

Engineering Excellence

Non-financial group report 2020



kap

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182,200.6
MWH

ENERGY CONSUMPTION

66,611.6
TONS

GHG EMISSIONS

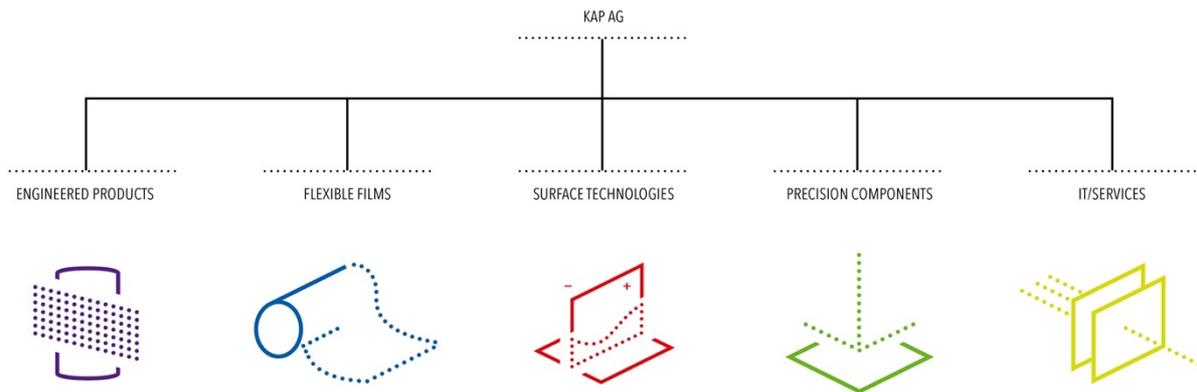
2,694

EMPLOYEES IN THE
REPORTING YEAR

ABOUT KAP

Brief introduction to the segments and business model

The KAP Group is a fast-growing, mid-sized industrial group with around 2,700 employees at 29 sites in 13 countries worldwide. Within our *engineered products*, *flexible films*, *surface technologies*, *precision components* and *it/services* segments, we develop innovative industrial products and pioneering technological solutions for companies from trade and industry. The process for the sale of the it/services segment was initiated in the third quarter of 2020, enabling KAP AG to take advantage of attractive offers by interested parties on the market and increase its investment focus on industrial manufacturing companies.



In our *engineered products* segment, we develop, manufacture and distribute high-tech fabrics and yarns with chemical and physical finishes to provide our customers around the world with products that offer characteristically high performance. Our products are used in a wide range of industries, including mobility, energy, construction and medical technology.

In the *flexible films* segment, we develop, manufacture and distribute flexible films internationally for a huge range of applications. The product portfolio extends from flexible packaging solutions for the consumer goods and automotive industries to products for the medical technology industry and the entertainment sector, to energy-efficient system products for the construction industry and digital imaging sector.

In our newest segment, *surface technologies*, we use innovative technical and chemical processes to fulfil our customers' individual requirements to an exceptional quality level and to increase the service life of end products. In particular, we achieve this by focusing on services that offer lasting corrosion and wear protection, but our customers also value decorative and aesthetic requirements. Coating is performed as part of an extensive range of services for various metal surfaces. These include passivating and chrome plating, in which we are the market leader, or electrogalvanising.

In the *precision components* segment, we develop and manufacture high-precision metal, plastic and hybrid components, modules and systems in medium to high quantities for various industrial applications and sectors. These are frequently used in electronic or electromechanical actuators and drive systems. In doing so, we implement solutions made from both plastic and from plastic and metal composites. Our portfolio includes high-precision gears and contiguous metal products that are installed in e-bikes, for example. The production and product structures are shifting increasingly in some companies as a result of increasing electromobility requirements.

In our *it/services* segment, we have united our expertise in software development and machine engineering within a single unit. This has allowed us to develop a unique expertise in digitisation, Industry -4.0 solutions and services with regard to the use of machinery, which we use to support customers in a wide range of industries.

As a listed industrial holding company, KAP AG performs the higher-level functions of strategic corporate development in particular as well as the further development and the creation of the segment strategy based on

a buy-and-build approach. The result is a portfolio that is able to weather market fluctuations as a Group. We continually review the attractiveness and competitiveness of existing and new segments, as well as ways to shore up our Group both domestically and internationally. We are able to achieve scaling effects, for example, in financing, and implement a continuous improvement process. On the basis of a long-term strategy, we further expand our high-margin industrial holdings through organic growth and acquisitions and by turning them into market leaders in their respective attractive niche markets, offering the respective customer groups significant added value.

For an in-depth description of our business model and the segments, please refer to pages 6-11 and 28 et seq. of the 2020 Annual Report.

SUSTAINABILITY MANAGEMENT

Strategy and management



KAP AG is committed to responsible corporate governance in all participating companies. Based on our awareness of sustainability throughout the entire value chain, we systematically take into account environmental and social aspects when making business decisions and designing business processes. Financial success, integrity and social responsibility are all of equal importance to KAP – regardless of whether we or our segments are conducting our business in Germany, Europe or in other parts of the world. We pursue the guiding principle of sustainable and future-proof development and focus on a number of individual Sustainable Development Goals (SDGs) of the United Nations in all of our business activities: SDG 5, SDG 8, SDG 9 and SDG 13. This will be outlined in more detail in the corresponding sections of the report.

Responsibility and integrity aren't just buzzwords for us but the basis of the trust that our customers, business partners, shareholders, society and our employees have placed in us.

Our Management Board bears the overall responsibility for this and ensures that sustainability and business ethics are anchored firmly within our strategy, our management and in our day-to-day actions.

The individual Managing Directors are given the entrepreneurial freedom they need to independently implement the objectives we have defined together. However they are still integrated into the overall management of the Group through our reporting and risk management system. The standards for which we are certified also form a shared operational framework. This enables us to push ahead with business developments and sustainability issues quickly and efficiently. Environmental and human rights issues are also important within our supply chain. Taking corporate, ecological and social responsibility is therefore firmly anchored within our organisational structures and is actively driven by the individual segments. It is an important component of our company policy in terms of both strategy and operations.

We welcome open dialogue with our stakeholders and champion the transparent presentation of our goals, measures and performance indicators in the field of sustainability. To put our commitment to sustainability into action, we are gradually developing non-financial performance indicators as well as systems for recording them. Selected parameters, the results from the reporting year and their development over the past year are presented in the sections below. Our sustainability management and reporting are constantly being expanded.

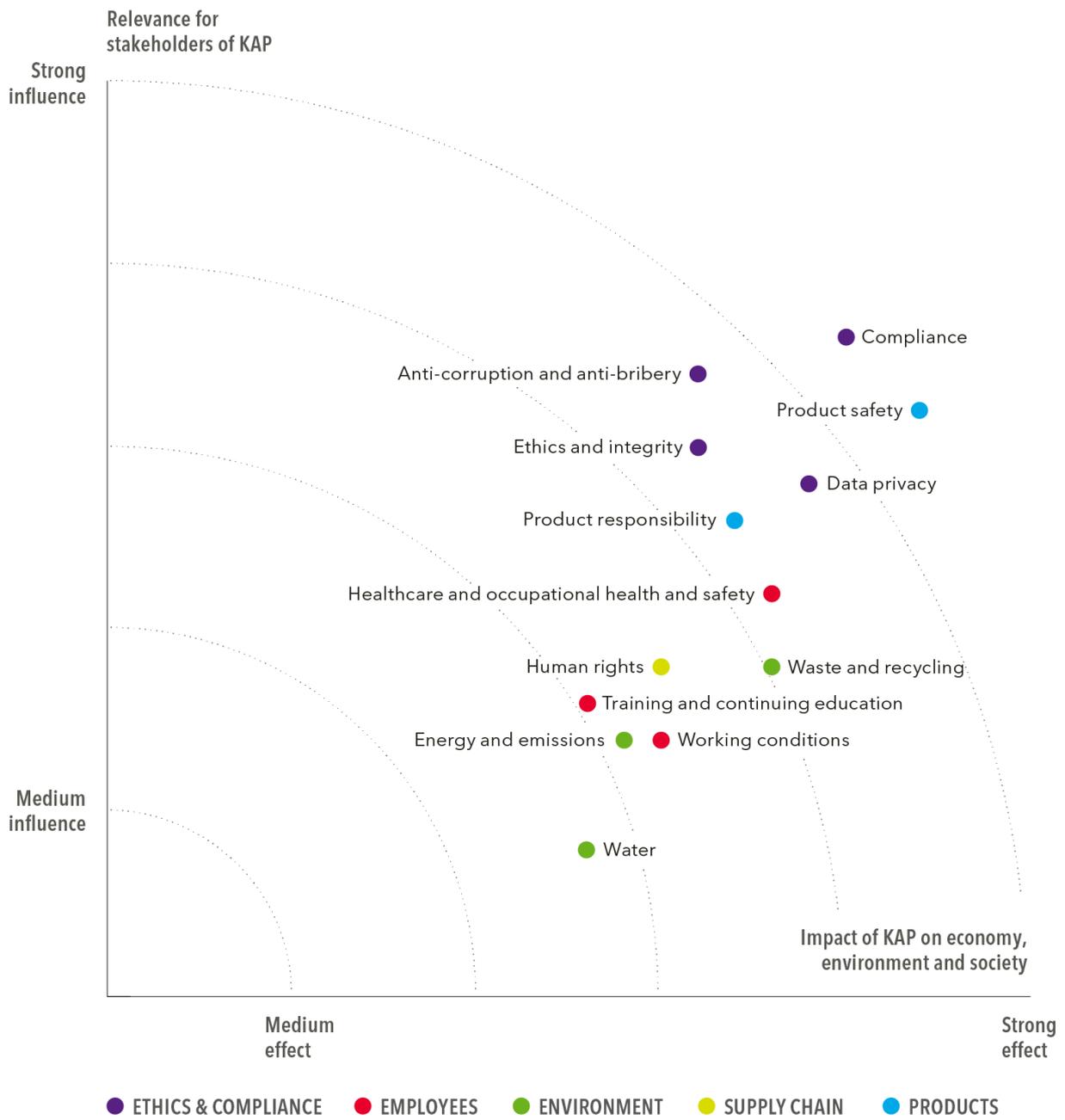
Materiality analysis

The material topics for the KAP Group according to the CSR Directive Implementation Act are derived from a materiality analysis that we conducted in 2019. The materiality analysis serves to identify the topics that are of material importance for interpreting the business performance, operating result, Group position and also the effects of business activities on non-financial issues. To supplement this, we also considered whether the topic significantly influences the company-related assessments and decisions of our stakeholders.

Within a multi-stage process to determine topics of material importance, we initially created a comprehensive catalogue of topics on the basis of peer group analyses, industry-relevant aspects, legal requirements and standard frameworks for sustainability reporting. After these topics were summarised into overarching areas, the topics were evaluated using an online tool with a five-point scale by those responsible within the holding company and the various segments. The results were transposed into a materiality matrix,

which was validated internally in 2020. No relevant differences were established with respect to the previous year. The topics of material significance defined in 2019 continue to apply for this financial year, as does the materiality matrix.

The KAP materiality matrix



As part of its materiality analysis in 2019, the KAP Group identified 13 topics of material significance in accordance with the CSR Directive Implementation Act. In the following table, these topics are assigned to the legally defined non-financial issues and reporting in this document:

Topics of material significance according to the CSR Directive Implementation Act

Non-financial issues	Material topic	Reporting in section
Employee issues	Working conditions; Training and continuing education; Healthcare and occupational health and safety	"Employees"
Environmental issues	Energy and emissions; Water; Waste and recycling	"Environment"
Combating corruption and bribery	Ethics and integrity; Compliance; Anti-corruption and anti-bribery; Data privacy	"Corporate governance"
Respecting human rights	Human rights	"Corporate governance"
Additional non-financial issues: Product issues	Product responsibility; Product safety	"Products"

No legally relevant social issues were identified in the course of our validated materiality analysis. Relevant overlapping topics were transferred to the "Employees" section of our report. Once again, we report on one additional non-financial issue this year in the form of the topics of "Product responsibility" and "Product safety". The additional issue of products is presented on a segment level because there are different challenges with regard to product safety and responsibility due to the different types of value creation within the segments. Environmental management is also described separately for the individual segments.

CORPORATE GOVERNANCE

Corporate governance at KAP

For KAP, corporate governance means responsible and ethical behaviour with regard to employees, business partners, society and the environment. We measure our actions against the values set out in our Code of Conduct.

We strive to protect our company against any possible damages and demonstrate our integrity through ethical conduct within the company and in our interactions with all relevant stakeholders and by respecting all relevant (inter)national legal requirements as well as human rights. The trust placed in us by our stakeholders – customers, shareholders and employees – compels us to ensure transparency in this context.

The Code of Conduct, which was introduced in 2017, applies to all of our activities worldwide and has been translated into all of the Group languages to facilitate communication with our stakeholders. It represents a shared guideline for our decisions and actions and sets out binding minimum standards for responsible dealings with business partners and the public, but also for our behaviour and actions within the KAP Group. The Code also serves to show our employees and business partners the conduct that is desirable for KAP in the various categories and aims to make it easier to understand and implement the recommended behaviours.

Our Code of Conduct commits us to an ethical course of action that shows integrity, requires compliance with international social standards and the consideration of environmentally and socially relevant aspects within our corporate decision-making. Such international social standards include the Universal Declaration of Human Rights and Global Compact. We review our Code of Conduct annually for currency and to determine whether any adjustments are required.

In the implementation of good corporate governance, we base our actions on the recognised standards set out in the German Corporate Governance Code (DCGK). The KAP Management Board and Supervisory Board release a statement of compliance every year, which we make available to the public. You can find an in-depth description of our corporate governance strategy at KAP from page 16 onward of the 2020 Annual Report.

Compliance management

At KAP, compliance is an integral part of our corporate culture and is firmly anchored in the Group's day-to-day business. We believe that a company that does not integrate compliance and integrity into its business processes cannot be successful over the long term. We understand compliance as the strict observance of all laws and ethical principles in our business dealings with all of the markets in which we are active worldwide. Non-compliant behaviour is not only irreconcilable with our values but may also lead to major financial losses and damage our reputation. Non-compliant behaviour always impacts the financial success of the company, limits our ability to make investments and grow, and may, as a result, put jobs in jeopardy. Breaches of the law damage everyone in the company: our shareholders, our partners, our management and our employees.

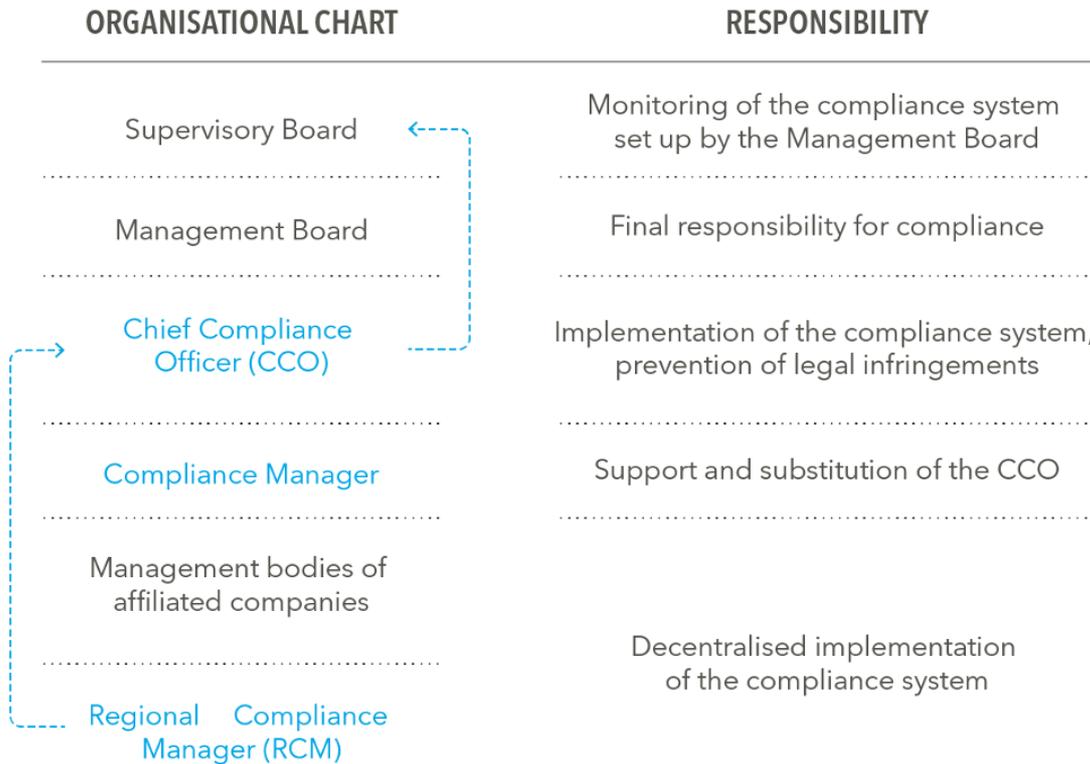
The pillars of our understanding of compliance are safeguarding trust in our company, avoiding risks to our reputation and establishing binding guidelines for our employees. We achieve compliance through maintaining an open and trusting working environment and through an efficient compliance management system that is tailored to our requirements and includes an anonymous whistleblower system. Since its formal launch in 2017, it has been continually expanded and deals with topics such as the prevention of corruption, antitrust law, human rights, employment and social standards, conflicts of interest, fraud, breaches of trust, misappropriation, trade control and data privacy.

At KAP, corporate governance and compliance fall under the responsibility of the Compliance department at the level of the holding company. The central, overarching organisation of compliance is supported by a regional compliance organisation within the segments and segment companies. There is a close partnership and coordination between the key central interfaces such as employee representatives, Financial Controlling, Legal Affairs and Risk Management. The Chief Compliance Officer (CCO) bears the primary responsibility. She or he defines key topics for strengthening compliance within the Group and is responsible for promoting and

monitoring compliance activities throughout the KAP Group. In line with the compliance management guidelines, the employees responsible in the segments report regularly on progress and incidents to the CCO, who is supported by the Compliance Manager.

The CCO reports regularly to the Management Board and the Supervisory Board on progress made in compliance activities and major compliance issues within the KAP Group.

The Management Board bears the overall responsibility for compliance and the compliance management system. The Supervisory Board monitors the system set up by the Management Board. Our general compliance organisation is also evaluated using our risk compliance survey. It may also be reviewed through internal audits.



The organisation of the compliance management system at KAP is based on the three pillars of “Prevent”, “Detect” and “React”. The “Prevent” pillar involves compliance risk analysis, our guidelines, training and auditing business partners. “Detect” is covered with compliance checks or our internal whistle-blower system, for example. Finally, “React” covers the internal and external crisis communication strategy and the remedying of known weak points. Our electronic whistleblower system offers all employees and third parties the opportunity to approach the Compliance department anonymously if they wish to in accordance with the recommendations set forth in the German Corporate Governance Code. The electronic whistleblower system is available directly via the KAP AG website or the following link: <https://www.bkms-system.com/KAPCompliance>. It is operated by a Germany-based third-party provider and in compliance with the highest IT and data security standards.

We implement compliance in our day-to-day work through internal guidelines and processes. They include guidelines on antitrust and competition law, data privacy, export control and how to deal with business partners, for example.

Our training sessions aim to provide specific expertise and raise awareness of problems, as well as communicate the importance of compliance, ethics and integrity to a lastingly successful corporate culture. The training sessions are offered partially as workshops, web-based modules and video content in the relevant national languages, or, where possible in English or German. The training sessions and their content are generally organised by the holding company; the companies in the KAP segments may also carry out additional specific training and courses. Participation in this training is mandatory for our employees and the efficacy of the training is ensured through questionnaires, final tests, certificates and participant management. The management teams of the KAP Group companies are trained separately on relevant topics through face-to-face training.

During the current reporting year, we performed a detailed compliance risk analysis with the support of an international law firm in the risk fields of corruption, competition and antitrust law, fraud and breaches of trust, money laundering, export control and conflict minerals. On the basis of this analysis, individual adjustments for our compliance operating plan with respect to the three pillars of our compliance management system were made, e.g. in connection with the updating and provision of guidelines in additional languages. We have begun implementing the applicable compliance measures as of 2021.

In the next business year, we aim to expand our comprehensive compliance management system to include our newly acquired companies.

Preventing corruption and bribery

KAP strictly rejects all forms of corruption and bribery. We maintain trust-based, fair and respectful business relationships with our business partners and communicate with them our principles of ethical business based on integrity. We also ask our suppliers to observe our Code of Conduct, where possible. In accordance with our anti-corruption guideline, we do not allow our business decisions to be influenced by suppliers or customers offering or promising unlawful benefits, and we do not accept such unlawful benefits. We also do not ask for unlawful benefits. If any of our employees are offered, promised or given unlawful benefits, such as financial contributions or extravagant gifts, our compliance mechanisms will come into play and we will inform our Legal Affairs department immediately. In the case of any conflicts of interest, we also involve external parties to conduct an independent review.

The prevention of corruption is an essential element of KAP's compliance management strategy and has therefore been deemed a topic of material significance in its own right. With our guidelines and operating procedures, we provide our employees with a comprehensive range of compliance instruments. This includes specific codes of conduct for the avoidance and disclosure of conflicts of interest, for offering and accepting benefits, gifts and invitations, as well as for the arrangement of political and charitable donations or sponsorship. We use training sessions and multilingual online courses to raise staff awareness of these topics so that the issues are easier for them to grasp and deal with in terms of our day-to-day work.

We safeguard the proper functioning of our overall concept for avoiding corruption and bribery through external audits in individual risk-relevant cases. In particular, they were included in the Group-wide risk analysis, which was complemented by transaction monitoring. Internal audits were performed within the KAP Group during the reporting year. An audit in Portugal was accompanied by a compliance investigation, which has since been completed. The investigation focused on irregularities in the valuation of inventories and the suspected misappropriation of company assets in the past, among other things. In this case, personnel consequences were complemented by the implementation of improvements within the existing compliance organisation. The legal and tax law measures have been initiated and are still ongoing.

Information security and data privacy

KAP sets great store by information security and data privacy. The completeness and accuracy of the information we provide and the confidentiality of business matters are of paramount importance to us. Both company data and personal customer and employee data are protected using all available technical and organisational means against unauthorised access, illegal use or misuse, loss and premature destruction.

When collecting, saving, processing and transferring the personal data of our employees, customers and third parties, we always treat such data with the greatest care and strict confidentiality, in compliance with all relevant legislation. We apply the European Union's General Data Protection Regulation (GDPR) throughout the Group, including in countries and companies outside of the EU.

KAP AG and its segment companies have appointed an external Group Data Protection Officer responsible for monitoring compliance with the relevant data protection laws. We react to potential breaches of data privacy through our incident management procedure: In suspected cases, the Data Protection Officer is involved immediately, who then instructs the Compliance department and Management Board as to the nature of the breach.

In the case of a breach, the relevant Group Data Protection Officer must report the breach to the data protection authorities. We regularly familiarise our employees with information security and data privacy requirements via

web-based training. The central management of the requirements set forth in the GDPR and other laws concerning electronic data processing allows practical, efficient measures to be taken in order to strengthen IT security.

The role Head of IT has been established at the holding company level for the purposes of centrally managing IT compliance requirements. This centralisation has allowed overlapping measures from the areas of IT security, information security and data privacy to be consolidated and introduced efficiently into segment companies.

The KAP Group was not made aware of any breaches of data protection regulations during the 2020 reporting year.

Responsibility within the supply chain

The KAP Group is committed to respecting universal human rights throughout its entire supply and value chain. As a company with a growing volume of international business, we see respecting human rights as a fundamental basis for our business activities. This ties in with our corporate aim of contributing towards a more sustainable society. In this context, international guidelines such as the ILO core labour standards or the UN Guiding Principles on Business and Human Rights are important sources of direction for us. Accordingly, we reject all forms of child labour, bonded labour and forced labour, modern slavery and human trafficking. Our purchasing activities are carried out in strict compliance with all laws and regulations of the countries in which we operate.

To live up to this commitment, any violations of human rights can be reported in any country via the whistle-blower system. The initiatives to maintain compliance with human rights also include the supply chain. By working together with business partners that supply raw materials and parts and manufacture items for us in commission, we want to strengthen their own commitment to human rights.

We communicate our principles of ethical business based on integrity to our suppliers and encourage them to apply the same standards to their own activities. Our Supplier Code of Conduct ensures that our business partners are familiar with the principles of our value system. The Code is based on the principles of the UN Global Compact and includes provisions on human rights, working conditions, environmental protection and combating corruption and bribery. Before entering into a new business relationship, we carry out a business partner review for critical areas. To do this, we have defined Group-wide business partner guidelines that are supported with the application of sanction control software in all segments.

Furthermore, to maintain our duty of care towards the environment and human rights, we aim to evaluate our global supply and value chains with a stronger focus on sustainability to minimise any risks and to continue to live up to our responsibility as a company. In so doing, KAP is already responding to the regulatory developments in the National Action Plan for Business and Human Rights and the Supply Chain Act recently announced in Germany. We closely monitor relevant developments in other countries and at the EU level.

EMPLOYEES

HR strategy

Our employees are our most valuable resource. Their expertise, motivation and engagement make it possible for KAP to continue to be successful on the market and to continue to grow. Our corporate culture focuses on people, who are given equal opportunities to reveal and develop their potential in a working environment that promotes good health. Through our human resources work, we boost the identification of our existing employees with KAP as an attractive employer, while also appealing to the best workers and talent on the market.

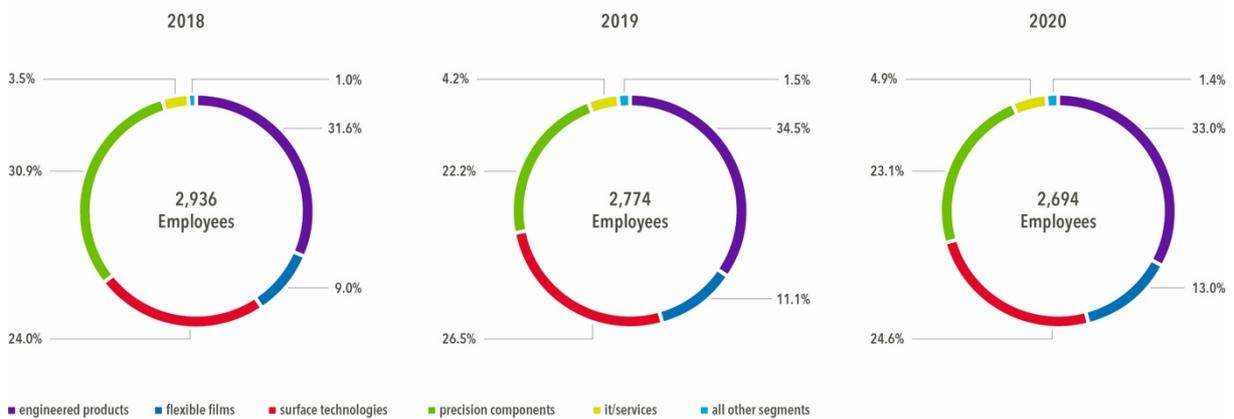
The Human Resources department is responsible for all human resources matters within the KAP Group and reports directly to the Management Board. This holding function assumes central management tasks and develops the concepts for our HR strategy and HR work. We value the qualification of our employees, the promotion of digitisation in our operational and administrative processes and the consideration of the demographic factor. The implementation of our HR strategy is the responsibility of the HR managers in the various KAP segments, who are supported by a range of guidelines, operating procedures and company agreements.

KAP as an employer



The world of work is undergoing a sea-change, with workplaces now more connected, fast-paced and complex than ever. Topics such as the digital revolution, work/life balance and Work 4.0 are ubiquitous at KAP. Despite the lightning-fast advancement of digitisation, flexible working hours and working from home, manufacturing facilities and the office remain key components in the working lives of our employees. We therefore offer our employees an attractive and modern working environment so that they can throw themselves passionately into a variety of tasks, find new solutions and implement them with success. In this way, KAP and its associated companies contribute to SDG 8 “Decent work and economic growth”.

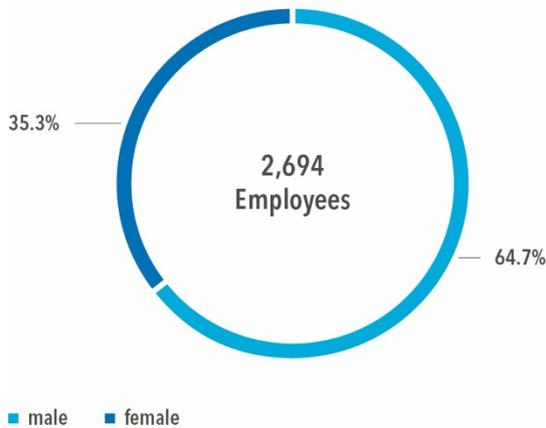
Employees by segment¹



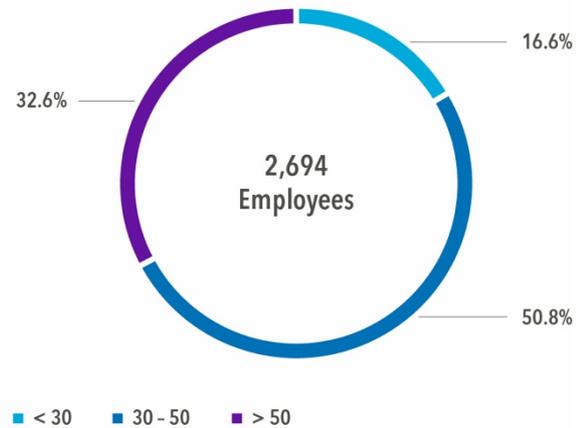
¹ In full-time equivalents.

A total of 2,731 employees were employed at KAP at the end of 2020 (in headcounts; prev. year: 2,809 employees). The decrease by 78 employees is particularly due to job cuts in the *engineered products* segment.

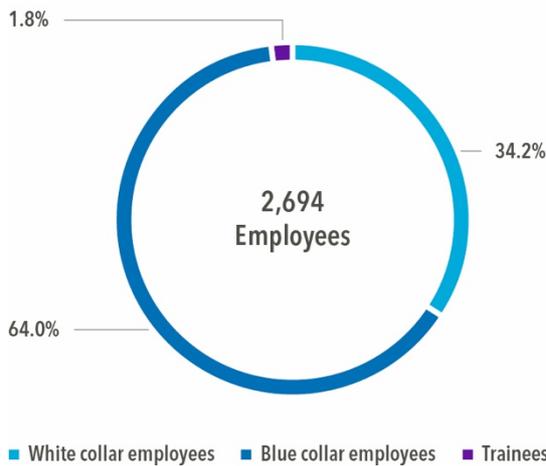
Number of employees by gender¹



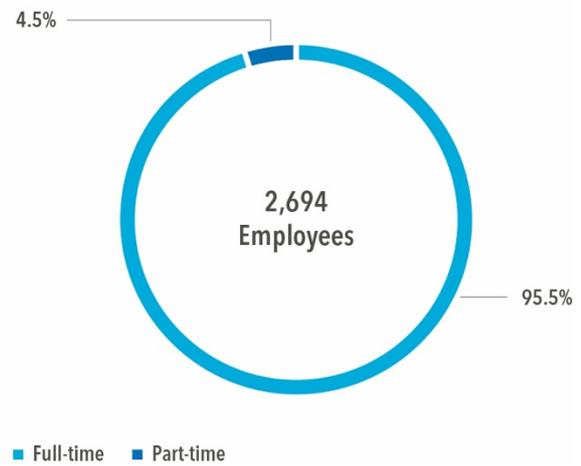
Number of employees by age¹



Number of employees by position¹



Number of employees by full-time and part-time¹



¹ The percentages indicated are based on a different total, as the figure for temporary workers, for example, is not broken down by gender, age, position and full-time vs part-time work.

The KAP Group offers its workforce at its German and international sites fair and transparent working conditions. We enable our employees to reconcile their work with their personal responsibilities. To provide a healthy work/life balance, we go beyond the statutory regulations on working hours and offer many of our employees flexible working hours and the option of mobile working. This means that employees entitled to do so may plan their working hours themselves in consultation with their supervisor and taking into account the operational requirements of the company. If the employee has to look after a child or care for a relative, other working concepts such as part-time employment can be considered to enable more flexibility and freedom. It is our corporate philosophy to prevent any discrimination against part-time employees in terms of working conditions, salary, recruitment or training.



At KAP, we promote diversity and equal opportunities regardless of ethnic or social background, gender, skin colour, religion, sexual orientation, disability or age. In Germany alone, we employ people from 29 different countries. We pay particular attention to hiring and promoting women within the company, as well as ensuring their loyalty. There are already a large number of management positions that are occupied by women. Companies where there are few or no women in management positions should make greater efforts to promote women in future. In doing so, we want to focus on increasing the proportion of women in technical and scientific positions. These measures are a step towards achieving our objectives with respect to SDG 5 "Gender equality".

KAP pursues a policy of equal pay for men and women. We offer both our full-time and part-time employees attractive salaries and overall remuneration plans. The amount of remuneration is partially based on binding collective bargaining agreements and individual agreements on bonuses.

There are country-specific differences with regard to holiday entitlements for our staff. All of the companies in the KAP Group ensure, however, with the exception of American and Chinese companies, that employees may take between 20 and 30 holiday days per year.

Fluctuation by segment ¹	2020		
	New employees	Employee turnover	Fluctuation rate
Total	287	448	15.6%
engineered products	50	157	17.2%
flexible films	20	19	5.3%
surface technologies	121	157	20.5%
precision components	78	102	15.0%
it/services	18	13	8.8%
all other segments	11	7	15.6%

¹ In headcounts; fluctuation rate calculated using the Schlüter formula.

We believe that it is important that our staff get to have a say in operational decisions, and we set great store by staff participation. There are employee representatives in nearly two-thirds of our companies. There is a union representative in one-third of our companies. Most of the companies in the KAP Group have established statutory protection against wrongful dismissal.

Training and continuing education

The aim of the Group-wide HR strategy is to position the KAP Group and its subsidiary as an attractive employer in the context of an increasingly competitive market for the best specialist staff and managers. The systematic training and continuing education of our staff is important to us, and we take care to ensure that talents are discovered, supported and promoted. We support many employees in the need-oriented, individual development of expertise, skills and qualifications. A wide range of training and continuing education measures, ranging from basic training to advanced follow-on courses, ensures the excellent performance of our new recruits and experienced staff alike with regard to their current and future activities. In doing so, we also take into account developments such as demographic change, the lower number of people in employment and changes in the working world.

To attract motivated, efficient individuals, we drew on a whole bundle of staff recruitment measures again in 2020. However, due to the coronavirus pandemic, we were forced to make a number of adjustments compared to the previous year. For example, we relied less on in-person interviews and had to opt for digital alternatives instead.

At our German sites, our trainees can choose from 14 vocations and three dual courses of study. Vocational training is available at 50% of the companies in the KAP Group. The vocations cover commercial, technical and process-based areas. We also offer traineeships in IT and electrical engineering. There were 46 trainees in the KAP Group as at 31 December 2020 (prev. year: 61). Building on the training programmes offered by our subsidiaries, we offer personal incentives, such as the financing of training as a master craftsman or technician. We generally recruit our young managers from professional academies or universities and rely on close cooperation with both universities and schools to do so. Our subsidiaries award study and development projects in this context. In some companies within the KAP Group, a long-lasting, close partnership with schools and colleges has been maintained that go beyond various mutual development projects. We regularly oversee dissertations and theses to generate contacts with the managers of the future.

At the Group headquarters in Fulda, we regularly organise trade fair presences at regional job fairs for the Group companies represented at headquarters. The coronavirus pandemic pushed back plans to develop concepts for similar recruitment events for other KAP sites.

The identification and promotion of young specialists and managers is another area of focus for KAP's HR development strategy. It is also important for us to safeguard succession planning for key positions within the segments from our own ranks. Our talent development initiative is a Group-wide programme for internal management training. For candidates from a wide range of disciplines and roles within the KAP Group, we determine the candidates' development potential and individual training requirements so that they can carry out future tasks. There are training sessions held throughout the year comprising various modules on topics such as strategic thinking and management. The classroom training sessions did not take place as planned as a result of the coronavirus pandemic, but the last few modules will be completed at a later point. The programme is currently in its second round. The first round, involving seven candidates, was deemed a complete success. After evaluation, the Talent Development programme will be expanded into a strategic management training.

Enabling every member of staff to take part in training is part of the KAP corporate philosophy. It is in our own interests that staff can continue to pursue their career development with us and to expand their own knowledge and qualifications on an individual basis. As a result, many of our employees already undergo regular performance reviews, attended by the managers responsible. During annual employee reviews and individual target setting meetings, development potential, goals and training options are all discussed. Employees can choose from a range of training options, extending from internal training and workshops, specialist seminars, certification courses, training as a technician or master craftsperson to language courses. In doing so, we rely on internal and external speakers and training institutes.

Structures have also been established for the self-motivated training of our staff, such as in the form of (partial) assumption of costs, which are granted by KAP once the relevant requirements are met.

Health and safety in the workplace

Physical safety and safe working conditions for our staff are paramount at KAP. We pursue a Group-wide approach that is managed and implemented locally in the segments and subsidiaries. We promote health and safety through health management and compliance with health and safety guidelines, which are based on legal requirements and the specific regulations in place at our individual subsidiaries. We observe all relevant legal requirements at a municipal, national and international level. KAP also managed to overcome the challenges presented by the coronavirus pandemic by developing a range of hygiene measures and concepts.

Potential risk situations that may occur in the KAP companies and that must be avoided include accidents involving machinery (such as crushing injuries) and accidents involving hazardous substances. Our Health and Safety Officer and Hazardous Substances Officer are responsible for the ongoing improvement of our workplace safety, regularly carrying out safety checks and audits within the companies. Depending on the company, these checks are carried out either on a weekly, monthly, quarterly or annual basis. We are currently working on appointing Health and Safety Officers at all of our sites. Regular health and safety briefings and training sessions are already being held by internal experts and external providers in all of the companies in the KAP Group. The training extends from monthly department-specific tutorials to annual health and safety briefings that are documented in writing. The companies also update their accident statistics and document "near misses". All reportable workplace accidents within the KAP Group are documented locally via our reporting mechanisms and evaluated.

To reduce workplace risks and illnesses, most KAP sites offer access to a company doctor, in line with national employment and health legislation. Using systematic analyses of the health status of our workforce, we are able to derive measures to improve working conditions on an ongoing basis. This includes setting up workplaces in line with ergonomic criteria and setting up comfortable work stations. Where necessary, we hold meetings with our staff when they return after taking sick leave as part of our programme to reintegrate them at work. In special cases, it may be necessary to change to another role within the company to carry out different activities. Our companies are also increasingly introducing their own workplace health management strategies and offering measures to promote health. Some of these are provided by a partnership with a social organisation or similar. One fixed aspect of our health management system includes customised options relating to prevention,

treatment and rehabilitation. We have planned a prevention programme in the form of a health check-up for management staff. It is due to be launched in cooperation with the Helios Prevention Center during the course of 2020. We aim to maintain our consistently high level of occupational medical care at KAP and to gradually integrate additional sites into our company doctor programme.

Work-related accidents and illnesses	2020		
	Work-related accidents	Work-related illnesses	Accident rate ¹
Total	117	35	6.3
engineered products	19	5	3.2
flexible films	26	13	11.3
surface technologies	23	14	4.7
precision components	49	3	11.1
it/services	0	0	0
all other segments	0	0	0

¹ Accidents per 200,000 working hours.

Currently, almost all of our employees within the KAP Group fall under a management system for workplace health and safety. We recorded 117 (previous year: 78) reportable workplace injuries in 2020, which corresponds to a rate of 6.3 (previous year: 4.1) for every 200,000 working hours. The difference is primarily due to an expansion of data collection.

Coverage of health and safety in the segments by management systems

	2020
engineered products	100%
flexible films	96.8%
surface technologies	90.2%
precision components	100%
it/services	100%

ENVIRONMENT

Environment management

KAP ascribes to the principles of sustainable development. We are actively committed to environmental and climate protection and promote the careful use of natural resources within our segments. We believe that taking responsibility for the environment is both an ethical and business imperative, whether it's through our own processes in production, sales and administration, or later on in the service life of our products when they are used by the customer. We always aim to keep our environmental footprint to a minimum. This mission affects every aspect of our day-to-day business. We constantly strive towards reducing our energy consumption and CO₂ emissions, thus making a positive contribution towards achieving global climate targets. We also want to continue to improve our environmental protection policies within our segments worldwide and minimise our consumption of raw materials, auxiliaries and process materials, as well as water. With a sustainable recycling economy, we make sure that we produce as little waste as possible and that we consider the recyclability of our products right from the product development stage.

Environmental management in the KAP Group is generally organised locally as a result of the different value chains and business processes. The individual segments or companies are responsible for corporate environmental protection, setting targets and implementing measures. The basic environmental strategy is defined at a holding company level and the holding company collates the reporting from the various segments. This is also where all relevant Group-wide environmental issues are coordinated and the dialogue between the segments is encouraged. Within our overarching compliance management system, we record any breaches of our internal requirements or the valid environment laws at our sites. The internal and legal requirements differ depending on the business model of the individual company, the management systems within the company, such as ISO 14001 and 50001, and the specific customer requirements.

In the following, we will explain in further detail the approaches in place for the individual segments.

engineered products

The KAP *engineered products* segment is responsible for the majority of energy consumption within the company due to energy-intensive manufacturing. For this reason, we are investigating all activities, services and products from an environmental perspective and regularly evaluate the possible effects. One of our segment goals is to achieve continuous improvement with respect to environmental effects in order to further distinguish ourselves from the competition. These goals are defined in the company policy and in the environmental programme for the segment. We achieve these goals with the aid of various measures that are initiated and monitored by designated managers. We have therefore designated an Environment Officer at all our global sites.

We see protecting the environment as a primary responsibility of our segment. In the area of products, for example, our newly-developed MSA adhesive system is about to be launched. This is free from the harmful substance resorcinol-formaldehyde.

flexible films

The KAP *flexible films* segment pursues a comprehensive sustainability strategy that includes the responsible use of natural resources. We have developed clear guidelines for our segment philosophy, which are anchored firmly within our daily basis in the form of binding "guard rails".

This builds on a structured management system, as evidenced by the various system certifications we hold. An Environment Officer is appointed at all sites, who reports directly to the segment management, thus guaranteeing that operational measures are implemented and targets are monitored. In addition, all of our sites are ISO 50001 certified.

We have pushed ahead with the segment-wide rollout of ISO 14001 certified environmental management systems during the reporting year. In addition to Reflex, the largest individual company in the segment, CaPlast, has successfully rolled out the system, and all others will follow by 2025 at the latest. Via regular audits and site visits, we monitor the processes established, the progress in achieving targets and the measures initiated, continually working to improve our environmental credentials. Through clear guidelines and a superordinate objective matrix, we are already ensuring that the individual companies are making a sustainable contribution towards improving our environmental footprint. Superordinate objectives of this include reducing our CO₂ footprint in production and within the supply chain.

Furthermore, we want to continually improve the sustainability credentials of our products by working together with various universities in research and development. For example, we are currently working with them to

investigate environmentally friendly alternative fabrics for our product portfolio of membranes, films, tarpaulins and other specialist surfaces.

surface technologies

The KAP *surface technologies* segment is committed to protecting the environment and the efficient use of natural resources. We align our processes with the ISO 14001 and ISO 50001 environmental management systems and certify our sites in accordance with this standard. We review our processes and the degree to which targets have been achieved for our measures through regular audits and site visits.

A central Environment Officer is defined at a segment level. He or she is supported by the Environment Officers at the individual sites, who are responsible for the operational implementation of measures and the monitoring of targets, which are defined specifically for each location in an environmental programme and are essentially traced through audits.

We want to continue to improve our environmental credentials across the board and therefore engage in both general environment projects as well as specific energy-saving projects. In doing so, we want to reduce our use of resources, raw materials, auxiliaries and process materials, our energy consumption and avoid waste.

precision components

Protecting the environment is of particular strategic relevance for the *precision components* KAP segment. As part of our sustainable corporate governance, we systematically avoid environmental risks and reduce the impact of our activities on the environment.

We redefine this repeatedly in a strategic environmental programme that is updated yearly. Our environmental protection measures focus primarily on reducing energy consumption and the associated CO₂ emissions, reducing water consumption in manufacturing and avoiding waste, or ensuring its proper disposal. For example, the new production building at our site in Belarus will fulfil all relevant environmental requirements.

In order to implement our environmental targets and measures, a central Environment Officer is designated at segment level, who takes responsibility for these topics as part of our environmental programme and analyses and manages them for the segment on the basis of key indicators. She or he is supported by the segment Environment and Energy System Coordinator, who is responsible for the monitoring of environment targets. The operational implementation at each of our sites is overseen by the respective Environment Officer.

In this respect, we act in strict accordance with the ISO 14001 and ISO 50001 environmental management systems and almost all of our sites are certified accordingly. We review the established processes and the degree to which targets have been achieved for the measures initiated through regular audits and site visits, and also by means of our environmental reporting. We perform a management review of environmental topics at least once a year.

it/services

The KAP segment *it/services* primarily provides services, which is why the relevance of environmental aspects is relatively low here. Despite this, we still do our bit to protect the environment, use energy efficiently and reduce our CO₂ footprint.

We are always mindful of the environment and endeavour to minimise any possible effects on it, primarily through energy efficiency measures and by reducing our energy use. To this end, we perform regular analyses as part of our energy audits in accordance with DIN EN 16247-1 and evaluate the current energy situation in the segment. This means that we are always able to identify new potential savings and initiate appropriate measures for improvement.

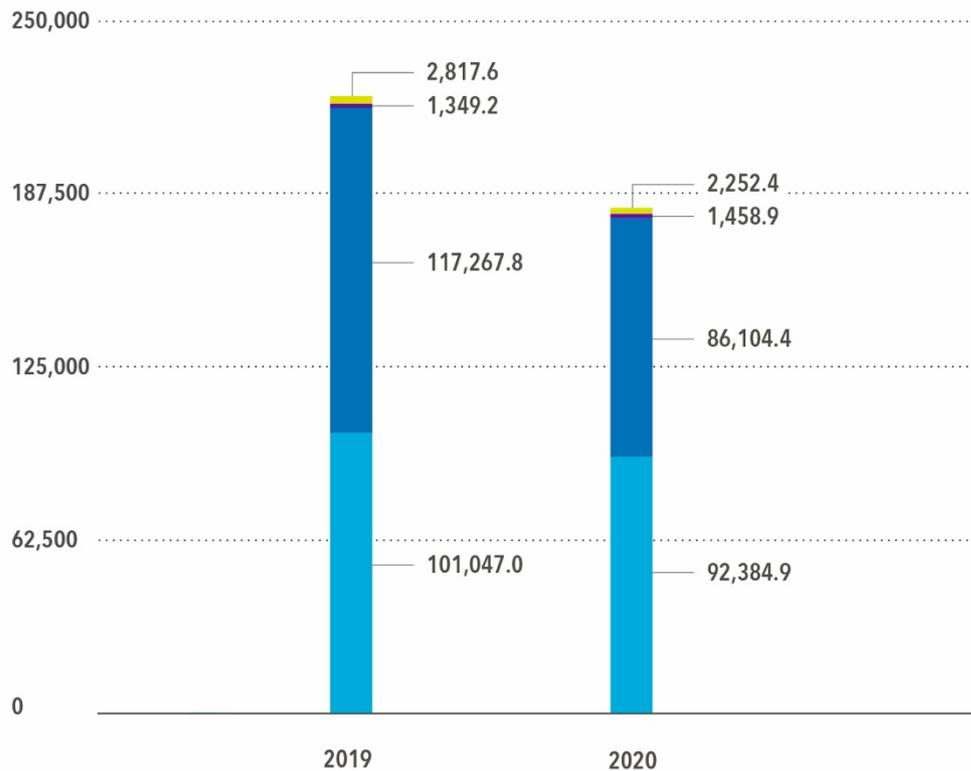
Our Environment and Energy System Coordinator is responsible for monitoring the related processes and measures as well as the achievement of targets with the support of the various departments.

Energy use and emissions

Reducing energy consumption and the associated emissions is one of the biggest ways that KAP can contribute towards protecting the environment and the climate. To make our production processes as energy- and resource-efficient as possible, we continually implement energy efficiency measures.

It is our overarching aim to reduce the CO₂ footprint of our production processes and along the entire value chain. To this end, we rely on certification based on management systems. Energy management in accordance with ISO 50001 distinguishes outstanding processes with respect to the measurement and management of energy use. The majority of our companies hold this certification.

Energy consumption within the organisation (in MWh)



■ Electricity consumption ■ Heating consumption ■ Cooling consumption¹ ■ Transport and mobility consumption

¹ The total amount does not include 958,9 MWh for cooling, as this quantity is created using electricity and is included in the electricity total. Cooling is generated using electricity at many sites and cannot be estimated proportionately.

Throughout the Group, we increasingly rely on renewable energies and promote photovoltaic systems, cogeneration plants and heat recovery units. For heat generation, we use mainly gas, which produces lower emissions than heating oil.



Some companies already get their electricity from sustainable sources – i.e. green energy – in the amount of around 10.6 gigawatt-hours (GWh). These sources produce significantly lower emissions in the generation and supply of electricity. In the next few years, we want to continually boost the proportion of green energy in our energy mix.

These and other measures help us to do our part to achieve SDG 13 “Climate action”.

Energy consumption categories by source (in MWh)	2020
Electricity consumption	92,384.9
Of which self-generated from renewable sources	2,638.6
Of which self-generated from non-renewable sources	1,824.9
Of which purchased from renewable sources	10,654.9
Of which purchased from non-renewable sources	77,266.4
Heating consumption	86,104.4
Of which self-generated from renewable sources	0
Of which self-generated from non-renewable sources	75,932.1
Of which purchased from renewable sources	41.9
Of which purchased from non-renewable sources	10,130.3
Cooling consumption¹	1,458.9
Of which self-generated from renewable sources	549.4
Of which self-generated from non-renewable sources	409.5
Of which purchased from renewable sources	0
Of which purchased from non-renewable sources	500.1
Transport and mobility consumption	2,252.4
Of which petrol	422.7
Of which diesel	1,471.5
Of which liquefied petroleum gas	328.2
Of which electricity	30.0

¹ Cooling is generated using electricity at many sites and cannot be estimated proportionately.

In order to further improve energy efficiency, the KAP Group records its specific energy consumption. Energy consumption was reduced by a total of 17.8% in 2020 to 182.2 GWh. Electricity consumption decreased by approximately 9% and heat consumption by around 27%, while fuel consumption also decreased by 20%. This is mainly the result of changes in the KAP portfolio as well as the effects of the coronavirus pandemic.

Our *engineered products* segment had the highest energy consumption in 2020, followed by the *surface technologies* segment and then the *flexible films* and *precision components* segments. The *it/services* segment had the lowest energy consumption in 2020.

Energy consumption within the organisation by segment (in MWh)

2020

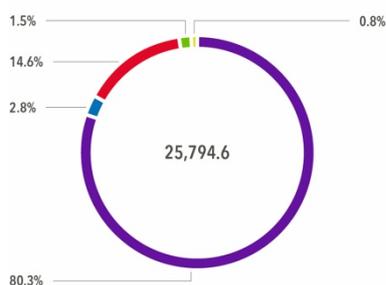
Electricity consumption	92,384.9
Of which engineered products	38,973.3
Of which flexible films	16,773.2
Of which surface technologies	26,802.5
Of which precision components	9,513.4
Of which it/services	322.3
Heating consumption	86,104.4
Of which engineered products	53,953.9
Of which flexible films	1,240.6
Of which surface technologies	24,351.7
Of which precision components	1,987.9
Of which it/services	544.3
Cooling consumption¹	1,458.9
Of which engineered products	0
Of which flexible films	958.9
Of which surface technologies	0
Of which precision components	500.1
Of which it/services	0
Transport and mobility consumption	2,252.4
Of which engineered products	438.1
Of which flexible films	771.2
Of which surface technologies	481.3
Of which precision components	171.4
Of which it/services	390.3

¹ Cooling is generated using electricity at many sites and cannot be estimated proportionately at these sites.

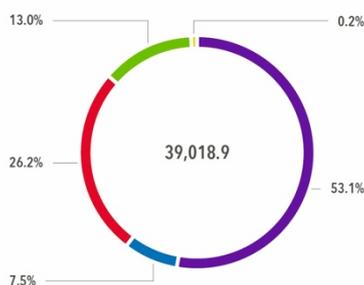
We measured our greenhouse gas emissions in CO₂ equivalents (CO₂e) across segments for the first time in the 2020 business year. The emissions in the various KAP segments fall primarily within Scope 1 and 2 as defined in the GHG Protocol. The purchase of electricity and internal heat generation are by far the largest sources of emissions for KAP due to the energy-intensive production processes in place. Compared to other companies with the same number of employees, KAP generates relatively low emissions in connection with business travel. In matters connected with Scope 3 emissions, we endeavour to present as complete a picture as possible of our value creation. We therefore also use estimation factors to measure emissions that arise as a result of water use and waste generation within our value chain.

Emissions in the KAP segments

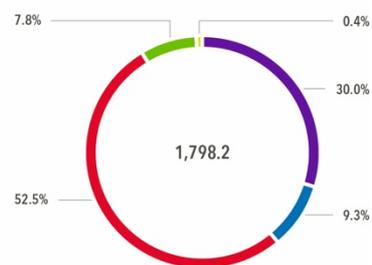
Scope 1 emissions in t CO₂e
(Direct emissions)



Scope 2 emissions in t CO₂e
(Indirect emissions from purchased energy)



Scope 3 emissions in t CO₂e
(Other indirect emissions)



■ engineered products ■ flexible films ■ surface technologies ■ precision components ■ it/services

Emissions by source (in t CO₂e)

2020

Scope 1 emissions (direct emissions)	25,794.6
From generated electricity	34.2
From generated heat	24,955.4
From generated cooling	248.3
From transport and mobility	556.7
Scope 2 emissions (indirect emissions from purchased energy)	39,018.9
From the purchase of electricity	36,066.9
From the purchase of heat	2,741.8
From the purchase of cooling	210.0
Scope 3 emissions (other indirect emissions)	1,798.2
From business travel	41.9 ¹
From water use and processing within the value chain	192.3
From waste processing and generation within the value chain	1,564.0

¹ Emissions from business travel are not yet systematically recorded at KAP. The figure indicated does not represent all business travel.

The individual KAP segments must be considered in different ways for a comprehensive understanding of our handling of energy and emissions. For the *surface technologies* segment, for example, CO₂ and VOC (volatile organic compounds) emissions from production and energy consumption, odour emissions, soil emissions via leaks and noise emissions are all highly relevant. In the *it/services* segment, on the other hand, energy consumption and emissions are very low, meaning that individual subthemes do not need to be considered specifically.

The *engineered products* segment is responsible for the highest proportion of our energy consumption and emissions, but this must be considered relative to the number of employees and the revenue generated. In 2020, energy consumption was 97.4 GWh (prev. year: 125.6 GWh).

We are planning to further reduce our energy consumption in 2021. To this end, we are analysing our energy management system so that we can continue to be focused on the issues of the future.

Due to the high energy consumption, this segment also produces the highest levels of emissions. With 41,981.3 tonnes in total, the *engineered products* segment is responsible for around 63% of emissions at KAP.

The emissions arising from the production systems are treated by cutting-edge waste air purification plants and released as collected emissions above the roof into the air. We are currently investing in expanding the waste air purification system at our site in China to achieve our Level A certification – the highest standard for the prevention of air pollutants in China.

Noise emissions must also be considered. All noise areas at our sites are measured and identified using noise registers and labelled accordingly. Measurements are performed regularly.

Within the *flexible films* segment, the segment-specific CO₂ footprint is to be reduced continually through the use of modern technologies, organisational measures and the established energy management system. We are systematically improving our energy use and optimising our consumption via an action plan. Machines, systems and other equipment are procured on the basis of energy efficiency criteria. We have also committed to revising our maintenance and repair processes to minimise the environmental impact of our production processes. We raise our staff's awareness of energy- and emissions-related topics by holding regular training and briefings. Furthermore, we hold brainstorming workshops at least once a month on how to further reduce our energy consumption and reward employee ideas for how to reduce energy consumption.

These measures have enabled us to reduce our energy consumption to 18.8 GWh. The segment is responsible for around 6% of emissions.

In addition to lowering the CO₂ emissions that affect the climate, noise pollution is also a relevant factor for us. We reduce noise in the production process with low-noise machines and systems, retrofits and the optimisation of operational processes.

In the *surface technologies* segment, the ISO 50001 energy management systems and regular energy audits offer considerable scope with regard to reducing our impact on the environment. The *surface technologies* segment produces around 22% of all KAP emissions, making it our second-largest source of emissions. This is due to its energy consumption of 51.6 GWh. By expanding measurement technology for energy consumers, procuring energy-saving machines and systems and regularly training our staff, we have been able to further reduce our energy consumption. This is also supported by regular staff training sessions as part of employee training days on environmental issues.

In 2020, investments were made in new air intake and fire alarm systems, automatic dosing systems, technical afterburning and the renovation of cooling systems. Another major project involves the gradual changing of all lighting to LED at all sites.

In addition, we already use cogeneration plants and heat-recovery units at some sites and are assessing – wherever possible and financially feasible – whether to install photovoltaic systems, having already installed them at a number of sites, particularly in Germany. These actions help us make our energy consumption greener and more efficient.

In the *precision components* segment, we have already implemented the plan to define targets for reducing energy use and emissions at sites such as Ehingen or Dresden as outlined in the annual report for the previous year. The precision components business in Dresden has set a target to achieve monthly energy savings of 4.9% on the previous month.

This will be implemented by means of individual measures, purchasing guidelines and action plans. The Bebusch company in Hungary is promoting staff environmental and energy awareness through a monthly information newspaper.

Our Energy Directive not only commits us to not only fulfilling the legal requirements in terms of energy management across all segments, but also obliges us above and beyond this to continually improve our energy efficiency. To this end, we assess our energy management on a quarterly basis. This is reflected in our energy consumption: in 2020, we consumed a total of 12.2 GWh in energy, giving rise to 5,580 tonnes of emissions.

This commitment is also reflected in our product portfolio, which increasingly focuses on energy-efficient products and services for our customers. We regularly provide employee training in energy-related topics, motivating them through monthly energy-related events at our sites and rewarding them through our suggestion management programme for submitting ideas to help us improve our environmental credentials.

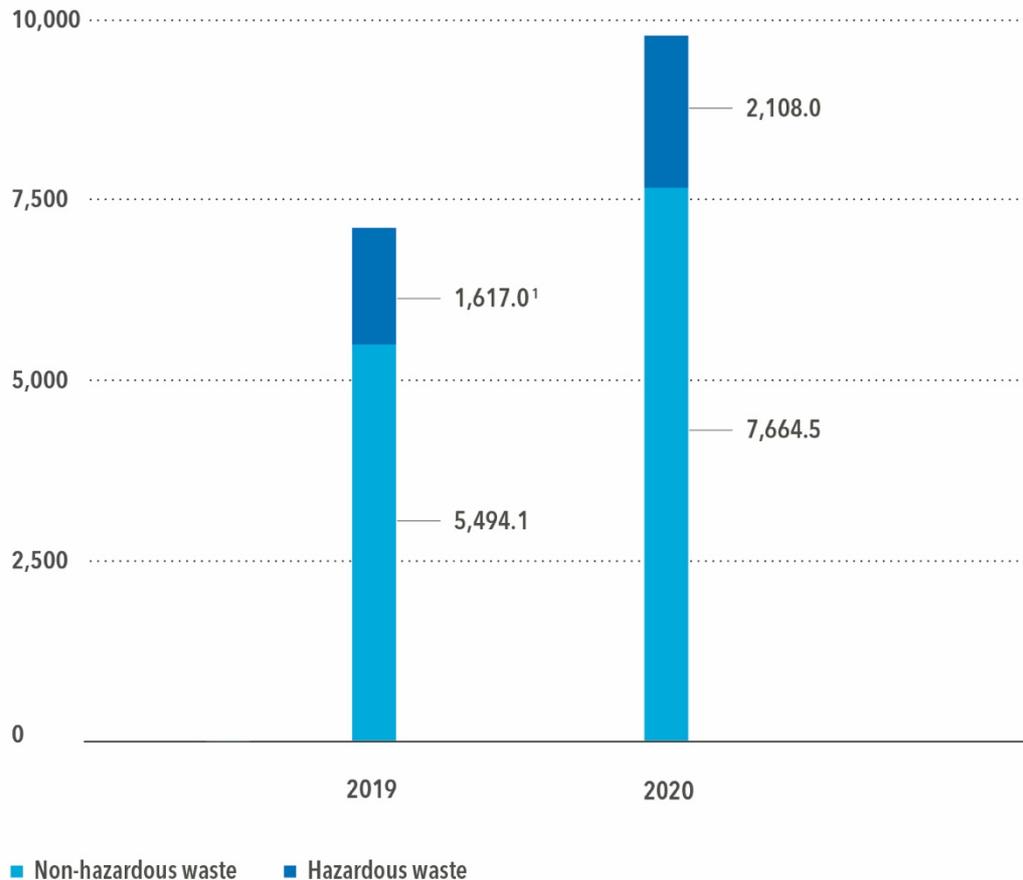
In our *it/services* segment, energy consumption and emissions are of lower significance due to how value is created. Despite this, we still want to continually reduce our energy use of 1.3 GWh and the resulting CO₂ emissions. We implement a range of energy efficiency measures in our operations and select our energy suppliers based on the green proportion of their energy mix.

Other concrete measures for achieving our targets include switching to decentralised energy and/or heat supplies as well as increasing the amount of renewable energy we purchase. In addition, we are currently finalising processes that will enable us to use hybrid and electric vehicles for our fleet in the future. This will allow us to reduce our already low fleet emissions of 291.4 tonnes even further.

Waste

KAP takes responsibility for protecting the environment and natural resources. We see it as our mission to minimise the amount of waste we create and pursue the maxim of “Reduce, reuse, recycle” – in that order.

Waste quantity by category (in t)



¹ Figures do not include 2,483 tonnes of miscellaneous waste that occurred as the result of a fire.

At KAP, waste is handled within a closed cycle. Collection is followed by sorting. Where possible, the waste is sent for recycling or, if it is not recyclable, disposed of correctly. Where possible, we dispose of hazardous and harmless waste via properly certified companies. In line with German legal requirements, hazardous waste is stored away from the production halls in a sealed, specially marked area. We want to return the largest amount of waste possible back into our material cycle and want to increase our recycling ratio. In 2020, we recorded an increase in the volume of waste. This is due to an expansion of the data collection.

Waste quantity by category and disposal type (in t)	2020
Non-hazardous waste	7,664.5
Of which reused material	104.6
Of which recycling	3,407.3
Of which thermal recovery	1,295.0
Of which composting	3.5
Of which landfill	2,690.2
Of which miscellaneous	133.0
Hazardous waste	2,108.0
Of which reused material	671.9
Of which recycling	250.6
Of which thermal recovery	482.0
Of which composting	1.0
Of which landfill	461.8
Of which miscellaneous	238.4

The different KAP segments cause different amounts and types of waste due to production processes, with measures to avoid waste varying widely as a result.

In accordance with the applicable legal provisions, waste produced in the *engineered products* segment was recycled or disposed of. A Waste Officer monitors the implementation of the PBs defined and creates the waste report. We only use certified waste disposal companies to ensure the proper disposal of waste. This applies in particular with regard to hazardous waste.

Waste quantity by segment (in t)	2020
engineered products	2,948.5
flexible films	1,818.2
surface technologies	3,887.9
precision components	1,084.6
it/services	33.3

Various types of waste result from the *flexible films* segment's production activities, including hazardous and non-hazardous waste, both liquid and solid. We have introduced a range of technological and logistical measures to reduce the amount of waste and increase our recycling ratio. The clear separation of waste material is a prerequisite for this and is implemented consistently. We have also reached agreements with some of the customers of our Riflex site on the taking back of waste materials arising as part of the customer-specific process. The materials taken back are then processed in our recycling plants and reused in the production process. Nevertheless, the main aim is for no waste to be created in the first place.

To make this a reality, we carry out workshops on at least a monthly basis at all plants, for example, to continually improve our use of raw materials and thus our waste/reject rate. This includes the proper separation of plastic

waste into individual categories, clear labelling, technological changes in machinery configurations and stricter monitoring of rejects.

We continually raise staff awareness of the importance of avoiding waste and provide regular training on how to handle hazardous substances. We have set ourselves clear targets for the reduction of waste. For example, we want to reduce the use of packaging by 25% over the next five years and, wherever possible, use biodegradable packaging. Thanks to the continuous optimisation of packaging units as well as process optimisations, we have been able to reduce a considerable share of our packaging waste in 2020. For example, as part of the intercompany business, we were able to eliminate additional packaging completely by implementing a process optimisation.

In the *surface technologies* segment, the main cause of hazardous waste is electroplating sludge and coatings that must be stored properly and disposed of by certified third parties, or sent for thermal recovery. We aim to continually reduce the amount of waste we produce and work towards optimising our production processes in order to achieve this. Where possible and practical, we endeavour to avoid hazardous waste by using other process materials. We train the employees responsible on a regular basis through training projects on the handling of residual hazardous wastes.

In the *precision components* segment, the main focus is on reducing plastic waste, separating it properly and using recyclable packaging wherever possible. At the beginning of 2020, we initiated a project aimed at selectively collecting our reduced plastic waste and passing all of it on to a recycling partner if possible.

There are also a range of different measures, including technological changes in machinery configurations and stricter monitoring of rejects.

In addition, we continually raise staff awareness of the importance of avoiding waste and provide training on how to handle hazardous substances. As part of the ISO-14001 certification process, most of our sites undergo internal and external audits to monitor their waste concepts.

We have set ourselves the segment-wide target of reducing our waste volume by 2% every year, increasing the effectiveness of waste separation and expanding our waste processing strategy to include other types of materials. In future, we want to achieve a recycling rate of over 90% each year and to establish a segment-wide, internal waste disposal concept. Gear Motion in Ehingen has already achieved this quota, while our site in Hungary is on the home straight.

Lastly, we also develop customer-specific circulation systems in which we route production waste from our materials arising from the processes of our customers back into the internal segment recycling process, significantly reducing waste quantities.

The topic of waste is of little relevance for the *it/services* segment because it only creates very small amounts of waste, at 33.2 tonnes. The proportion of hazardous or toxic waste is also extremely small. Nevertheless, raise staff awareness of the importance of careful use of paper and other waste in order to further reduce waste quantities.

Water

For KAP, water is a valuable and essential resource that must be handled responsibly and carefully. As such, we want to continually reduce our water consumption across the segments. As a result of the different production processes involved, our water consumption varies widely between segments.

Water use by segment (in m ³)	2019	2020
Water withdrawal	435,559.0	319,971.8
Water discharge	344,737.0	127,506.0 ¹
Water consumption	90,822.0	192,465.8

¹ Of this quantity, 69,518 m³ of water is passed through an adjacent river for cooling without causing any significant changes to the water.

During the reporting year, many of our companies worked on efficiency measures to reduce our water consumption. In addition to investing in water-saving technology and optimising production processes, some companies also investigated the substitution of water with other liquids.

Water consumption by segment (in m ³)	2020
Total	192,465.8
engineered products	66,951.0
flexible films	1,908.4
surface technologies	120,341.4
precision components	2,418.0
it/services	847.0

Water is the key topic in terms of our environmental activities within the *surface technologies* segment. All processes in our value chain are highly water-intensive, which means that we need to handle this resource responsibly and carefully. Via modern rinsing technologies based on high-performance ion exchange units, we are able to ensure minimum water consumption and optimum recycling of rinsing water. We also treat our waste water before feeding it back into the municipal waste water system. To do this, we use circulating water systems and other treatment systems in our production facilities. In this way, the water we use is used several times over within our manufacturing process thanks to cutting-edge water treatment systems, before it is fully treated at the end and the filtered slag is recycled. Our water purification and recycling systems reflect the state of the art and are monitored continually. It is one of our aims to reduce our specific water consumption. To this end, we invested in the improvement of the osmosis plant for the internal water supply in 2020.

As a result of the coronavirus pandemic, we were unfortunately unable to drive our projects further than usual.

The topic of water is of lower relevance to our environmental impact assessment within the *precision components* segment. The water used is almost completely fed back into the grid or reabsorbed. We aim to treat water responsibly as a resource within the production process, to save water and prevent any contamination. We do this via internal guidelines on water use and various operational measures, such as the regular preventive maintenance of cooling water systems. In Hungary, for example, we perform regular preventive maintenance on the water cooling system and perform a visual inspection of the pipelines at every shift change to prevent leaks and the resultant waste of water.

In the *engineered products*, *flexible films* and *it/services* segments, the topic of water is of little significance with respect to the impact on the environment. Essentially, water is either used for cooling within a closed cooling circuit or is used as part of normal employee use. Nevertheless, we set strict standards in the three segments to ensure that this precious resource is not polluted. Clear instructions ensure that water is used and consumed with care to preserve resources.

Where water is used for cooling, external inspections and maintenance ensure that no water pollutants arise within the circuit and that any leaks are detected early on.

PRODUCTS



KAP is a highly diversified industrial group that develops innovative industrial products, technological solutions and services for international companies from trade and industry within its *engineered products*, *flexible films*, *surface technologies*, *precision components* and *it/services* segments. The core of our business is determined by this diversity. As such, it is important to us to fulfil the highest quality standards to be able to assist our customers as a reliable partner. We want to set standards in the fields in which our segments are active. But we don't just take responsibility through the quality of our products and technological solutions, but also through their environmental credentials. With our portfolio, we want to do our bit to make business more sustainable. In this regard, we pay attention to durability, high energy efficiency and safety in processing and utilisation. We invest strategically in process in all of these areas. The management teams and departments at our sites are responsible for such investment. Innovations promoted within our company support SDG 9 "Industry, innovation and infrastructure".

The value chains and business processes vary within our segments, which means that we will present the topics of product responsibility and product safety separately.

engineered products

The *engineered products* segment is one of the leading manufacturers of technical textiles worldwide. Our yarns and fabrics are used in a wide range of areas, including mobility, energy, construction and medical technology. Concrete areas of application include reinforcing flexible conveyor pipes in the oil and gas industry, aids in the production of insulin package seals for the pharmaceutical industry and strengthening premium tyres, power transmission belts and cardan discs, conveyor belts or safety and comfort air springs for the roads.

High-tech textiles show great potential for the future in terms of sustainable, responsible business. Thanks to their low weight and innovative manufacturing processes, we are able to tap into new applications all the time, where our products are able to substitute materials used in the past. For example, we are collaborating with leading tyre manufacturers on high-tech sustainable solutions for cars and trucks. Our innovation team is also working actively with carbon as a future solution for reinforcing power drive belts.

We are just about to launch a flagship product within the segment. This product is an adhesive system that is free from resorcinol-formaldehyde. By eliminating this material, we can significantly increase the sustainability of the adhesive system – an achievement that has been sought on the Mechanical Rubber Goods market for years.

Providing reinforcement to rubber products, our high-tech yarns and fabrics determine the final functions of the end product, thus making them a key element for the necessary characteristic performance within the specific area of application. They contribute towards product safety in rubber-based products by safeguarding functions such as size changes, burst resistance, tensile strength and stretch.

flexible films

The *flexible films* segment is one of the leading specialists in extrusion coatings in Europe and leads the market in the development and manufacture of membranes, tarpaulins, reinforced swimming pool liners and high-end projection screens. The segment's product portfolio extends from flexible packaging solutions for the consumer goods and automotive industries to products for the medical technology industry and the entertainment sector, to energy-efficient system products for the construction industry and digital imaging sector.

Safety, quality and environmentally friendliness in the processing and use of our products is very important to us and our customers. The responsibility for this is borne by the management or the relevant project manager and Head of Business Development. Our high quality standards are implemented through the ISO 9001, 14001 and 50001 certified management systems. We have implemented guidelines and operating procedures for product safety and responsibility that are aligned with the corporate policy of the holding company and specify this policy at segment level. Some of these are anchored in our "Liability", "Sustainability" and "Explorative Spirit" segment codes, and are already an integral component of our daily business. Compliance with legal regulations and requirements is also explicitly requested by our customers in the form of safety data sheets. We comply with the requirements of the REACH Regulation and use external auditing to implement our safety standards. We also record any infringements or complaints with regard to product safety.

In taking responsibility for sustainable business practices, we ensure that our products are environmentally friendly, durable and have a low impact on natural resources. In the construction industry, our energy-efficient

products, including roofing underlays, vapour barriers and facade membranes make a significant contribution towards avoiding energy losses and also protect buildings from moisture or health hazards. In this way, we are able to support the sustainable trend towards the energy-efficient construction of both homes and offices.

We are also marketing product solutions based either exclusively or largely on renewable raw materials with growing success, and these products are finding their way into a highly diverse range of applications. Our use of recycled raw materials is also continually increasing, not least because of a steadily growing acceptance among our customers. For example, this is already standard in many areas of application for our PVC films. The technical packaging area is also playing a more significant role, and we try to ensure, wherever possible, that packaging is reusable, recyclable and/or biodegradable. For example, our specialists develop high-quality transport protection packaging for the automotive and boat-building industries with the aim of offering biodegradable solutions in some areas of application.

For the manufacture of our products, we are committed to using environmentally friendly raw materials that are completely harmless to health. We show our commitment with external certificates – such as EMICODE certificates for lastingly clean, safe indoor air – by participating in the “German-made energy efficiency” [Energieeffizienz made in Germany] initiative, our membership of VinylPlus®, which is a voluntary commitment to the development of sustainable vinyl-based products, as well as with other voluntary seals of quality, official permits and external verifications. We also work globally with our customers on other, measurable progress as part of the continuous improvement of our environmental footprint – for example through external evaluation by the EcoVadis ratings platform.

surface technologies

In the *surface technologies* segment, we develop highly specialised surface solutions for metallic materials for our customers, in compliance with the highest environmental standards. In doing so, we serve a whole range of markets, including the food industry, furniture, mechanical engineering, electrical industry and mobility. We don't actually manufacture any products as such but develop processes for coating or processing products more effectively. The topics of product safety and product responsibility are therefore closely associated with the customer in question.

As part of our most recent project, we constructed an ultra-modern zinc-nickel system at our HEICHE site in Poland, incorporating the latest environmental and energy discoveries into our work. For example, automatic dosing allows for continuous bath control, reducing the use of chemicals.

On behalf of our customers, we use innovative technical and chemical processes to fulfil their individual requirements to an exceptional quality level and to increase the service life of the end products. We develop these in collaboration with our customers, as only they can determine precisely which requirements need to be fulfilled.

We focus in particular on services that lead to lasting protection against corrosion and wear. To safeguard continuity and quality in our processes, we have implemented certified management systems in compliance with ISO 9001 and IATF 16949 at the majority of our sites. We also acknowledge our environmental responsibility and have introduced certified systems for environmental management (ISO 14001) and energy management (ISO 50001). Furthermore, we also conduct substitution reviews for substances that could be problematic for the environment. We go beyond the legal requirements and work together with our customers to continually review and improve our safety-related and environmental product characteristics. Any product complaints are analysed by our Product Safety/Quality Officer at the sites and any necessary corrective actions taken.

precision components

Through our *precision components* segment, we offer high-precision products that are used in specialist electronic or electromechanical drive systems. In doing so, we implement solutions made from both plastic and from plastic and metal composites. As part of this process, we increase the efficiency of our customers through sustainable automation and robotisation.

The portfolio includes high-precision gears and contiguous metal products that are installed in innovative drive solutions such as e-bikes. Our individual sites are running specific flagship projects, which are often related to environmental aspects or product safety. This includes the additional integration of tightness testing into ongoing processes to prevent leaks as well as assessments on the further use of 3D printing technology. We are currently working on an innovative research project in collaboration with the University of Siegen that focuses on the investigation and reduction of noise emissions in technical modules. We are currently aggressively pursuing collaborations of this kind with research institutions.

Our products and solutions are often critical factors in the relevant end products and not only contribute towards

a better cost/benefit ratio but also help achieve efficiency stipulations by, for example, reducing the weight of the product. Our innovations also support our customers in the implementation of shared sustainability targets. For example, we have established a packaging concept that uses the opportunities presented by recyclable packaging to make dispatching goods more practical from an environmental perspective.

In addition to our cutting-edge, fully automatic and flexible production facilities, our high quality standards are a major basis for our strong market position. In addition, we have also implemented certified quality management systems at some of our sites in accordance with IATF 16949. We also want to continually improve our environmental processes and have introduced certified systems for environmental management (ISO 14001) and energy management (ISO 50001).

In expanding and developing our product range, we set great store by product safety and the requirements of our customers. These aspects fall under the responsibility of the relevant company or site within the segment. We collaborate closely with our customers and our suppliers to achieve noise optimisation of our components, for example. In addition to compliance with legal requirements, other overall objectives include ensuring product quality, continually improving processes, safeguarding manufacturing processes through test cycles, and avoiding negative impacts on the environment and the health of product users.

it/services

The companies in the *it/services* segment primarily provide services such as open-source solutions and engineering services, and thus are not considered traditional manufacturing companies. We develop customer-specific software solutions, e.g. for big data analytics and in IT service management, thus powering digitisation and connectivity through Industry 4.0 solutions. Together with our customers, we drive innovations and improvements to fulfil and exceed their requirements. We also collaborate closely with our suppliers as part of these projects.

We are investing more heavily in research and development and regularly engage in dialogue with the other segments in the KAP Group with regard to innovations and customer requirements.

In addition, we contribute greatly to process optimisations for our customers with regard to environmental aspects: for example, we offer system solutions in the area of infra-red drying technology that enable them to achieve a high level of energy efficiency.

We are able to do this in particular thanks to the expertise and motivation of our staff, whom we provide with ongoing training and development opportunities. Our ISO 9001 management system also enables us to prove our exceptionally high quality standards and this system is shored up with regular internal/external audits and approvals for individual work steps. With a view to continually improving our processes, we record any complaints about our products or services, subject them to an in-depth analysis and derive the relevant corrective actions accordingly.

ABOUT THIS REPORT

Report profile

With this report, we are publishing for the fourth time a separate non-financial Group report (below: non-financial report) in accordance with the German Commercial Code (HGB), thus fulfilling the requirements of the CSR Directive Implementation Act at the Company and Group level pursuant to sections 315b and c of the German Commercial Code (HGB) in conjunction with sections 289b to e HGB. This non-financial report contains the legally required information pertaining to the environment, employees, social issues, respecting human rights and combating corruption and bribery. Within this report, we disclose which strategies we have pursued during the past financial year and which we will pursue in the future at KAP AG and within the segments with regard to material non-financial issues.

The non-financial report corresponds to the calendar year and describes the status at the end of the respective financial year. If not otherwise indicated, all data in the report pertains to both the Aktiengesellschaft [PLC] and the Group.

This reporting year, we are, for the first time, using the option of orientation towards generally applicable frameworks for reporting on sustainability issues: we refer to the GRI Standards of the Global Reporting Initiative framework in the "Referenced" option.

The non-financial report must disclose material risks as defined in Section 289c Para. 3 Clause 3 and 4 HGB, provided that the information is required to interpret the business performance, operating result, Group position and its effects on non-financial issues. The business segments in the KAP Group are subject to a range of risks that inevitably result from their business activities. The challenges involve leveraging the opportunities available and limiting the risks. A key element in this process is our risk management system, which enables us to manage future challenges with far-sightedness. For additional information about risk management within the KAP Group, please see page 62 of the Group Management Report in the 2020 Annual Report.

In a net evaluation of the risks in accordance with the requirements of the CSR Directive Implementation Act, no risks were identified that are highly likely to have serious negative consequences for the reportable aspects now or in the future.

KAP AG and its segments have not yet established any tax-relevant key performance indicators under Section 289c Para. 3 Clause 5 HGB.

No direct correlation was identified between the amounts disclosed in the annual financial statements under Section 289c Para. 3 Clause 6 HGB and the non-financial issues.

The non-financial report was evaluated with regard to lawfulness, propriety and expediency, and approved by the KAP AG Supervisory Board.

We use the male, female or a neutral form for statements about employees, customers or other groups of people in this non-financial report. This is exclusively for reasons of improved readability – all such information refers, of course, to all genders.

GRI content index

GRI 101: FOUNDATION 2016

GENERAL DISCLOSURES

Standard	Disclosures	Page	Comment
GRI 102	General disclosures 2016		
Organisational profile			
GRI 102-1	Name of the organization		KAP AG
GRI 102-2	Activities, brands, products, and services	1 et seq.	
GRI 102-3	Location of headquarters		Fulda, Germany
GRI 102-4	Location of operations	1	AR, p. 6-11 and p. 30.
GRI 102-5	Ownership and legal form	1	AR, p. 28.
GRI 102-6	Markets served		AR, p. 30.
GRI 102-7	Scale of the organization	1	
GRI 102-8	Information on employees and other workers	1 and 10 et seqq.	
GRI 102-9	Supply chain	3 and 9 et seq.	
GRI 102-10	Significant changes to the organization and its supply chain		AR, p. 28 et seqq.
GRI 102-11	Precautionary Principle or approach	9	
GRI 102-12	External initiatives	9	
GRI 102-13	Membership of associations		KAP AG did not have any relevant memberships in 2020.
Strategy			
GRI 102-14	Statement from senior decision-maker		We are currently expanding our sustainability reporting. The statement on our sustainability strategy will be published once this is complete.
Ethics and integrity			
GRI 102-16	Values, principles, standards, and norms of behavior	6 et seqq.	
Corporate governance			
GRI 102-18	Governance structure	6	AR, p. 16-23 and p. 30.
GRI 102-20	Executive-level responsibility for economic, environmental and social topics		The information about these topics is presented separately in the respective management approaches.
Stakeholder engagement			
GRI 102-40	List of stakeholder groups	6	
GRI 102-41	Collective bargaining agreements	13	
GRI 102-42	Identifying and selecting stakeholders	3	
GRI 102-43	Approach to stakeholder engagement	6	
GRI 102-44	Key topics and concerns raised	4 et eq.	
Reporting practice			
GRI 102-45	Entities included in the consolidated financial statements	29	
GRI 102-46	Defining report content and topic Boundaries	4 et seq.	
GRI 102-47	List of material topics	4 et seq.	
GRI 102-48	Restatements of information		All relevant changes are presented in the corresponding sections.
GRI 102-49	Changes in reporting	29	All relevant changes are presented in the corresponding sections.
GRI 102-50	Reporting period	29	
GRI 102-51	Date of most recent report		April 2019
GRI 102-52	Reporting cycle	29	

GRI 102-53	Contact point for questions regarding the report		Mr. Thomas Winkels.
GRI 102-54	Claims of reporting in accordance with the GRI Standards	29	
GRI 102-55	GRI content index	30 et seqq.	
GRI 102-56	External auditing		No external audit was performed.

MATERIAL TOPICS

Standard	Disclosures	Page	Comment
GRI 205	Anti-corruption 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	6 et seqq.	
GRI 205-2	Communication and training about anti-corruption policies and procedures	8	
GRI 206	Anti-competitive behaviour 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	6 et seqq.	
GRI 206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices		There were no legal actions for anti-competitive behaviour, anti-trust and monopoly practices in 2020.
GRI 302	Energy 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	15-19	
GRI 302-1	Energy consumption within the organisation	18 et seq.	
GRI 302-4	Reduction of energy consumption	18 et seq.	
GRI 303	Water and effluents 2018		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	15 et seq. and 24 et seq.	
GRI 303-3	Water withdrawal	25	
GRI 303-4	Water discharge	25	
GRI 303-5	Water consumption	25	
GRI 305	Emissions 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	15-22	
GRI 305-1	Direct (Scope 1) GHG emissions	20 et seq.	
GRI 305-2	Energy indirect (Scope 2) GHG emissions	20 et seq.	
GRI 305-3	Other indirect (Scope 3) GHG emissions	20 et seq.	
GRI 306	Waste 2020		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	15 et seq. and 22 et seqq.	
GRI 306-3	Waste generated	23	
GRI 401	Employment 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	10 et seqq.	
GRI 401-1	New employee hires and employee turnover	12	
GRI 403	Occupational health and safety 2018		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	13 et seq.	
GRI 403-5	Worker training on occupational health and safety	13 et seq.	
GRI 403-6	Promotion of worker health	14	
GRI 403-8	Workers covered by an occupational health and safety management system	14	
GRI 403-9	Work-related injuries	14	
GRI 403-10	Work-related ill health	14	
GRI 404	Training and education 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	12 et seq.	
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	13	
GRI 406	Non-discrimination 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	6	

GRI 406-1	Incidents of discrimination and corrective actions taken		KAP AG does not yet document incidents of discrimination on a Group-wide basis because our data collection system is still being expanded.
GRI 412	Human rights assessment 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	3, 6 et seq. and 9.	
GRI 412-2	Employee training on human rights policies or procedures		KAP AG does not currently hold any specific training sessions on human rights policies or procedures. These topics are covered in training sessions on our Code of Conduct.
GRI 416	Customer health and safety 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	26 et seqq.	
GRI 416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		No violations in this regard became known in 2020.
GRI 418	Customer privacy 2016		
GRI 103	Management approach (including GRI 103-1, 103-2, 103-3)	8 et seq.	
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	8 et seq.	

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