

NON-FINANCIAL GROUP DECLARATION

OF KAP BETEILIGUNGS-AG ON THE FINANCIAL YEAR

2017

NON-FINANCIAL GROUP DECLARATION

With the enactment of Directive 2014/95/EU of the European Parliament and European Council “Guidelines on non-financial reporting” into German law, most capital market-oriented companies in Germany are obliged from the 2017 financial year to report annually on the issues of respecting human rights, combating corruption and bribery, environmental, social and employee issues.

In this declaration, we disclose which concepts we pursued in the past financial year and will be pursuing in the future with regard to the major non-financial issues for KAP Beteiligungs-AG and its investment companies. To do this, we carried out a materiality audit of the three action levels. Based on the heterogeneous investment company structure, there were no material points at Group level in the environment, social and employee issue level, but the situation was very different at segment level. This placed an obligation on us to look into areas that are generally relevant for us and to develop corresponding concepts at Group level so that we can implement standardized policies.

Report profile

All the figures in this declaration relate to the reporting year; in subsequent years, we will supplement them with comparative values to highlight how they have changed. The reporting period corresponds to the calendar year in each case. Where key figures do not relate to the whole Group but only to individual companies, this is noted in the report accordingly.

Principles

Economic success, integrity and corporate responsibility are aims of our business that are inextricably linked, regardless of whether we or companies we control operate in Germany, Europe or other parts of the world. Underpinned by the awareness of the social, ecological and economic structure of the whole value added chain, we are meeting the challenges of an increasingly interconnected and global economy.

BUSINESS MODEL

We are a listed industrial holding company made up of segments that are strong in terms of cash flow and income and that operate in strategically defined markets. Small and medium-size companies of all sizes form segments that are intended to be roughly equal in sales and profitability. The result is a portfolio that is able to cope with market fluctuations as a group network. As a holding company we continuously assess the appeal and competitiveness of existing and new segments as well as consider possible reinforcements in Germany and abroad. To do this, we also integrate sustainability issues into our due diligence processes. We achieve economies of scale for our companies, for example in financing, and promote an ongoing process of improvement. The individual managing directors are given the entrepreneurial freedom to implement these jointly defined goals, but are embedded in the overall management of the Group through our reporting and risk management system in order to be able to prevent mistakes in a timely and efficient manner. To manage the segments we place special value on profitability and key liquidity indicators in order to achieve an attractive dividend for our shareholders while at the same time increasing shareholder value.

We are very committed to our companies over the long term, and as an industrial holding company our investment decisions themselves are therefore made on a sustainable basis. Most companies have been part of the Group for more than 10 years.

ETHICAL DEALINGS IN THE KAP-GROUP

Responsible and ethical behavior toward employees, business partners, society and the environment is a core element of KAP Beteiligungs-AG's value system. As the benchmark for our interactions, the company's management philosophy and strategy are geared toward the values set out in our code of conduct. Introduced in the reporting year, the code applies to our worldwide activities and was translated into the respective Group country languages. For us, it represents a common guideline for our decisions and actions; it also sets out binding minimum standards for responsible behavior toward our business partners and the public, but also for our behavior toward and dealings with one another within the KAP-Group. It is used to show our staff and business partners what type of behavior is desirable for KAP Beteiligungs-AG in the respective category, and is aimed at improving understanding and implementing corresponding modes of behavior. The code of conduct shows that we are committed to complying with international social norms. In this regard, we refer in detail, for example, to the Universal Declaration of Human Rights and the United Nations Global Compact.

Compliance

Compliance at KAP Beteiligungs-AG plays a central role in all our corporate activities and is therefore crucially important.

Compliance with rights and laws in our corporate approach is a matter of course for us. Non-compliant behavior, however, is not only inconsistent with our values, but can also result in significant damage to our financial standing and to our reputation as a business. Non-compliant behavior always diminishes financial success as well as the ability to invest and grow as a business, which ultimately jeopardizes jobs. This means that it damages everyone in the company in equal measure, i.e. our shareholders, the company's management and staff.

In a globalized world that is dominated by ever more complex national and international legal provisions, the demand for responsible action is growing steadily. While this demand raises awareness of legal risks, it helps avoid legal infringements in its implementation. The rules governing the code of conduct are binding for KAP Beteiligungs-AG and all its affiliated companies. Everyone in the KAP-Group – Board of Directors and Supervisory Board, members of the executive bodies, management and employees – are obliged to familiarize themselves with the code, learn it and act accordingly.

Our company's continuity and sustainable economic progress depend crucially on our commitment to corporate responsibility and on our reputation as a trustworthy business partner.

Compliance Management System

KAP Beteiligungs-AG introduced a formalized Compliance Management System to strengthen compliance. Core elements of our system comprise issues such as corruption and cartel law, human rights, work and social standards, conflicts of interest as well as trade control and data protection. As such, we have set down the principles of the Compliance Management System in a policy of the same name.

The Chief Compliance Officer specifies important issues for strengthening compliance in the Group, and is responsible for promoting and overseeing compliance activities, such as measures for combating corruption. The protection of personal data is dealt with at KAP Beteiligungs-AG by an external data protection officer.

Responsible staff were appointed at nearly all investment companies and tasked with implementing measures to strengthen compliance, taking into account conditions in the respective region. Appointments are due to be completed in the 2018 financial year. Those responsible report regularly to the Chief Compliance Officer on progress and compliance incidents. The Chief Compliance Officer reports regularly to the Board of Directors and Supervisory Board regarding the progress of compliance activities and regarding any other important compliance matters in the KAP-Group.

Even in the reporting year, newly acquired companies started amending the relevant compliance structures to reflect the KAP-Group standard.

Prevention of bribery and corruption

With its code of conduct and anti-corruption guidelines, KAP Beteiligungs-AG has established the ground rules for avoiding corruption, such as the ban on accepting gifts and hospitality and on accepting or paying bribes. In the reporting year, a Group guideline entitled "Gifts and invitations" was introduced to add substance to the anti-corruption guideline. It is aimed at making it easier for staff to understand and deal with these issues. Furthermore, training in this area was carried out in the form of e-learning sessions in the respective Group language. To improve measures to prevent bribery and corruption, a guideline on verifying business partners was introduced in the 2017 financial year. As such, the Corruption Perceptions Index released by Transparency International is designed to act as an indicator for evaluating risks in individual countries.

There were no cases of bribery or corruption in the 2017 reporting year.

Information security and data protection

Information security is one of the most important requirements for any modern company. We protect corporate data as well as customer and staff personal data against unauthorized access, unauthorized or abusive use, loss and premature destruction using all of the suitable and appropriate technical and organizational means at our disposal. When collecting, saving, processing and transmitting personal data from staff, customers or other third parties, we always take the greatest care, maintain strict confidentiality and comply with applicable laws and regulations.

KAP Beteiligungs-AG and its affiliated companies have an external data protection officer who monitors compliance with statutory data protection provisions. For the 2018 financial year, we are planning to train staff specifically for when the European General Data Protection Regulation goes into force and for the evaluation of existing IT security. Improvement measures will be introduced after examining the results.

There were no cases of breaches of data protection provisions in the 2017 reporting year.

Planned compliance measures

Other guidelines, such as those on fair competition, export control and tax law, will also be implemented in the 2018 financial year and accompanied by training courses. KAP Beteiligungs-AG introduced sanctions and export control software in the past financial year with which the responsible staff can carry out automatic checks on business partners and new employees.

Other training courses in the respective Group language are planned on the individual aforementioned guidelines in the form of e-learning sessions.

Whistleblower system

KAP Beteiligungs-AG has had a whistleblower system in place for the last few years in the form of an ombudsman who, as an independent person, was contactable – by e-mail or telephone for employees who had questions or problems. As this system was infrequently used in the past, KAP Beteiligungs-AG decided to change it in 2017. An electronic whistleblower system that can be used regardless of location offers all staff and third parties the opportunity to contact the Compliance department anonymously, in line with the recommendation of the German Corporate Governance Code, para. 4.1.3 with respect to compliance matters. A link to the electronic whistleblower system can be found on KAP Beteiligungs-AG's website.

Protection of human rights

Human rights are universally recognized rights with which all people are born. Today the world is increasingly aware that business activities can strongly impact human rights.

As a company with growing operations around the world, KAP Beteiligungs-AG views the respect for human rights as one of the basic conditions for its business activities. This is in line with the company's aim of contributing to a sustainable society in which human rights are respected. Among the 10 principles of the United Nations Global Compact (UNGC), it is stated that "companies must support internationally declared human rights and promote their compliance" and "ensure that they do not cause breaches of human rights". KAP Beteiligungs-AG is wholeheartedly in agreement with this.

Diversity

KAP Beteiligungs-AG respects individuality, human rights and the privacy of all staff, and rejects any form of discrimination on the grounds of race, nationality, gender, religion or capabilities. We also avoid any form of child or forced labor, and provide the most secure and healthy work environments possible. As part of the promotion of compliance, any breaches of human rights can be reported in any country using the whistleblower system. The initiatives to guarantee compliance with human rights include the supply chain. Together with business partners that supply commodities and parts and carry out production orders on a commission basis, we seek to strengthen their compliance with human rights. In the 2017 financial year, a supplier code of conduct was introduced to ensure that our business partners are also familiar with the principles of our value system. This code is based on the principles of the United Nations Global Compact and contains provisions on human rights, working conditions, environmental protection and the fight against corruption.

SOCIAL AND EMPLOYEE ISSUES

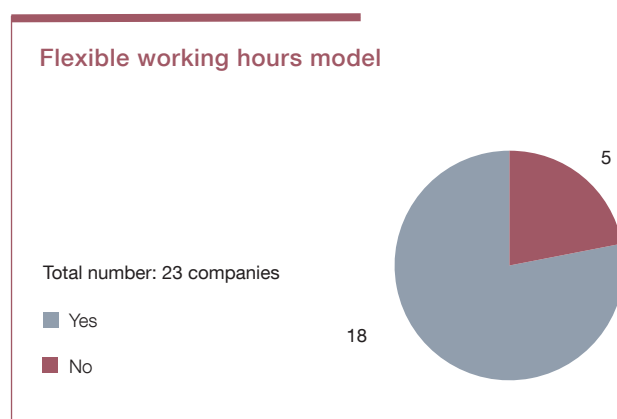
Gender equality

KAP Beteiligungs-AG pays particular attention to the appointment, retention and promotion of women. There are already a large number of management positions occupied by women. An internal survey on CSR in 2017 revealed that 56 women were employed in management positions in the Group. We regard management positions as positions that report directly to the senior management team. The number of women in management positions ranges from zero to 13 in the companies surveyed. As a result, women should now be more keenly promoted in companies with few or no women in management positions.

The number of women employed overall varies sharply between the companies, ranging from 3% to 73%. The discrepancies can partly be explained by cultural differences. At the MEP site in India, the proportion is the lowest at 3%, while at OMT Fulda, the proportion of women is the highest at 73%. A high proportion of women can be found in particular in the Eastern European countries (Technolen, Czech Republic at 65%; BEBUSCH, Hungary at 63%; Minavto, Belarus at 50%). On average, the survey showed a proportion of some 30% of women in KAP companies.

Working conditions

Working hours in nearly all companies are 40 hours per week. In 18 of the companies surveyed, employees can take advantage of flexible working hours models, such as flextime. In 2017, 506 employees at KAP Group's German sites took the opportunity to work on flextime. Staff at all German sites also have the option of part-time work. There are strong country-specific differences when it comes to vacation, but all companies, with the exception of those in America and China, provide between 20 and 30 days of vacation per year.



Employee rights

All KAP companies give their staff equal pay for a comparable job, regardless of gender, age, race, origin and religious affiliation. Equally, all staff have the same opportunity to be promoted, regardless of gender, age, race, origin and religious affiliation.

Almost two-thirds of companies have employee representation, and one-third have trade union representatives. Most companies offer statutory protection against dismissal in line with national law. For years, all staff have had the opportunity to report breaches of the law to an ombudsman, including in particular breaches of protection regulations under employment law.

(Occupational) health and safety

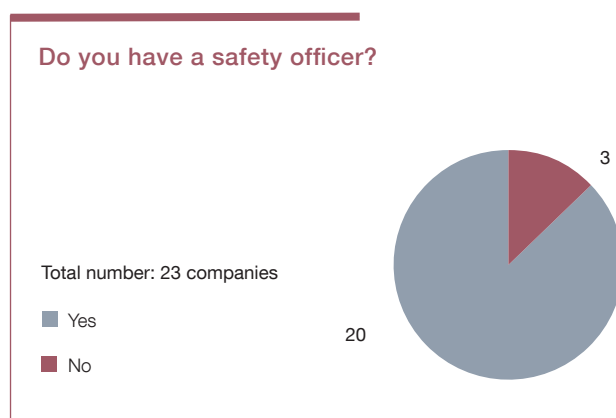
The health of our staff is a top priority for the KAP-Group. To minimize occupational dangers and illnesses, most sites, in accordance with national occupational health and safety provisions, offer occupational medical care. In 22 KAP-Group companies, staff can be treated by a company doctor, and in 19, examinations by the company doctor are obligatory for staff. Furthermore, in 15 companies, employee health is monitored through analysis. This generates appropriate measures, such as improving working conditions, structuring work places to ergonomic criteria and providing "soft" work places. In special cases there was a need to change duties within a company. Thirteen companies carry out interviews for returning to work after illness, and eight companies provide occupational integration management. There is also occupational health management in place in eight companies. Eleven companies offer measures to promote health and at three of them they are provided through a partnership with a social agency or

similar organization. Additionally, at MEP in Fulda this year, health management in accordance with DIN SPEC 91020 was introduced that we are also hoping to implement in other MEP sites.

The future aim is to maintain occupational health care at its currently high level and if necessary increase the number of sites offering care by a company doctor.

Safety in the work place

Safety at work has a high priority at the KAP-Group. Twenty-three of the 26 companies surveyed have a safety officer, and 24 carry out regular safety checks. Depending on the company, these safety checks take place continuously, either every week, month, quarter or year. Twenty-one companies produce accident statistics, and nine companies specifically record and document "near misses". Nineteen companies also carry out safety audits. Additionally, 12 companies have an officer for hazardous material, and all companies regularly carry out briefings and training on safety at work. Nearly all companies are briefed by external providers regarding safety at work. Training ranges from monthly department-specific instructions to annual safety briefings that are documented in writing. Twenty-one companies must observe the noise threshold, and in 19, staff must wear hearing protection. In the future, all KAP-Group sites are to have a safety officer. Accidents at work in particular are also recorded in management reporting.



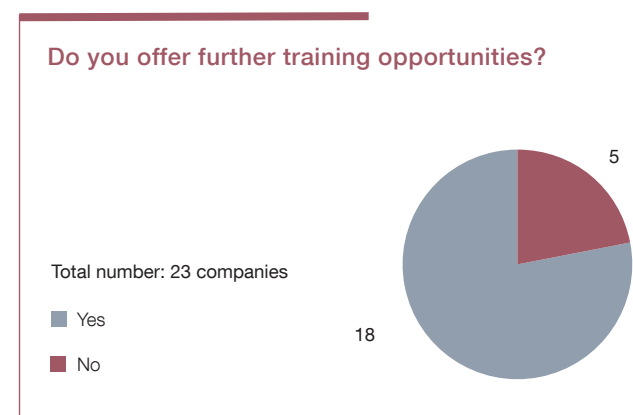
Training and continuing education

Work-related training is offered to employees in over 50% of companies in the KAP-Group. Skilled occupations are to be found in the commercial, technical and process engineering areas. Training options are also offered in IT and the electrical sector. The number of trainees and apprentices in the KAP-Group on the reporting date of December 31, 2017, was 85. Management trainees are also recruited from among graduates of cooperative universities and colleges. As such, some companies have nurtured long-standing and close cooperation efforts with schools and colleges, even beyond joint development projects. Companies in the KAP-Group regularly offer the supervision of study and final papers in order to forge contact with potential junior managers. At the Group's headquarters in Fulda, KAP-Holding regularly organizes exhibition appearances at regional recruitment fairs for Group companies represented at the Group's headquarters. We are currently working on concepts to carry out similar recruitment events at other locations.

Staff in the KAP-Group are offered a wide range of training and continuing education opportunities. Junior managers are targeted for further development. This strengthens staff loyalty toward their companies. In doing so, the spectrum ranges from internal training and workshops, specialist

seminars, certificated courses and technician and master tradesmen training to language courses and management training.

In the future, managers and junior managers will have the opportunity to pursue internal management education at a “KAP university”. Over the medium term, the aim is to establish a strategic management training program in cooperation with an external provider.



Service function of the holding company

As well as having a control function, KAP-Holding regards itself as a service provider in various areas. At a global management meeting, KAP-Group managers therefore agreed on issues where the holding company could specifically offer services in the employee area. This involves coordinating measures on talent development, recruitment, and compensation and benefits. Prompted by the holding company, teams will in future take specific measures to support companies in the aforementioned areas.

ENVIRONMENTAL ISSUES – USE OF RESOURCES

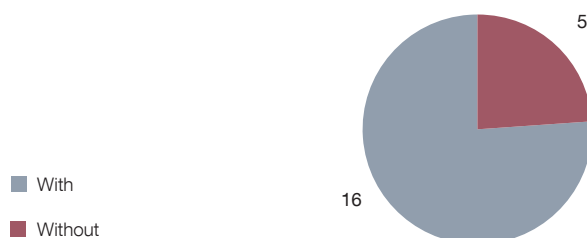
The results of the materiality analysis revealed that at Group level overall, our investment companies are categorized as relatively safe when it comes to their environmental impact on the use of resources, waste and energy consumption plus related CO₂ emissions. Around 80% of our production sites are based in the EU and therefore subject to strict legal requirements on plant safety and environmental protection.

Investments in the **surface technologies** segment tend to vary from this due to special electroplating production processes. Aware of a relevant environmental impact, however, we invested accordingly in environmental technical and process-related work flows in the past few years that meant that statutory regulations were more than met, various audits easily passed and ISO certifications granted.

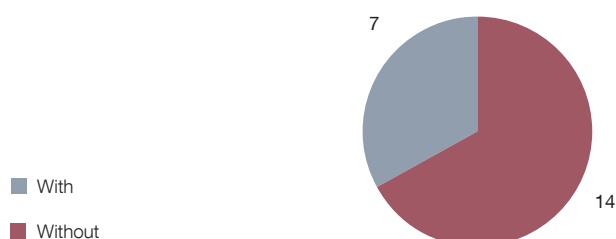
Purchase of commodities and raw materials

There is currently no standardized Group-wide sustainability policy for the procurement of commodities and raw materials. This was not necessary in the past due to the KAP-Group's decentralized organizational structure. Despite the overwhelming number of companies with their own procurement policy, around 60% of sustainability aspects are not taken into account in procurement, for a wide variety of reasons. Our aim for the next three years is to increase integration of these sustainability aspects into procurement processes, taking into account the special characteristics of the different segments.

Companies with general procurement policy



Companies with sustainability aspects in their procurement policy



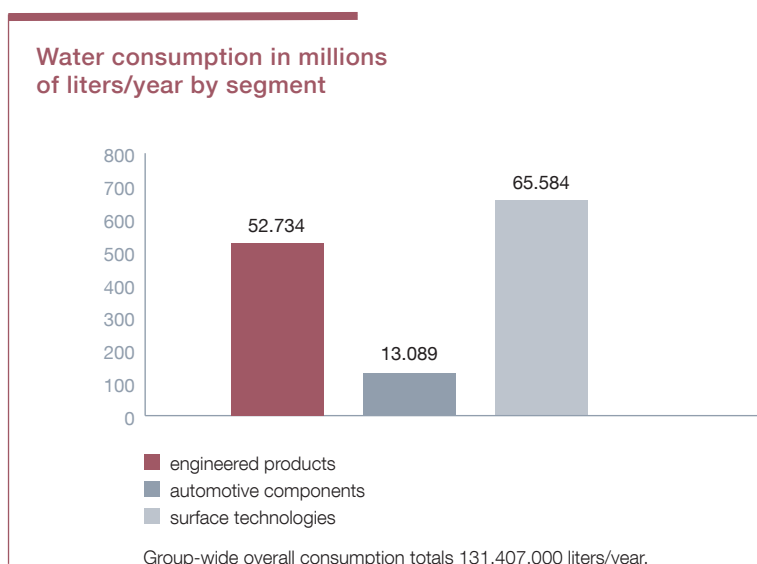
Energy consumption & emissions

The use of natural resources has an impact on the environment. Our company also bears joint responsibility for these ecological consequences, for example through the consumption or import of more and more raw materials and the goods that we produce with them. We aim to deal as carefully as possible with the given resources. To do that, we are concentrating on implementing the most energy-efficient and resource-saving processes in the production, distribution and administration of our subsidiaries. By reducing water, power and heating needs, we save energy and costs, thereby lowering the proportion of energy expenditures within our overall costs. Wherever it makes sense, we obtain our own energy through photovoltaics, cogeneration units, heat recovery or exchanger plants.

Water

Despite water being integral to production processes in many ways in all segments, and though the direct costs only play a minor role in most cases, we have still decided to include this resource in our report.

In the year under review, a good 70% of companies worked on measures to reduce water consumption, some even looking into substituting it with other liquid materials. Overall, consumption is at 1,314,070 hl; when measured by segment size; **surface technologies** has significant consumption at 655,840 hl. The amounts of water used here are supplied to the production process several times over using ultra-modern preparation plants, fully processed at the end with the filtered slag being recycled. Furthermore, circulation water plants and, at some sites, service water plants have been installed. In the next few years we will also invest to maintain the high standard and reduce the amount of water used in relative terms.



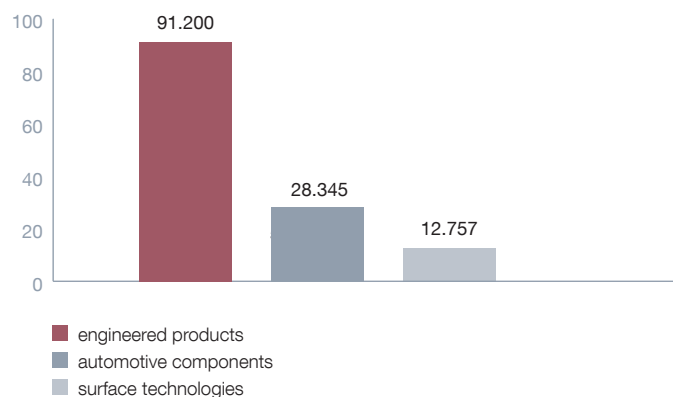
Electricity

Group-wide electricity consumption saw a not insignificant rise through the establishment of the **surface technologies** segment and is of crucial importance there. This is due to the segment-specific use of the electrolysis process of the electroplating surface treatment. Electricity costs in this segment account for up to 20% of overall production costs. It is therefore logical that the issue of procuring sustainably produced electricity is highly important; already almost 50% of the total electricity procured is done so through the use of photovoltaic systems, cogeneration units and heat recovery systems.

All in all, over half of our companies procure some of their electricity from sustainable production sources. This proportion is set to rise further in the next three years, but this is difficult to implement at our non-EU sites. Group-wide overall consumption in the reporting year was 132,301,348 kWh.

Nearly all companies have initiatives in place to reduce electricity consumption. Aside from the wish to optimize costs, many of the companies without ISO 50001 certification will try and obtain it in the near future. This norm contains standardized approaches for recording energy consumption at companies. It gives companies guidance on technical measures for improving energy efficiency as well as on strategic and organizational management approaches. Over the medium term we will at least strive to obtain ISO 50001 standard certification for all major EU sites so that we can introduce standard guidelines on the efficient use of resources.

Electricity consumption in millions of kWh/year by segment



Group-wide overall consumption totals 132,301,348 kWh/year.

Heat

The use of fossil fuels to produce heat in production processes of our investment companies cannot be described as significant at Group level. However, heat is a must in many production areas of the **engineered products** segment, the predominant energy source being natural gas. Over 75% of the companies are involved in efforts to reduce consumption through process optimization efforts, use of heat recovery or energetic optimization of production sites. In the future we will increasingly work toward including alternative sources of supply into our planning.

Goals for energy consumption and emission intensity

In order to improve energy efficiency, the KAP-Group has set itself the goal of cutting energy consumption in subsidiaries by 3% by 2020, taking 2017 as the base year. As energy needs and greenhouse gas emissions (GHG emissions) are to a large extent influenced by the output quantity in production, it seems logical to us in the wake of our growth strategy not to use absolute energy consumption as the benchmark, but instead to set the measured energy intensity (energy consumption in relation to sales) and the GHG emission intensity (CO₂ emission in relation to sales) as the benchmark. As such however, our very heterogeneous production structure in individual segments must be taken into account, resulting in highly varied quantities.

THIS NON-FINANCIAL GROUP DECLARATION IS ALSO AVAILABLE IN GERMAN. ONLY THE GERMAN VERSION OF THE NON-FINANCIAL GROUP DECLARATION IS LEGALLY BINDING.