this group. Nevertheless, KPS AG intends to increase the number of suitably qualified women in management positions. The Group has therefore defined a target parameter of 20 % for the second management tier and attainment of this target is planned by 30 June 2022.

Owing to the reasons outlined above, as a precautionary measure the Supervisory Board has passed a resolution to implement a target parameter of 0 % in relation to the proportion of women on the Supervisory Board and the Executive Board by 30 June 2022. Similarly, the Executive Board has defined a target parameter of 0 % for the proportion of women in the first management tier by 30 June 2022.

## 7. DIVERSITY CONCEPT

The company also takes diversity seriously in the composition of the Executive Board and the Supervisory Board. However, this is not achieved by pursuing a diversity concept defined with strict terms of reference relating to diversity aspects such as age, gender, education and professional background. The composition of the managing and supervisory boards must ensure effective and sustainable management of the company directed toward the best interests of the company. In order to achieve fit and proper execution of its duties, the company will in future continue to be guided primarily by the specialist expertise, skills and experience of the field of candidates in selecting the Members of the Executive Board and the Supervisory Board.