

## Declaration by the Executive Board and the Supervisory Board of KPS AG on the German Corporate Governance Code

The Executive Board and the Supervisory Board of KPS AG declare pursuant to Article 161 Stock Corporation Law (“**Compliance Declaration**”) compliance with the recommendations of the Government Committee of the German Corporate Governance Code (“**Code**”):

1. The last Compliance Declaration was made in January 2017. Since this date, KPS AG has complied with the recommendations of the Code in the version dated 5 May 2015 (published in the Federal Gazette (Bundesanzeiger) on 12 June 2015) with the following exceptions:

Section 3.8 The D&O insurance for the Supervisory Board does not have a deductible.  
Sub-section In the opinion of the Executive Board and the Supervisory Board, the  
3 agreement of a voluntary deductible is neither appropriate nor necessary to guarantee that the members of the Supervisory Board fulfill their obligations in accordance with the defined requirements.

Section 4.1.5 The Executive Board expressly welcomes all efforts which act against discrimination for reasons of gender and on any other grounds and promotes diversity as appropriate. When making appointments to management positions in the company, the decisions of the Executive Board are governed solely on the basis of the competence and qualifications held by the candidates, and it does not equate gender with any primary relevance for decision-making in this connection. The Executive Board has defined target parameters and deadlines for achieving the target parameters pursuant to the statutory regulations for the proportion of women in the two management tiers below the Executive Board. These are published in the Declaration on Corporate Governance.  
S. 1

Section 4.2.1 Pursuant to Section 4.2.1, the Executive Board is intended to have several persons and a chair or spokesperson. Since Mr. Dietmar Müller stepped down from the Executive Board of the company at the end of the day on 31 May 2017, Mr. Leonardo Musso has held the position of sole Member of the Executive Board. At the present time, the Supervisory Board believes that an Executive Board with just one member is adequate in relation to the current scope of the functions to be performed and taking ac-

count of the activity of the first management tier beneath the Executive Board and the close cooperation between the Executive Board and the Supervisory Board. Nevertheless, the possibility of expanding the Executive Board by a further member in the future has not been excluded. The rules of procedure currently valid for the Executive Board continue to apply to the sole Member of the Supervisory Board insofar as rules are included there (e.g. management measures requiring a vote), which do not relate exclusively to an Executive Board with more than one member.

Section 4.2.2  
Sub-section  
2

The Supervisory Board does not use the ratio of compensation of the Executive Board to the compensation for the senior management and the workforce overall in relation to the issue of what level of compensation is appropriate for the Executive Board, neither is the development over time taken into account. Accordingly, the Supervisory Board does not lay down how the senior management and the relevant workforce should be defined. However, the power of the Executive Board to determine the two management levels beneath the Executive Board pursuant to Article 76 Sub-section 4 S. 1 Stock Corporation Law (AktG) is not affected by this. The recommendation in section 4.2.2 sub-section 2 S. 3 of the Code appears to be impractical on account of the specific personnel structure of the company as a consulting firm and furthermore inappropriate for guaranteeing that the compensation for the Executive Board is appropriate in every case.

Section 4.2.3  
Sub-section  
2

In the past, the variable compensation for the Executive Board did not take into account any negative developments such that real losses of income can actually occur (e.g. as a result of relevant repayments) or claims to variable compensation that have already arisen cannot be paid out or reduced. Given the structure of the compensation for the Executive Board, this does not appear to be necessary to ensure that the Executive Board does not enter into inappropriate risks in the course of managing the company.

Section 4.2.3  
Sub-section  
4

As was the case in the past for the contract of the Executive Board with Mr. Müller, the contract of service with Mr. Musso does not have a severance pay cap to cover the case of premature termination of the contract.

Such a rule does not appear necessary in addition to the conditions applicable under statutory regulations in the case of premature termination of the contract of service with a Board Member in order to safeguard the interests of the company and its shareholders.

Section 4.2.3 Sub-section 6 The Chairman of the Supervisory Board has not informed the Annual General Meeting about the principles of the compensation system, and their amendment because the information provided in the annual financial statements and the compensation report was deemed to be adequate.

Section 4.2.4 and 4.2.5 Sub-section 3 and 4 On 28 March 2014, the Annual General Meeting of KPS AG resolved with the necessary majority no longer to publish the information pursuant to Article 286 Section 5 German Commercial Code (HGB), Article 285 no. 9 letter a) sentence 5 to 8 German Commercial Code (HGB) and pursuant to Article 314 Section 3 sentence 1 German Commercial Code (HGB), Article 314 Section 1 no. 6 letter a) sentence 5 to 9 German Commercial Code (HGB). Against this background, the compensation system will also not be disclosed and explained using the sample tables in the compensation report.

Section 5.1.2 Sub-section 1 The Supervisory Board expressly welcomes all efforts which act against discrimination for reasons of gender and on any other grounds, and promotes diversity as appropriate. When making appointments to the Executive Board, the decisions of the Supervisory Board are governed solely by the specific individual competence and qualification, and other characteristics such as gender or nationality have not been relevant to such decisions and will not be applicable in the future. Target parameters in accordance with the statutory regulations for the proportion of women on the Executive Board have been defined along with deadlines relating to attainment of the target parameters. These are published in the Declaration of Corporate Governance.

Section 5.1.2 Sub-section 2 S. 3 The Supervisory Board has not defined any age limit for the Members of the Executive Board. 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 Mem-

ber of the Executive Board and their performance.

Section 5.3 No committees are formed in light of the number of Members of the Supervisory Board (three) in accordance with the statutes of the company and the actual number of members (three). In the view of the Supervisory Board, the formation of committees is not effective and – contrary to the situation with a bigger supervisory body – does not result in an increase in efficiency. This is particularly true against the background that committees taking decisions require at least three members. All relevant matters are therefore dealt with by all the members of the Supervisory Board.

Section 5.4.1 In the view of the Supervisory Board, the composition of the Supervisory Board is presently such that the principles of diversity, potential conflicts of interest and the international activity of the KPS Group are appropriately taken into account. Pursuant to the statutory regulations defined in the Stock Corporation Law, which describes in Article § 100 Stock Corporation Law (AktG) the personal requirements for the activity as a Member of the Supervisory Board and in Article 111 Stock Corporation Law (AktG) the functions 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 when the Supervisory Board is re-elected. There is no corresponding reporting on the status of implementation in the corporate governance report for this reason. The Supervisory Board regards as problematic the definition of an age limit for membership of the Supervisory Board based on the General Equality Law and will not produce such a definition. A control limit for the length of membership of the Supervisory Board has not been defined because the company would be unnecessarily cut off from the consulting expertise of individual persons as a result of such a restriction. Pursuant to the statutory regulations, the Supervisory Board has defined target parameters in relation to the proportion of women on the Supervisory Board and for the attainment of the target parameters which are published in the Declaration on Corporate Governance.

Section 5.4.1 The Supervisory Board does not disclose the personal and business relationships of each candidate for the company, the governance bodies of the

6 company and a shareholder with a major interest in the company when it submits proposals for election to the Annual General Meeting. In the opinion of the Supervisory Board, the recommendation of the Code entails not insubstantial risks, and the Supervisory Board believes that complying with it would therefore not be in the interests of the company.

Section 5.4.6 Individualized disclosure of the compensation of the Members of the Supervisory Board and their guaranteed compensation or benefits granted for personally rendered services, in particular consulting and mediation services, is not provided on an individualized basis. We prefer to provide information about the summarized Supervisory Board remuneration payments because we do not perceive any additional material benefits for the shareholders if information is presented with a breakdown on an individualized basis and with individual components. Furthermore, the individual payments to Members of the Supervisory Board are sufficiently transparent on the basis of the minutes of the Annual General Meeting that are available in the public domain.

Section 7.1.2 The consolidated financial statements as at 30 September of each business year were not published within 90 days but within 120 days of the end of the relevant reporting period. The interim reports were not published within 45 days but within 60 days of the end of the reporting period.

2. On 7 February 2017, the Government Committee of the German Corporate Governance Code presented a new version of the Code, which was published in the Federal Gazette (Bundesanzeiger) on 19 May 2017 ("**Code New Version**"). KPS AG complied with the Code New Version with the exceptions specified above under Section 1 and the justification provided there, and with the exception of the following (new) recommendations:

Section 4.1.3 The Executive Board should ensure appropriate measures to match the risk situation of the company (Compliance Management System) and make disclosures on this basis. Employees should be granted the opportunity in an appropriate way to provide confidential notifications on legal infringements within the company (whistleblowing). Compliance with the recommendation and implementation of a comprehensive Compliance Management System has so far not been deemed necessary in the view of the management on account of the lean hierarchy and manageable num-

ber of employees in the company. However, the Executive Board has reviewed the Compliance Management System already established within the company in light of this new recommendation, and is currently being assisted by external advisors in building up a Compliance Management System which takes account of the potential risks in the company. Implementation of this system is scheduled during the coming business year.

Section 5.4.1 Sub-section 2 S. 1 and Sub-section 4 S. 1

Alongside concrete targets for its composition, the Supervisory Board should now also draw up a competence profile for the entire body. The company deviates from this recommendation because the Supervisory Board does not perceive any additional need to draw up a separate competence profile for the body as a whole in light of the size of the Supervisory Board of the company and the statutory requirements incumbent on the Members of the Supervisory Board. This is applicable primarily in view of Article 100 Sub-section 5 Stock Corporation Act, according to which the Members of the Supervisory Board as a whole needs to be familiar with the sector in which the company is operating.

Section 5.4.1 Sub-section 4 S. 3

Information should now also be provided in the Corporate Governance Report about the appropriate number of independent members of the shareholders in the view of the Supervisory Board and the names of these members. Given the new introduction of this recommendation, the Corporate Governance Report did not in the past include the names of independent members. However, the company will comply with this recommendation in future Corporate Governance Reports.

3. In future, KPS AG will comply with the recommendations of the Code New Version apart from the following exceptions. Insofar as nothing to the contrary has been declared reference is made to the reasons for these deviations provided in Section 1 and 2:

- Section 3.8 Sub-section 3
- Section 4.1.3
- Section 4.1.5 S. 1
- Section 4.2.1
- Section 4.2.2 Sub-section 2
- Section 4.2.3 Sub-section 4
- Section 4.2.3 Sub-section 6

- Section 4.2.4 and 4.2.5 Sub-section 3 and 4
- Section 5.1.2 Sub-section 1
- Section 5.1.2 Sub-section 2 S. 3
- Section 5.3
- Section 5.4.1 Sub-section 2 and 4
- Section 5.4.1 Sub-section 6
- Section 5.4.6 Sub-section 3
- Section 7.1.2: The consolidated financial statements and the management reports as at 30 September of each business year are published within four months of the end of the relevant reporting period. Financial information during the course of the year is published within two months of the end of the reporting period in the form of half-year financial reports and quarterly interim statements. The Executive Board and the Supervisory Board comply with the statutory publication deadlines and the supplementary regulations for the Prime Standard of the Frankfurt Stock Exchange in order to provide investors with adequate information on a prompt and regular basis.

Unterföhring, January 2018

For the Supervisory Board  
Michael Tsifidaris  
Chairman

For the Executive Board  
Leonardo Musso