

ENGINEERING EXCELLENCE

NON-FINANCIAL GROUP REPORT 2019



ABOUT THIS REPORT

Report profile

With this report, we are publishing for the third 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 §§ 315b and c of the German Commercial Code (HGB) in conjunction with §§ 289b to e HGB. This non-financial report contains the legally required information pertaining to the environment, employees, social issues, respecting human rights and preventing 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 reporting period covered by the non-financial report corresponds to the calendar year. If not otherwise indicated, all data in the report pertains to both the Aktiengesellschaft [PLC] and the Group.

The option to base the non-financial report on generally applicable frameworks for sustainability reporting was not employed because the sustainability management strategy is still being developed. We will re-evaluate their use at a later time.

The non-financial report must disclose material risks as defined in Section § 289c (3) Sentence 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 pages from page 72 onwards of the Group Management Report in the 2019 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 impacts on the reportable aspects now or in the future.

KAP AG and its segments have not yet established any control-relevant key performance indicators under § 289c (3) Sentence 5 HGB.

No direct correlation was identified between the amounts disclosed in the annual financial statements under § 289c (3) Sentence 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.

ABOUT KAP

Brief introduction to the segments and business model

The KAP Group is a fast-growing, mid-sized industrial group with around 3,000 employees at 29 sites 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.

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 foils internationally for a huge range of applications. The product portfolio extends from flexible packaging materials for the consumer goods industry to products for the medical technology industry, the entertainment sector, to the construction industry and digital imaging.

In our newest segment, *surface technologies*, we develop highly specialist surface solutions for metallic materials and realise them in highly efficient processes on behalf of our customers. In doing so, we serve a whole range of markets, including the food industry, furniture, mechanical engineering, electrical industry and mobility.

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 electrical or electromechanical actuators and drive systems. In doing so, we implement solutions made from both plastic and from plastic and metal composites. The portfolio includes high-precision gears and contiguous metal products that are installed in e-bikes, for example.

In our *it/services* segment, we have united our expertise in software development and machine engineering within a single unit. By doing so, we have generated unique expertise in digitisation, Industry 4.0 solutions and services with regard to the use of machinery.

As a result of our dedicated long-term business strategy, we serve a number of attractive niche markets with sustainable growth potential. Our focus is on turning high-profit industrial segments into specialised market leaders that can offer their customers major added value.

As a listed industrial group, we are active in strategically defined markets. Our segments are made up of SMEs of varying sizes whose sales and profitability should ideally be roughly the same. 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.

We have a long-term commitment to our companies and take a sustainable approach with our investment decisions as an industrial group. Most of the companies have been part of our Group for over ten years.

For an in-depth description of our business model and the segments, please refer to pages 6 et seq. and page 40 onwards of the 2019 Annual Report.

SUSTAINABILITY MANAGEMENT

Strategy and management

KAP AG is committed to responsible corporate governance. 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. Responsibility and integrity aren't just buzzwords for us but the basis of the trust that our customers, business partners, shareholders, society as well as our employees have placed in us.

Our Management Board bears the overall responsibility for this and ensures that sustainability is anchored firmly within our strategy, our management and in our day-to-day actions. The individual managers have the freedom to implement the mutually defined goals but are integrated into the overall management of the Group via our reporting and risk management system. This enables us to push ahead with business developments and sustainability issues quickly and efficiently. In terms of managing the segments, we attach particular significance to profitability and liquidity indicators to be able to achieve an attractive dividend while boosting value for our shareholders. In doing so, our due diligence processes also take sustainability issues into consideration. Taking social, societal and environmental responsibility is firmly anchored into our organisational structures and is a key element of our company policy, both in terms of our strategy and our operations.

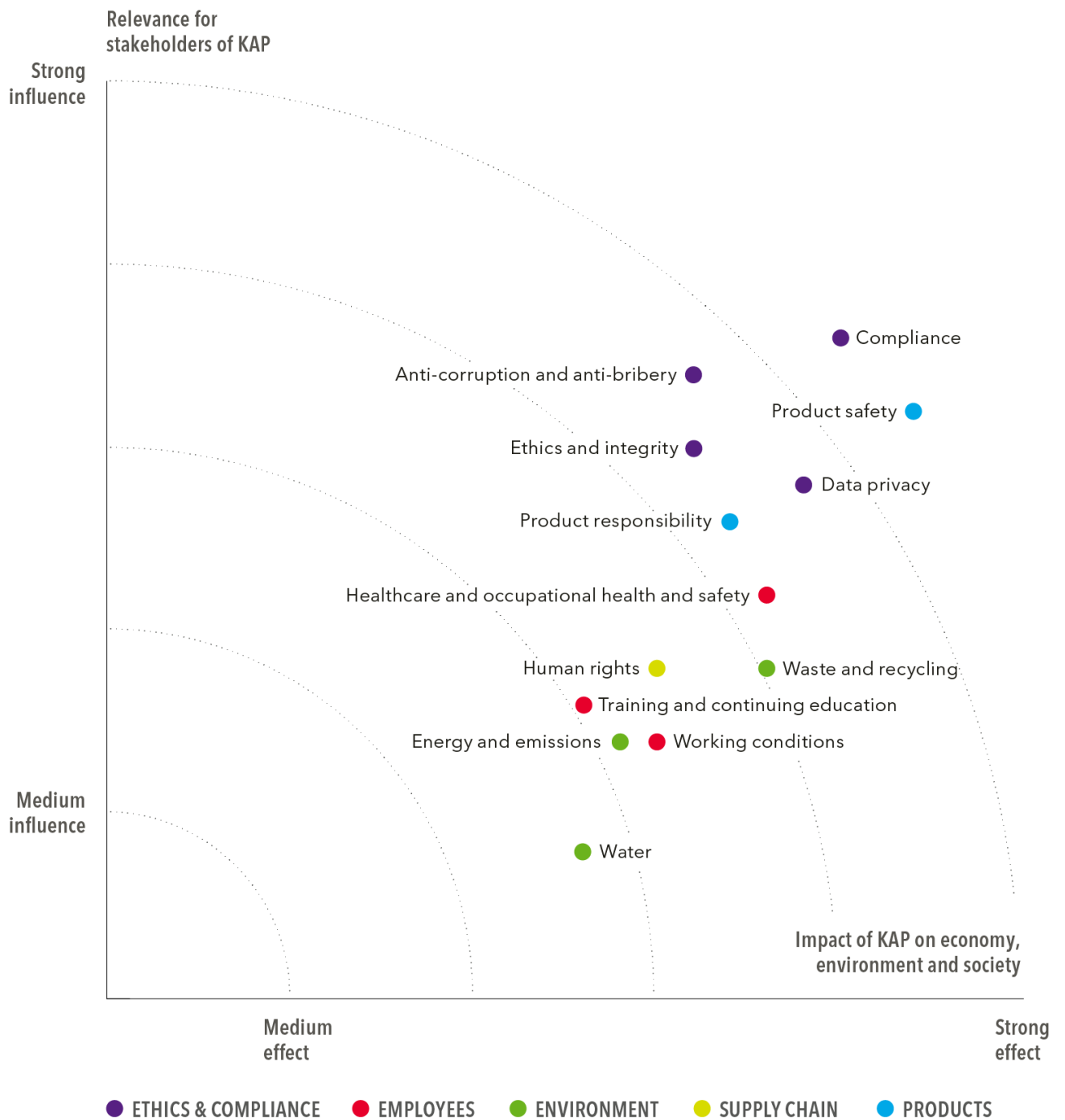
We welcome open dialogue with our stakeholders and champion the transparent presentation of our goals, measures and performance indicators in the field of sustainability. To put our commitment to sustainability into action, we are gradually developing non-financial performance indicators and are developing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

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 segments. The results were transferred into a materiality matrix.

Materiality matrix of KAP



Through its materiality analysis, the KAP Group identified 13 material topics 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:

Material topics under the CSR Directive Implementation Act

Non-financial issues	Material topics	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“
Preventing 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“

In the course of our materiality analysis, we did not identify any legally relevant “social issues” or adopt any voluntarily in our Non-Financial Group Report. Instead, we transferred any relevant content into the chapter of our report entitled “Employees”. For the first time, we are reporting on an additional non-financial issue concerning the topics of “Product responsibility” and “Product safety”. Environmental and product issues are presented on segment level because there are different challenges with regard to emissions, water and waste, as well as product safety and responsibility, due to the different types of value creation within the 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. 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. The Code 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. Some such international social standards include the Universal Declaration of Human Rights and the United Nations Global Compact.

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 corporate governance at KAP from page 20 onwards of the 2019 Annual Report.

Compliance management

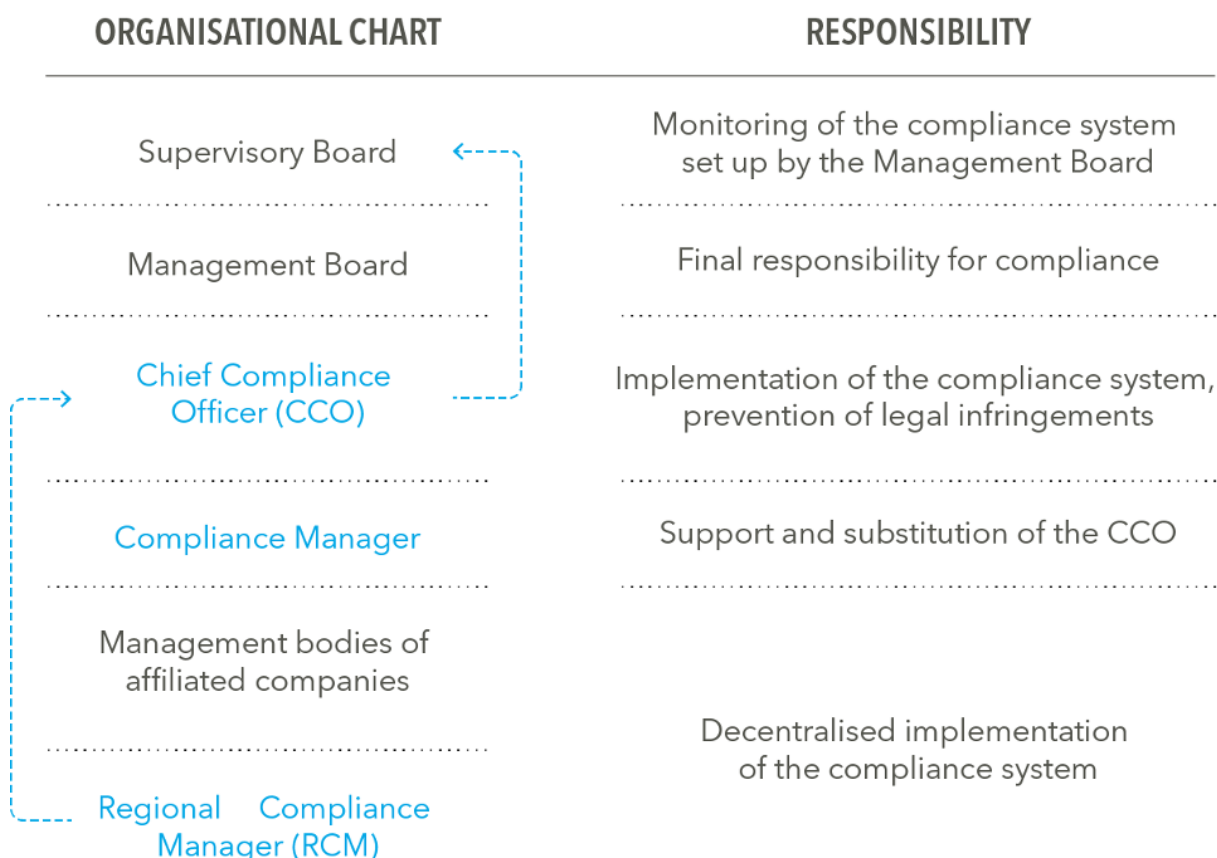
At KAP, compliance is an integral part of our corporate culture and is firmly anchored in the Group's day-to-day business. We believe that a company that does not integrate compliance and integrity into its business processes cannot be successful over the long term. We understand compliance as the strict 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 negatively 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. Since the 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, 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 (RCM) 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 to the CCO, who is supported by the Compliance Manager, on progress and incidents.

The Chief Compliance Officer reports regularly to the Management Board and 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.

Compliance management at KAP



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 identified weak points. In 2018, we redesigned our whistle-blower system. Because the previous system, which took the form of an ombudsman, was rarely used, a new electronic whistle-blower system that can be used from anywhere offers employees and third parties the opportunity to contact the Compliance department anonymously in accordance with the recommendations of the German Corporate Governance Code. The electronic whistle-blower 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 and how to deal with business partners, for example. In the 2019 reporting year, we implemented a new guideline for export control and carried out the corresponding online training. Before the launch of the export control guideline, the “SAM3” sanction control software was made available, which enables our subsidiaries to check whether their business partners are on international sanction lists.

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 as workshops, web-based modules, online training and video content in the relevant national languages, or, where reasonable 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. Our online training sessions play a major role and enable us to offer courses in compliance, corruption prevention, fair competition, data privacy, information

security and export control. This enables us to ensure that all relevant specialist roles, authorisation functions, control functions and other high-risk roles, as well as external business partners, are adequately trained in all relevant compliance-related topics, and that this knowledge is kept up to date with frequent repeat training. The KAP management is trained separately in relevant topics through face-to-face training.

In the next business year, we aim to expand our comprehensive compliance management system to include our newly acquired companies. We also want to build on the evaluation of compliance risks within our risk management strategy.

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 comply with 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 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. 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 sponsoring. We use training sessions and multilingual online courses to raise staff awareness of these topics so that the issues are easier 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. We are planning to carry out internal audits within the KAP Group as of 2020. In the 2019 reporting year, two compliance investigations took place in the KAP Group in Portugal and Hungary, which have since been completed. Among other things, the investigations focused on irregularities in the valuation of inventories and accounting rules and suspected misappropriation of company assets. In both cases, in addition to the personnel consequences, improvement measures were also taken regarding the existing compliance organisation. The legal and tax measures have been initiated and are still ongoing.

Information security and data privacy

KAP sets great store on information security and data privacy. 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 the data with the greatest care and strict confidentiality, in compliance with the 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 Data Protection Officer responsible for monitoring compliance with the relevant data protection laws. The segments are supported locally by their own Data Protection Managers in the implementation of the necessary data protection measures. Data Protection Officers are also in place at the individual subsidiaries. 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 Data Protection Manager 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.

We are planning to restructure our data protection organisation during the 2020 financial year. By appointing a Group-wide Data Protection Officer, we want to manage all data protection issues centrally

at the holding company level and coordinate the segments correspondingly. Furthermore, we aim to further strengthen our existing IT security and implement the relevant measures.

The KAP Group was not made aware of any breaches of data protection regulations during the 2019 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. For this reason, we reject all forms of child labour, bonded labour and forced labour, modern slavery and human trafficking.

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.

Our Supplier Code of Conduct ensures that our business partners are also 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 preventing 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.

To maintain our duty of care towards the environment and human rights, we are planning 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.

EMPLOYEES

HR strategy

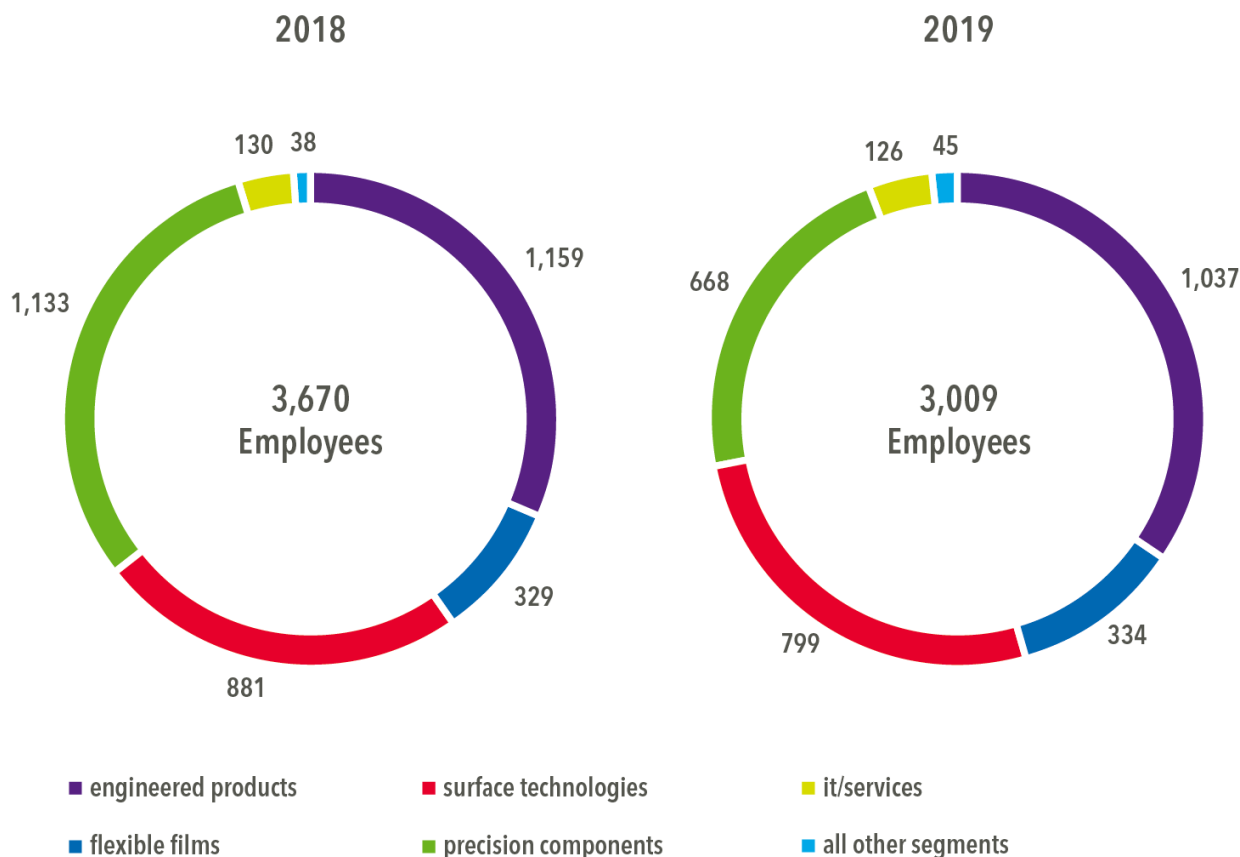
Our employees are our most valuable resource. Their expertise, motivation and engagement make it possible for KAP to continue to be successful on the market and to continue to grow. Our corporate culture puts the focus on people, who are given equal opportunities to reveal and develop their potential in a working environment that promotes good health. Through 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. The focus of our current HR strategy is on qualifying our staff, promoting digitisation in our operational and administrative processes and adapting to demographic change within our workforce. The implementation of our HR strategy is the responsibility of the HR managers in the various KAP segments, who are supported by a wide 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 rapidly progressing 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 passionately face a variety of tasks, find new solutions and implement them with success.

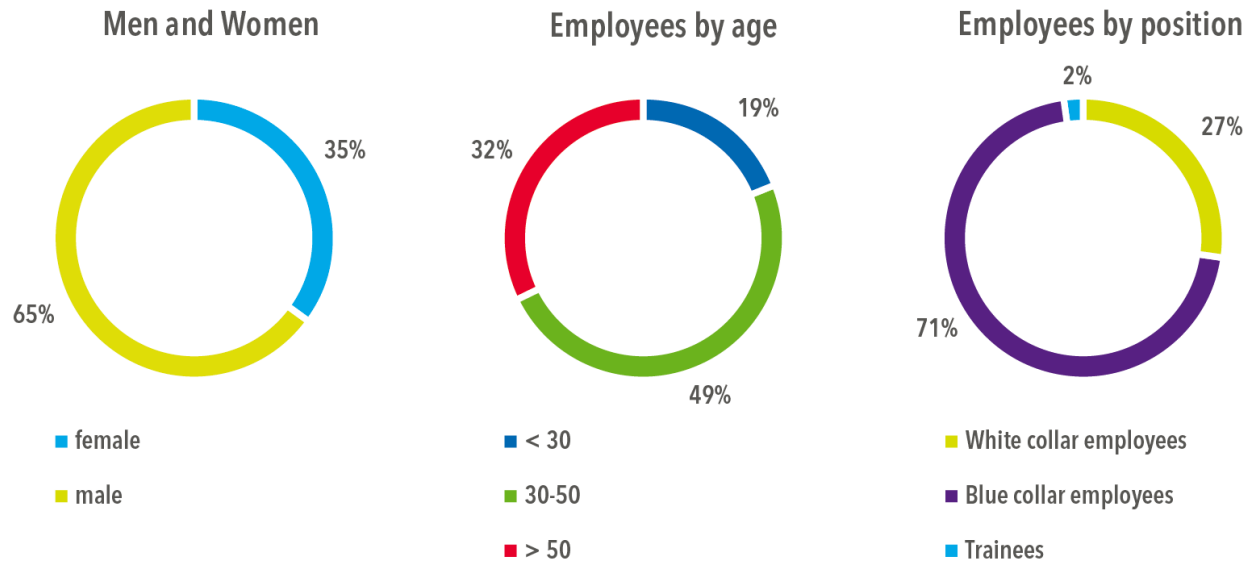
Number of employees*



* Headcount; last updated at year-end 31/12.

As of year-end 2019, KAP employed a total of 3,009 people (previous year: 3,670 people). 65% of our workforce is male and 35% is female. Around half of our staff are between 30 and 50 years old.

Overview of employees*



* Headcount; last updated at year-end 31/12, not including temporary workers and interns.

Number of employees by gender and segment*

Segment	Women	Men
engineered products	299	702
flexible films	67	265
surface technologies	331	446
precision components	279	350
it/services	20	104
all other segments	22	13
Total	1,018	1,880

* Headcount; last updated at year-end 31/12, not including temporary workers and interns.

Number of employees by age*

Segment	< 30	30–50	> 50
engineered products	171	485	345
flexible films	58	145	129
surface technologies	180	393	200
precision components	96	311	222
it/services	44	61	19
all other segments	5	18	12
Total	554	1,413	927

* Headcount; last updated at year-end 31/12, not including temporary workers and interns.

The KAP Group offers its workforce at its German and international sites fair and transparent working conditions. We make it possible for 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 the majority 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. A total of 111 employees are currently working part-time.

Number of employees by position and segment*

Segment	White collar employees	Blue collar employees	Trainees
engineered products	280	747	10
flexible films	99	225	10
surface technologies	144	634	21
precision components	159	500	8
it/services	104	10	12
all other segments	40	4	0
Total	826	2,120	61

* Headcount; last updated at year-end 31/12.

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 30 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. In 2019, there were 75 women working in management roles within the company (previous year: 72). Management positions are roles directly below the executive management. The number of women in management positions ranges from zero to 15 in the individual companies. As a result, 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. 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 wide variations in our employees' holiday entitlement between the different countries. 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.

We believe that it is important that our staff get to have a say in operational decisions, and we set great store by employee 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. We attach great importance to the systematic training and continuing education of our employees and ensure that talent is recognised, promoted and supported. We support our 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 employees, we draw on a whole bundle of staff recruitment measures. At our German sites, our trainees can choose between 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 educational paths in IT and electrical engineering. There were 61 trainees in the KAP Group as at 31 December 2019. Building on the training programs offered by our subsidiaries, we offer personal incentives, such as the financing of training as a master craftsperson or technician. We generally recruit our young managers from professional academies or universities and rely on our many years of close cooperation with schools, professional academies and universities to do so. Our subsidiaries allocate study and development projects and support Master's dissertations in a range of topics.

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 program 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 program is currently in its first round with seven candidates; following a successful evaluation, the talent development initiative is to be expanded to comprise a strategic management training course.

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 potential future managers. At the Group headquarters in Fulda, we regularly organise trade fair presences at regional job fairs for the Group companies represented at headquarters. We are currently working on concepts so that we can carry out similar recruitment events at other KAP sites.

Enabling every member of staff to take part in training is part of the KAP corporate philosophy. It is in our own interests that employees 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 appraisals 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 craftsman 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 supported 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 the health and safety of our employees 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.

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. Health and safety briefings and training sessions are regularly 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. In future, cases will be managed by a Health and Safety Officer at all KAP sites.

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 workstations. Where necessary, we hold meetings with our staff when they return after taking sick leave as part of our program 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 program 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 program.

Currently, all of our employees within the KAP Group fall under a management system for workplace health and safety. We recorded 78 reportable workplace injuries in 2019, which corresponds to a rate of 4.1 for every 200,000 working hours. No workplace deaths were recorded.

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 at our sites worldwide and minimise our consumption of raw materials, auxiliaries and process materials, as well as water. In the spirit of 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 and policy 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.

We are still developing our environment and energy reporting, which is at different stages of development throughout the KAP Group. In the following, we will explain in more detail the approaches in place for the individual segments.

flexible films

The KAP segment *flexible films* pursues a comprehensive sustainability strategy that includes the responsible use of natural resources. It is our overarching aim to reduce the CO₂ footprint of our production processes and along the entire value chain. To achieve this, we strive for the segment-wide introduction of certified environment management systems to supplement our existing energy management. 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.

An Environment Representative is defined at all sites and reports directly to the Head of the Segment, who guarantees the implementation of operational measures and monitors targets. The energy management processes at our sites are also certified according to ISO 50001. In 2020, we want to launch environment management systems compliant with ISO 14001 in sites where there is as yet no certification. 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.

surface technologies

The KAP segment *surface technologies* is committed to protecting the environment and the efficient use of natural resources. We align our processes with environmental management system ISO 14001 and certify our sites in accordance with this standard. In addition, one German site holds an EMAS validation (Eco Management and Audit Scheme). Energy management systems conforming to ISO 50001 have also been implemented. 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. The Environment Officer is supported by the Environment Representative at each site, who is responsible for the operational implementation of measures and for monitoring targets. 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

Within its sustainable corporate governance strategy, the KAP segment *precision components* protects the environment and takes a responsible approach to the use of natural resources. 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. As such, a central Environment Officer is defined at segment level who deals with these topics as part of our Environment Initiative and manages them for the segment. She or he is supported by our Environment and Energy System Coordinator, who is responsible for the monitoring of environment targets. The operational implementation at the individual sites is overseen by the according Environment Representative.

We align our processes with environmental management system ISO 14001 and certify our sites in accordance with this standard. Our sites in Germany have also been certified to energy management system ISO 50001. We review our processes and the degree to which targets have been achieved for the initiated measures through regular audits and site visits. Once every quarter, we review our energy management strategy and conduct a management review of environment 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 part to protect the environment, use energy efficiently and reduce our CO₂ footprint. For example, we safeguard the energy supply of our Fulda site, implement operational energy efficiency measures, and are working towards increasing the energy efficiency of our buildings and modernising our vehicle fleet. We also promote the use of renewable energies by rating our energy providers according to the amount of green electricity in the energy mix and selecting them in view of the results.

We want to continually improve our energy efficiency and reduce our energy consumption. As part of the DIN EN 16247-1 energy audit, we conduct regular analyses and evaluations of our current energy requirements, identify areas for potential energy savings and derive measures for improvement from this. Our Environment and Energy System Coordinator is responsible for monitoring our progress with regard to targets.

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. To make our production processes as energy- and resource-efficient as possible, we continually implement energy efficiency measures. Throughout the Group, we increasingly rely on renewable energies and promote photovoltaic systems, combined heat and power units as well as heat recovery units. Some companies already get their electricity from sustainable sources. In the next few years, we want to continually boost the proportion of green energy in our energy mix.

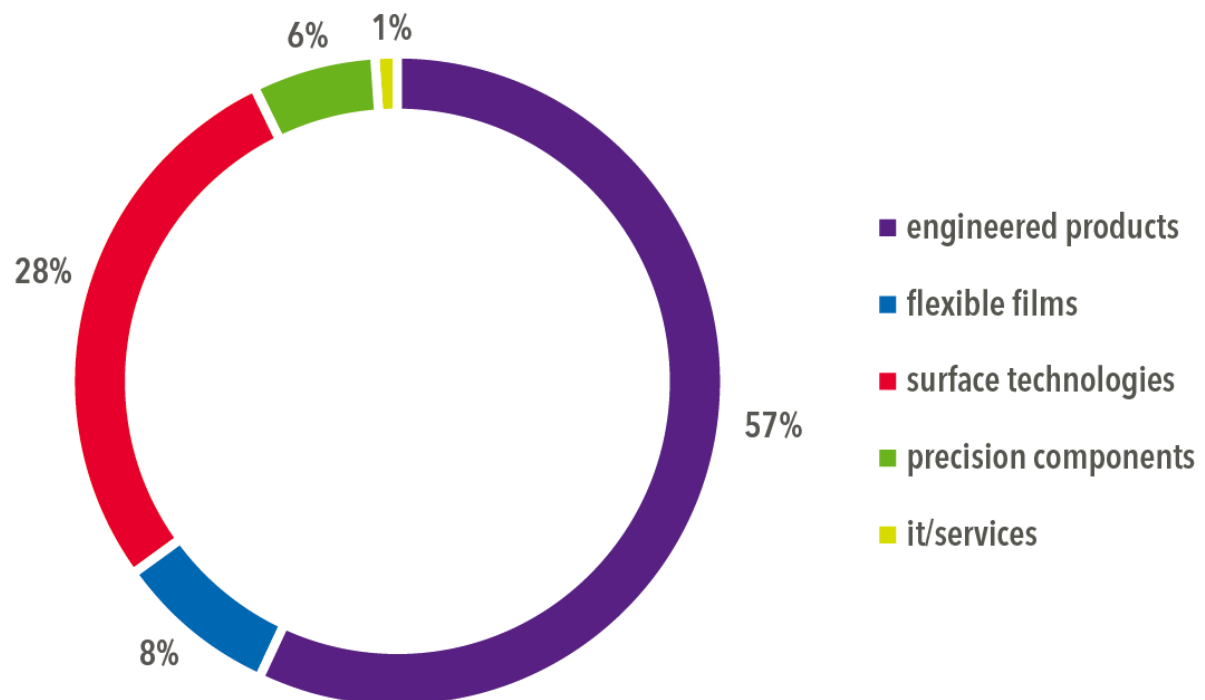
To improve our energy efficiency, KAP Group collects its specific energy consumption. The most significant energy consumption in 2019 could be attributed to the *engineered products* segment, which used 125.6 GWh of power. The *surface technologies* segment came in second with consumption of 62.3 GWh. As a result of the different value creation processes, the segments *flexible films*, *precision components* and, above all, *it/services* all show relatively low energy consumption.

Energy consumption (electricity and heating) by segment (in Gigawatt-hours (GWh))*

Segment	Purchased heating	Own heat generation	Purchased electricity	Own electricity generation
engineered products	0.1	81.1	44.3	0.05
flexible films	0	0.4	16.1	0
surface technologies	6.2	26.9	25.6	3.7
precision components	0.4	1.5	11.0	0
it/services	0.8	0	0.04	0
Total	7.5	109.8	97.3	3.7

* As a result of the figures being disclosed in GWh, there may be marginal rounding differences; last updated at year-end 31/12.

Share of segments in energy consumption*



* Last updated at year-end 31/12.

Energy consumption (fuels) by segment (in litres)*

Segment	Petrol consumption	Diesel consumption	Consumption of other fuels
engineered products	11,449	60,828	13,452
flexible films	0	65,594	123,051
surface technologies	6,475	53,804	0
precision components	10,743	28,308	3,509
it/services	8,992	46,282	0
Total	37,659	254,816	140,012

* Last updated at year-end 31/12.

flexible films

In the *flexible films* segment, CO₂ emissions primarily result from the use of energy and coolants. With the application of modern technologies, organisational measures and our energy management systems certified according to ISO 50001, we want to continuously lower our energy consumption and reduce our CO₂ footprint. 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. We also hold idea workshops at least once a month on how to further reduce our energy consumption, and we reward ideas from staff on how to reduce our energy use.

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.

surface technologies

Within the *surface technologies* segment, CO₂ and VOC (volatile organic compounds) emissions, odour emissions, soil emissions via leaks and noise emissions are all highly relevant. We counter these through the use of technologies to reduce emissions and the implementation of organisational measures. These include, for example, lowering the use of coolants, purifying contaminated exhaust air from industrial production, or the thermal afterburning of VOC emissions. Regulations and guidelines to reduce noise pollution exist at our sites, and our sites and chemical storage plants have specific safety precautions in place to avoid any contamination of the soil.

Our ISO 50001-certified energy management systems and regular energy audits offer us great leverage to lower our impact on the environment. By expanding measurement technology for energy consumers, procuring energy-saving machines and systems and regularly training our staff, we are able to further reduce our energy consumption. In addition, we already use combined heat and power units as well as cogeneration plants at some sites and assess – wherever possible and financially feasible – whether to install photovoltaic systems.

precision components

In the *precision components* system, most of the emissions result from production and manufacturing. This relates in part to CO₂ emissions resulting from the use of energy and coolants, and also to emissions into the soil, for example through leaks and soil contamination from chemical storage units. Thanks to our energy management system, organisational measures and the use of modern technologies, we can increase our energy efficiency and reduce our emissions. Our Energy Directive commits us to not only fulfilling the legal requirements in terms of energy management, but to go above and beyond this to continually improve our energy efficiency. This commitment is also reflected in our product portfolio, which increasingly focuses on energy-efficient products and services for our customers.

We are currently defining goals for the reduction of our energy consumption and emissions for 2020 and future years. 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 regularly provide employee training in energy-related topics, motivating them through monthly energy-related events at our sites and rewarding them for submitting ideas to help us improve our environmental credentials.

it/services

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 and the resulting CO₂ emissions. Some of the measures to achieve these goals include switching to decentralised supply for energy and heat, increasing the proportion of renewable energy in our energy mix and checking whether hybrid and electric vehicles should be procured for the vehicle fleet in the future.

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. The different KAP segments cause different amounts and types of waste, with measures to avoid waste varying widely as a result. For the *it/services* segment, for example, the topic of waste is barely relevant because it only creates very small amounts of it. The proportion of hazardous or toxic waste is also extremely small. In the *engineered products* and *flexible films* segments, however, the amount of substances and waste that have to be handled in different ways is much higher. In these segments, the focus is therefore on targets to reduce and reuse waste. To meet the different requirements of the segments, we are systematically expanding our waste management and reporting strategies.

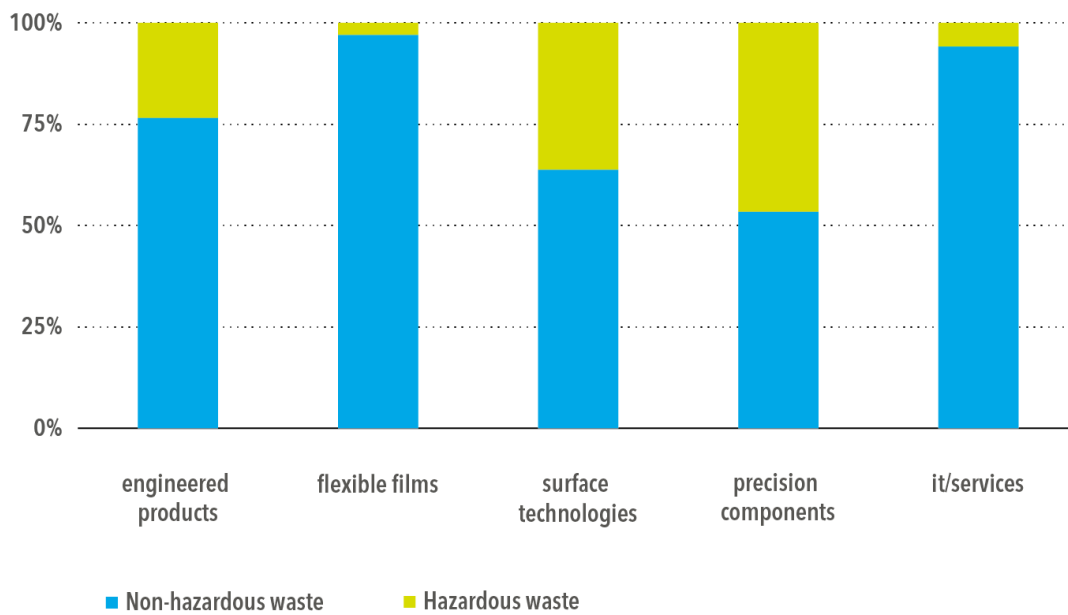
At KAP, waste is handled within a closed cycle. Collection is followed by sorting. Where possible, the waste is sent for recycling or, if it is not recyclable, disposed of correctly. Where appropriate, we dispose of hazardous and non-hazardous waste via properly certified companies. In line with German 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.

Waste by type and segment (in tons)*

Segment	Non-hazardous waste	Hazardous waste
engineered products	3,208	985
flexible films	1,366	43
surface technologies	665	379
precision components	239	209
it/services	16	1
Total	5,494	1,617

* Not including 2,483 tons of hazardous waste resulting from a fire in the *surface technologies* segment; last updated at year-end 31/12.

Ratio between hazardous and non-hazardous waste*



* Last updated at year-end 31/12.

flexible films

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 main aim is for no waste to be created in the first place. To make this a reality, we carry out weekly workshops, for example, to continually improve our use of raw materials and thus our waste and reject rates. 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.

surface technologies

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 and, to do this, work towards optimising our production processes. We raise staff awareness of the importance of avoiding waste and provide regular training on how to handle hazardous substances.

precision components

In the *precision components* segment, the main focus is on reducing plastic waste, separating it properly and utilising reusable packaging wherever possible. We want to continually reduce our waste volumes. We do this through a range of different measures, including the separate collection of plastic waste, technological changes in machinery configurations and stricter monitoring of rejects. Furthermore, 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, our sites undergo internal and external audits to monitor their waste concepts. We aim to reduce our waste volume by 2% every year, to increase the effectiveness of waste separation and to expand 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.

Water

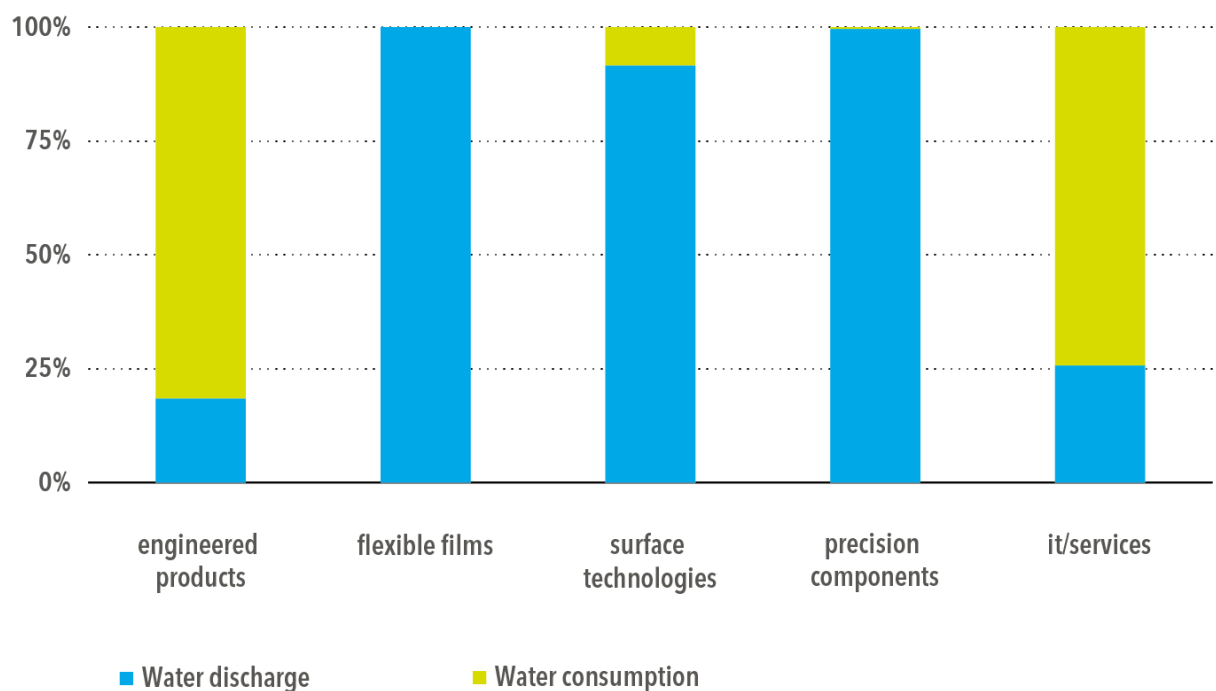
For KAP, water is a valuable and essential resource that must be handled responsibly and carefully. As such, we want to continually reduce our water consumption across the segments. As a result of the different production processes involved, our water consumption varies widely between segments. For example, the topic is of less concern to the *flexible films* and *it/services* segments, while it is a topic of major significance to the *surface technologies* segment. 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.

Use, discharge and consumption of water by segment (in cubic meters)*

Segment	Water usage	Water discharge	Water consumption
engineered products	87,353	16,096	71,257
flexible films	7,199	7,199	0
surface technologies	207,775	190,189	17,586
precision components	131,408	130,785	623
it/services	1,824	468	1,356
Total	435,559	344,737	90,822

* Last updated at year-end 31/12.

Ratio between water discharge and water consumption*



* Last updated at year-end 31/12.

surface technologies

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 wastewater before feeding it back into the municipal wastewater system. To do this, we use circulating water systems and other treatment options installed 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.

precision components

The topic of water is of lower relevance to our environmental impact assessment within the *precision components* segment. Used water is almost fully fed in or returned. We aim to treat water responsibly as a resource within the production process, to save water and prevent any contamination. We do this at the sites via internal guidelines on water use and various operational measures, such as the regular and preventive maintenance of cooling water systems.

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. Ensuring the durability, high energy efficiency and low emissions status of our products is a matter of course for us. We also pay great attention to safety in their processing and use.

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. Some of the precise areas of application include the reinforcement of flexible pipelines in the oil and gas industry, seals for insulin packaging in the pharmaceutical industry, reinforcements for premium tires, conveyor belts and pneumatic safety springs for road and rail transport.

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.

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 under use, burst resistance, tensile strength and longitudinal 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 product portfolio extends from flexible packaging materials for the consumer goods industry to products for the medical technology industry, the entertainment sector, to the construction industry and digital imaging.

Safety, quality and environmentally friendliness in the processing and use of our products is very important to us. 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 certified management system. We have guidelines and operating procedures for product safety and responsibility in place that are aligned with the corporate policy of the holding company. Some of these are anchored within our "Liability", "Sustainability" and "Exploring Spirit" segment codes. The aim is to implement this strategy consistently within all companies within the *flexible films* segment by 2020. 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, vapor barriers and facade membranes, make a significant contribution towards avoiding energy losses and also protect buildings from moisture and its residents from health hazards. In this way, we are able to support the sustainable trend towards the energy-efficient construction of both homes and offices. The technical packaging area is also playing an increasingly significant role, where we try to ensure, wherever possible, that packaging is reusable, recyclable and/or biodegradable. Our specialists develop high-quality transport protection

packaging for the automotive and boat-building industry, for example. 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 Vinyl Plus®, 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.

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.

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 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 electric or electromechanical drive systems. In doing so, we implement solutions made from both plastic and from plastic and metal composites. The portfolio includes high-precision gears and contiguous metal products that are installed in innovative drive solutions such as e-bikes. 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 environmental efficiency targets by, for example, reducing the weight of the product.

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 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. 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, such as for big data analytics and in IT service management, thus powering digitisation and connectivity through Industry 4.0 solutions. We want to offer our customers technical innovations and perfect solutions. As a result, 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. We take product responsibility for the quality, cost-effectiveness and customer focus of our solutions and services. We are able to do this in particular thanks to the expertise and motivation of our staff, who 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 and/or 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.

www.kap.de

KAP AG
Edelzeller Straße 44
36043 Fulda
Germany