Report of the Executive Board on agenda item 7

As a precautionary measure and for purposes of information to the shareholders, the Executive Board submits this report on the creation of the Stock Option Program 2020 and Contingent Capital 2020 I proposed under agenda item 7 in the invitation to the virtual ordinary Annual General Meeting to be held on 25 September 2020:

Under agenda item 7, the Executive Board and the Supervisory Board propose that the Annual General Meeting authorize the Executive Board to grant up to 2,000,000 subscription rights ("**share option rights**") on up to 2,000,000 registered no-par shares in the company. The Supervisory Board alone is authorized to grant share option rights to Members of the Executive Board of the company.

Furthermore, the Executive Board and the Supervisory Board propose under agenda item 7 the creation of Contingent Capital 2020 I in the amount of up to EUR 2,000,000.00, out of which share option rights in the company issued under the Stock Option Program 2020 can be fulfilled. The subscription right of shareholders to the subscription rights issued in the context of the Stock Option Program and correspondingly to the shares from the Contingent Capital 2020 I is excluded.

1. Entitled beneficiaries, distribution of the share option rights, issuance periods

   In the context of the Stock Option Program 2020, the Executive Board or the Supervisory Board are empowered to grant subscription rights for up to 2,000,000 share options, the subscription rights for up to 2,000,000 registered no-par shares in the company for issuance to members of the Executive Board of the company (Group 1), members of the Executive Management of affiliated companies (Group 3) and selected employees below the board level of the company (Group 2), and below the Executive Management of the affiliated companies (Group 4). Out of a maximum of 2,000,000 share options, a maximum of 400,000 (corresponding to 20 %) are attributable to Group 1, a maximum of 100,000 (5 %) are attributable to Group 2, a maximum of 400,000 (20 %) are attributable to Group 3 and a maximum of 1,100,000 (55 %) are attributable to Group 4. The definition of the precise group of beneficiaries entitled to the options and the scope of the share option rights granted in each case to them is the responsibility of the Executive Board with the approval of the Supervisory Board.

   The issue will be carried out in one or several tranches. The issue of share option rights is only permissible (i) within a period of two weeks after publication of an annual report or half-year report or a quarterly release, and (ii) within a period of two weeks after an ordinary

Annual General Meeting, insofar as a deviation from this provision is not appropriate for legal reasons. The Supervisory Board shall decide on the definition and issue of share options for eligible beneficiaries in Group 1 who are Members of the Executive Board. Otherwise, (Group 2, Group 3, Group 4), the Executive Board is responsible for granting subscription rights.

2. Waiting time, period for exercising the option rights

Pursuant to Article 193 Section 2 No. 4 Stock Corporation Act (AktG), the subscription rights can be exercised for the first time by the entitled beneficiaries after the expiry of four years following the issue date of the relevant tranche. After expiry of this waiting period, the entitled beneficiaries can furthermore exercise the subscription rights granted at any time after expiry of this waiting period except during the exercise blocking periods. The exercise blocking periods relate in each case to the following time periods (i) the period from expiry of the period to registration for an Annual General Meeting of the company to the end of the day of the annual General Meeting, (ii) from the day on which the company published an offer to its shareholders for the acquisition of new shares until the end of the offer period, (iii) from 30 calendar days before publication of an annual report or a half-year financial report or the quarterly release on the basis of the schedule in the company calendar, and (iv) from 15 December of one year to midnight on 15 January of the subsequent year. Furthermore, when subscription rights are exercised, any internal rules and the statutory requirements must be observed. An exercise of the rights is not permissible in particular if an entitled beneficiary is in possession of insider information (pursuant to the European Market Abuse Directive).

3. Exercise price, issue price and dilution protection

When a subscription right is exercised, the entitled beneficiary must pay the exercise price. The exercise price corresponds to 100% of the issue price. The issue price is equal to the closing price (arithmetic mean) of the shares of the company in the electronic Xetra trading system of the Frankfurt Stock Exchange (or a comparable successor system) on the last five trading days before the day of the exercise of the share option right. The profit of the option holder achievable by the exercise of the share option rights in the form of the difference between the strike price and the exercise price must not exceed three times the issue price ("**cap**"). If the cap is exceeded, the issue price of the share option rights affected in each case is adjusted so that the difference between the strike price and the adjusted exercise price does not exceed three times the issue price.

The exercise price represents the issuance amount for the new share which is to be issued for a properly entitled exercised subscription right from the Contingent Capital 2020 I. If the company carries out capital and structural measures within the term of the share option rights, the Executive Board of the company, or insofar as the Members of the Executive Board are affected, the Supervisory Board, are authorized to treat the beneficiaries in the same way economically. This applies in particular, insofar as the company increases the capital stock in granting a direct or indirect subscription right to shareholders by issuing shares against cash considerations or issuing partial bonds with option or conversion rights. This equal treatment may be realized by reduction of the issue price or by adjustment of the subscription relationship, or by a combination of both. However, the beneficiary shall have no entitlement to claim equal economic treatment or any other protection against dilution.

4. Non-transferability and forfeiture

The share option rights are granted as non-transferable subscription rights. With the exception of cases of inheritance, the share option rights are neither transferrable nor alienable, pledgeable or otherwise chargeable. The share option rights lapse without payment of compensation if notice is served on the employment relationship between the option holder and the company or an affiliated company or the relationship ends. This does not apply insofar as the share option rights have become non-forfeitable in accordance with the more detailed terms of the share option conditions. All share option rights lapse without compensation at the latest after expiry of the maximum term.

5. Performance target

The share option rights can only be exercised if and insofar as the performance target is reached: The proposed performance target is fulfilled if the EBIT of the company for the business year prior to expiry of the relevant waiting period has increased by at least 50 % compared with the EBIT for the business year ending before issue of the corresponding share option rights. The basis for determining the EBIT is the audited consolidated financial statements of the company in accordance with IFRS for the relevant business year.

6. Incentivization and loyalty

The Executive Board and the Supervisory Board believe that the proposed granting of variable remuneration by way of the Stock Option Program 2020 constitutes an important instrument for fostering sustainable loyalty and incentivization of the program participants.

The program participants taking part in the Stock Option Program 2020 can benefit indirectly from increases in the corporate value as a result of a rise in the share price of the company. As a result, this creates a specific incentive to identify with the company and to make a contribution to the growth of the company and hence to the increase in corporate value. In particular, a sustainable incentive for identification with the KPS Group is created as a result of the waiting time of four years, the lapse of share options not yet vested without compensation when the employment relationship between the owner of the share options and the company or an affiliated company comes to an end, and because the entitled beneficiaries become shareholders in the company when they exercise their subscription rights and hence also participate in the development of the company as shareholders. As a consequence, this Stock Option Program reduces the risk of program participants leaving the company or affiliated companies at an early stage within a competitive market environment to the detriment of the KPS Group. Since the Stock Option Program 2020 is equity based, it also permits variable remuneration to be granted while conserving liquidity.

The Stock Option Program 2020 is limited to around 5.35 % of the current capital stock of the company. Hence, it is significantly below the statutory permissible maximum volume of 10 % of the capital stock. The proportionate dilution effect for the shareholders is correspondingly restricted, which makes it easier for shareholders to acquire the shares necessary to maintain their shareholding on the stock market.

Unterföhring, September 2020

Leonardo Musso
Sole Member of the Executive Board